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**U. S. REPORT
TO THE INTER-AMERICAN
ECONOMIC AND SOCIAL COUNCIL**

1967

REPORT PREPARED BY THE
GOVERNMENT OF THE UNITED STATES OF AMERICA

for the

INTER-AMERICAN COMMITTEE ON THE ALLIANCE FOR PROGRESS

and the

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INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL

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TABLE OF CONTENTS

	<u>Page</u>
Introduction - Report to IA-ECOSOC	v
Chapter I - The United States Economy at the Start of 1967	1
1. Employment and Labor	
2. Income and Economic Potential	
3. Monetary and Fiscal Policy Factors	
4. The Pattern of Investment	
5. Prospects and Policies for 1967	
6. Economic Outlook	
Chapter II - United States Trade Policy and Trends	12
1. The Kennedy Round	
2. Recent Policy and Legislative Developments in Selected Commodities	
3. Trends of United States Trade with Latin America	
Chapter III - United States Participation in the Alliance for Progress . . .	16
1. Agricultural Modernization	
2. Market Integration	
3. The "War on Hunger"	
4. Title IX - Popular Participation in Development	
5. Education - Manpower	
6. Health Programs	
7. Housing and Urban Development Activities	
Chapter IV - Long Term Capital Assistance	25
1. Trends in AID Support	
2. Self-Help Orientation of Capital Assistance	
3. Tasks Ahead	
4. U.S. Private Enterprise in Latin America	
5. Assistance to the Latin American Private Sector	
6. Housing Guaranty Program	
Annex - 1. Statistical Tables	33
Table 1: Changes in U.S. economic activity since 1961	
Table 2: Changes in U. S. gross national product during two periods since mid-1965	
Table 3: New Initiatives, FY 65-67	
Table 4: U.S. Direct Private Investments in Latin America	
<u>To be published as addenda</u>	
Table 5: U.S. Economic Assistance to Latin America- Commitments, CY 1961-66	
Table 6: U.S. Economic Assistance to Latin America- Disbursements, CY 1961-66	

INTRODUCTION - REPORT TO IA-ECOSOC

The Government of the United States of America hereby submits a report covering its participation in the Alliance for Progress in accordance with Resolution D of the Charter of Punta del Este and Resolution 1-M/63 of the Inter-American Economic and Social Council which assigned to the Inter-American Committee on the Alliance for Progress (CIA P) responsibility for coordinating and promoting implementation of the Alliance for Progress. The report is for consideration by CIA P and the Fifth Annual Meetings of the Inter-American Economic and Social Council.

The major economic developments in the United States as well as the response over the past year of the U.S. public and private sectors to the imperatives of the Alliance for Progress are summarized in this report. It is written against the backdrop of far-reaching decisions subscribed to by the Presidents of the OAS member countries at the Summit meeting held April 12-14 in Punta del Este, Uruguay. Though it focuses on past performance, this report nevertheless addresses those areas of economic and social development to which we have a common commitment.

A new emphasis as a result of the Summit is economic integration. United States belief that this will produce great benefits for the region has been stated frequently by our principal leaders in recent years. This United States interest in economic integration is not new, but extends as far back as the First International American Conference in 1889-1890 where Secretary of State James G. Blaine proposed the establishment of a Latin American customs union.

The decision taken by the Latin American Presidents at Punta del Este, confirms a consensus that a Latin American Common Market is a necessity. The recent revision of the OAS Charter urges creation of such a Common Market as soon as possible. In his March 13, 1967 message to the U.S. Congress dealing with the objectives of the Summit Conference, President Johnson said that "when this (a Latin American Common Market) is carried into effect, it will bring the most profound change in hemispheric relations since independence." The President noted the emergence of a "vigorous, competent and confident new generation of Latin American leaders . . . determined to see realized in their own time a strong, modern Latin America, loyal to its own tradition and history . . . (who) have seen the very real threat of industrial stagnation in the high tariff barriers they have in their commerce with each other. They see economic integration as indispensable to their future industrial growth."

President Johnson again pledged the support of the U.S. for numerous other joint efforts to accelerate the development process when on the fifth

anniversary of President Kennedy's proposal for the Alliance for Progress, President Johnson said, "The peaceful and progressive revolution which is transforming Latin America is one of the great improvement movements of our lives. Our participation in that revolution is a worthy enterprise, blending our deepest national tradition with our most responsible concept of hemispheric solidarity."

It was recognized at the 1965 meeting in Rio de Janeiro that the time required to achieve the Alliance social and economic goals to which member countries are committed will exceed "The Decade of Development." The future should see an impetus in development fostered by such common commitments as undertaken at the Summit meeting. And, the Alliance can now look to the use of those scientific and technological developments which can be used to speed up growth.

The extent of the U.S. commitment to a multilateral approach is seen in its strong support of CIAP. The Foreign Assistance Act of 1966 requires that the U.S. extend Alliance for Progress loans only for purposes consistent with the findings and recommendations of CIAP in its annual country reviews. The U.S. has also supported revisions of the OAS Charter which are reflected in the new status and responsibilities of the Economic and Social Council and the Council for Education, Science and Culture, the principles of the Charter of Punta del Este, and the Economic and Social Act of Rio. It has also supported the continued strengthening of the Inter-American Development Bank's development capabilities and replenishment of its resources, both Ordinary Capital and the Fund for Special Operations.

While parallels are dangerous there are certain similarities between the thrust in the U.S. towards the Great Society and in Latin America towards the Alliance goals.

Although the U.S. is a highly developed, dynamic society, at least some of its problems have their counterparts in Latin America. In both there are problems created by increasing urbanization and the growth of vast metropolitan areas. While the Latin American population structure is even more youthful than that of the United States, both are confronted with growing demands for more and better education as well as purposeful employment opportunities. These and other parallels indicate that the hemisphere is going through a period of vigorous social readjustment and change.

CHAPTER I

THE U.S. ECONOMY AT THE START OF 1967

The Economic Report of the President transmitted to the Congress of the United States in January of 1967 opened with these words:

"A healthy and productive economy is a bulwark of freedom. Around the world and here at home, our trials of strength, our works of peace, our quest for justice, our search for knowledge and understanding, our efforts to enrich our environment are buttressed by an amazing productive power."

On the international front, President Johnson went on to say, "The United States will continue to respond constructively to the aspirations of the developing nations. We will give first priority to fighting the evils of hunger, disease, and ignorance in those free world countries which are resolutely committed to helping themselves."

Within our borders, some of the productive power of the U.S. is being channeled into some of the same areas on which emphasis is placed in foreign assistance. The Great Society program includes the War on Poverty of which Medicare, the Neighborhood Health Centers, the Job Corps, and measures directed at solving the environmental problems created by the mushrooming urban society are examples.

Domestically, the benefits of the fullest employment in more than a decade were enjoyed by the United States in 1966. The unemployment rate reached a 13-year low of 3.9 percent and demand finally matched supply in most labor markets, a situation which economists define as essentially "full employment."

All major groups registered sizable gains in real incomes. Expansion continued for the sixth straight year; for the third successive year, growth exceeded 5-1/4 percent, a record unparalleled in our postwar experience.

Gross national product (GNP) expanded by a record \$58 billion in current prices and reached \$740 billion. A major advance in fixed business investment was a key expansionary force as in the two preceding years. The rising requirements of Vietnam added \$10 billion to defense outlays. State and local spending and inventory investment also rose strongly.

In some respects 1966 was too big a year, especially in the early months. Spurred by the defense buildup, total demand--public and private--advanced at an extraordinarily rapid rate in late 1965 and early 1966. Strains developed in

financial markets. Demand outstripped supply in several sectors already near full utilization; many of the new orders added to backlogs and to upward pressures on prices. Imports met some of the excess demands, reducing the U.S. foreign trade surplus and slowing progress toward equilibrium in the balance of payments.

A change in policy was required to restrain the economy after years of stimulating demand. In anticipation of large increases in private expenditures and defense outlays, tax policies were applied to curb private demand. In 1964 and 1965, an expansionary tax policy had stimulated the economy; but in March 1966, restrictive tax changes were enacted at the President's request. Excise tax cuts were postponed, and income tax payments were accelerated. Moreover, the President's budget program in January curtailed nondefense spending.

The magnitude of the task of restraining the economy was not fully appreciated at the beginning of 1966 and policy was adjusted to cope with new conditions. Monetary policy tightened further, causing a major cutback in homebuilding. In September, additional selective fiscal measures were proposed by the President to alleviate excessive demands for funds and for capital goods.

The restraining measures began to take effect in the spring and by the closing months of 1966 were fully effective. The economy had faced the challenge without cumbersome and inefficient controls and without losing its basic health and stability. The power of tight money as a tool of restraint--as well as its uneven impact--was demonstrated beyond any reasonable doubt.

Inflationary forces unleashed during the overly rapid expansion were still alive as 1967 opened, although their strength was waning. There was also a challenge to renew expansion since any continuing slowdown would be undesirable.

A healthy advance of demand in pace with the growth of potential output would permit gradual restoration of price stability. It would also promote a recovery in our foreign trade balance, thereby aiding the pursuit of equilibrium in the balance of payments. The fiscal program for 1967 is designed to meet these objectives and to assure that the easing of monetary conditions, presently under way, can be extended.

The record of economic gains in 1966 added in length and strength to the remarkable uninterrupted expansion that began early in 1961 (Table 1). This advance can be viewed in many dimensions. Prosperity has conferred its benefits on nearly every sector, industry, and region in almost every year.

1. Employment and Labor

Of all the facets of today's economy the growth of employment may be of the greatest significance. Gains in 1966 were the largest of any year in the expansion since 1961. Civilian employment increased by 1.9 million. The Armed Forces added 400,000 persons. The civilian unemployment rate fell

from 4.6 percent in 1965 to 3.9 percent in 1966, the lowest since 1953. During the year, the seasonally adjusted rate remained essentially the same, fluctuating between 3.7 and 4.0 percent. The number of unemployed dropped by 500,000 in 1966. Nearly all groups shared in the reduction, the only exceptions being nonwhite females in two age groups, 14-19 and 45 years and over. Although employment in both of these groups expanded, the increase was not enough to keep pace with the rapid growth of these groups in the labor force.

The demand for labor extended to every nonagricultural sector. The most remarkable gains were in manufacturing where the number of jobs rose by one million from 1965. Since most manufacturing employment consists of high-productivity, high-wage jobs, the gain contributed to a major advance in real income. Employment in trade and services and State and local governments also expanded substantially in 1966 by about 1-1/2 million workers.

This contrasted with a decline of 400,000 in agricultural employment in 1966. This decrease of 8-1/4 percent was the largest percentage drop on record, as higher-paying nonfarm job opportunities attracted farmers and lured workers out of agriculture.

The over-all labor force expanded by 1.8 million workers in 1966, nearly 500,000 more than demographic trends alone would have indicated. In particular, a larger percentage of women and teenagers joined the labor force. The evidence of 1966 suggests that nearly 500,000 "hidden unemployed" or "discouraged workers" entered the labor force. Probably, additional workers, who did not respond fully to improved job opportunities last year, will enter the labor market if it remains buoyant.

The number of unemployed today is about 2 million lower than six years ago. During the same period, nearly 9 million additional Americans have gained employment. Millions more moved into higher paying, more secure, and better jobs, and out of declining areas and low-wage industries. The benefits of full employment have extended far beyond the important gains in real income and material welfare. By reducing poverty and hardship, the opportunities for productive employment have contributed to human dignity and self-esteem and to freedom of choice.

This marked decline in unemployment has been shared by nearly all groups. In some instances, improvement has been dramatic. Only one-third as many Americans were unemployed for 15 consecutive weeks or longer in 1966 as in 1961. Over the same period, the unemployment rates for nonwhite adult males, blue collar workers, and married men fell by more than half.

Many of the previously severely depressed areas are no longer suffering from high unemployment. In early 1961, 101 of the Nation's 150 major labor market areas were classified as areas of substantial unemployment, with rates in excess of 6 percent. Today, there are only 8 labor market areas in that

category. There are now 66 areas that have unemployment rates of less than 3 percent; for most of 1961, there were none.

Of course, some groups have gained less than others. Unemployment remains high among nonwhites, teenagers, and especially among workers with few skills and little training. Inexperience, inadequate education, and racial discrimination unfortunately penalize these groups.

2. Income and Economic Potential

One major economic accomplishment of 1966 was that the United States made essentially full use of its productive potential. There was no longer the chronic under-utilization of resources, general excess supply in labor markets, and wastefully idle industrial capacity that had blemished the performance of the economy for a decade.

Advances in employment and productivity have generated unprecedented gains in the real income and the standard of living of the American people. Farmers, wage earners, businessmen, and professional workers have all shared in the impressive advance. Real disposable income per capita--the best single measure of consumer welfare--has risen by 24 percent over the past 6 years, matching the increase in the preceding 13 years.

Gains have been particularly rapid in recent years. In 1964 and 1965, real disposable income per capita increased by 5 percent a year--the equivalent of more than two extra weekly paychecks annually. Despite the disturbing rise in consumer prices in 1966, real disposable income per capita continued to grow by 3-1/2 percent.

Although the economy caught up with its economic potential, total demand must continue to rise to keep pace with a growing potential GNP. However, the closing of the gap necessarily means that the 5-1/2 percent rate of advance of real output registered in recent years cannot be matched in the near future. That rapid expansion was possible because idle resources were ready and able to make a productive contribution. The growth of employment outpaced the expansion of the civilian labor force; many new employees were put to work on previously idle or underused machines; improved utilization rates yielded a bonus of extra gains in productivity. But now that full employment has been essentially attained, output cannot continue to rise faster than productive capacity.

The major theme of these recent economic developments is the continuation of progress. But there is also a secondary theme of problems and imbalances. Many of these can be traced back to mid-1965, when the sudden increase in defense requirements for Vietnam led to a marked acceleration in economic activity. By the time fiscal and monetary restraint measures slowed down the economy, significant problems had developed--an interruption of price

stability, a deterioration in international trade performance, acute pressures in financial markets, and sharply divergent movements among the various sectors of the economy.

The economic environment was significantly changed by the expansion of defense requirements. On July 28, 1965, the President requested additional funds for defense and indicated that further increases would be required in the following January. Military outlays, at an annual rate, rose by nearly \$2 billion a quarter in late 1965 and early 1966 (Table 2). Defense orders expanded very rapidly, spurring demands for labor and inventories by contractors.

The increase in defense spending swelled an already rising tide of business investment expenditures. From the second quarter of 1965 to the first quarter of 1966, business spending for new structures and equipment rose by \$9 billion. Defense, investment, and social security liberalization, in combination, speeded the growth of disposable income. Consumer spending responded strongly, growing by \$29 billion over this three-quarter interval. All in all, GNP advanced at an average of \$16 billion a quarter. Real output grew at a phenomenal annual rate of 7.2 percent, and industrial production rose at an annual rate of 9.7 percent.

3. Monetary and Fiscal Policy Factors

After years of stimulus, the economy changed direction at the turn of the year. Monetary policy accounted for a major share of the restraint during most of 1966. The Federal Reserve restrained the growth of credit supply in the face of strong demands for borrowing by business. Institutions which supply mortgage funds to the homebuilding industry lost deposits both to the commercial banks and to the market for new corporate securities. As a result, residential construction was starved for funds, and the main effect of tight money on overall activity worked primarily through the mortgage market, curtailing homebuilding and other mortgage-financed construction. In December, expenditures for residential structures were \$7 billion (annual rate) below the first quarter level.

Fiscal policy also provided effective restraint. Special defense costs necessarily swelled Federal Government outlays and were highly stimulative, forcing restrictive action to be taken in other areas. Increases in nondefense purchases were held to \$300 million from 1965 to 1966. Several restrictive tax measures were proposed in January 1966, and were enacted in mid-March. These included a reinstatement of some of the earlier excise tax reduction, restoring about \$1 billion to the annual rate of Federal revenues; and a system of graduated withholding for individual income taxes that drew off \$1-1/2 billion (annual rate) from disposable income beginning in May. These new measures followed the \$6 billion increase in payroll taxes that took effect at the start of 1966. In addition, revenues were increased in the spring by unusually large payments on 1965 income tax liabilities.

Monetary and fiscal adjustments helped to bring the rate of over-all economic expansion in line with the growth of capacity. After the first quarter of 1966, gains in GNP slowed to an average of \$12-1/2 billion a quarter, no longer outstripping the growth of potential GNP. The unemployment rate leveled off, as employment gains essentially matched the growth of the labor force. Manufacturing output actually rose less than the growth of manufacturing capacity, and average operating rates at year end were below the 91 percent that had been reached in the first quarter.

The over-all change of pace was clearly noticeable in the spring, but business demand for capital goods continued to expand rapidly during the spring and summer. In August, both the Commerce-Securities and Exchange Commission anticipations survey and the National Industrial Conference Board appropriations survey confirmed the vigor of the capital boom.

The capital boom, in fact, was proving too vigorous. Growing backlogs of orders, shortages of certain types of skilled labor, rising prices in capital goods industries, and acute pressures of business credit demands on financial markets, illustrated the clear need to moderate investment demand. On September 8, the President asked Congress to suspend, until January 1, 1968, the 7 percent tax credit on investment in machinery and equipment and accelerated depreciation provisions on new buildings. At the same time, he initiated a program to reduce nondefense spending.

The Commerce-Securities and Exchange Commission survey in November showed that only moderate further increases in plant and equipment spending were planned through the second quarter of 1967. It also revealed that the actual increase in capital outlays in the third quarter was somewhat smaller than the planned advance reported in August; this was the first downward revision of plans in 3 years. The results of the survey no doubt reflected several factors, including the moderation of economic expansion, the financial pressures on business, and the suspension of the investment tax incentives. Even though orders for machinery and equipment continued to outrun shipments through December, there were favorable prospects that the pressures of excess demand on capital goods industries would be lessened in the months ahead.

4. The Pattern of Investment

In contrast to the reassuring balance of the expansion from 1961 to 1965, the advance in 1966 was uncomfortably uneven among sectors. The nature of these imbalances is reflected in the shares of GNP absorbed by various types of investment.

The share of private domestic and foreign investment in 1966, 16 percent of GNP, was quite typical for a full-employment year, but the pattern of the major investment components was unusual when compared with other post-Korean years. Business fixed investment was at a record high of 10.7 percent

of GNP, surpassing its previous peak of 10.5 percent in 1957 and considerably above its post-Korean average of 9.8 percent. Because of the scarcity of mortgage funds, housing starts fell steadily from an average of 1.5 million units in the first quarter of the year to 1.0 million in the fourth; at 3.5 percent, the share of residential construction was at a post-Korean low. Inventory investment, at 1.5 percent, matched its previous post-Korean high of 1955. Excess demand at home generated a spurt in demand for goods from abroad, pulling down the share of net exports to the lowest level since 1959.

A high rate of inventory investment in relation to GNP existed during 1966. Inventory-sales ratios generally crept up after years of stability or decline. Nonfarm stocks expanded by 8 percent over the year, considerably above the rate of growth of real output or sales. Inventories rose especially rapidly in durable goods manufacturing; these stocks grew by nearly \$7 billion during the first 11 months of 1966. Within durables, goods-in-process inventories rose by about \$4 billion over the period, reflecting, in part, the build-up of defense and business equipment in the pipeline.

The long production times that are essential for many durable goods were largely responsible for the growth of stocks of goods-in-process. From the time a company begins to build an airplane or a machine, it may take 6 months or a year to produce a finished good and complete a shipment. While the piece of equipment is being fabricated, the value of the completed portion shows up in inventories of goods-in-process. Thus, if orders rise sharply for items with long production times, inventories grow; the ratio of inventories to shipments also tends to increase until shipments can catch up.

5. Prospects and Policies for 1967

Since the beginning of the year 1967 over-all demand has reflected the restraint of last year's monetary and tax actions. Excessive demand is not now a serious threat. The economy's advance is being stimulated by a continuing rise in Federal defense and State and local purchases. In the private sector, significant increases should be registered in consumption. Modest advances are indicated for business fixed investment and for net exports, which reversed a long decline in the fourth quarter of 1966.

Data on housing starts and permits for the closing months of 1966 provide encouraging, although not conclusive, evidence that homebuilding activity has touched bottom. But the recovery of homebuilding will take considerable time, and the effects of the 1966 monetary restraint will still be felt for many months. Interest rates on securities have declined; but revitalized flows of funds into banks and thrift institutions have just begun. Financial institutions are relaxing their lending policies only gradually as they rebuild liquidity. Interest rates on bank loans and mortgages have not yet reflected the easing in financial markets. Finally, construction expenditures will take place only after contracts are placed and work is initiated.

Inventory investment in 1967 is bound to be considerably below the unusually high rate in the closing months of 1966. The rate of accumulation in the fourth quarter was about double that required to keep stocks advancing in pace with the trend growth of sales. As in the earlier months of 1966, much of the latest advance in inventories seems to have taken place in goods-in-process held by industries producing defense and business equipment; the buildup may continue but probably at a diminished rate.

Thus, the economy faces a transition to a lower rate of investment in inventories. The strength elsewhere in the economy offers important evidence that the inventory adjustment need not cumulate into an excessive slowdown of activity. The over-all assessment does suggest, however, that private demand is not likely to be particularly buoyant in the first half of 1967 and that a stimulative stabilization policy is appropriate to support steady expansion during this period.

The budget will be appropriately stimulative in the first half of 1967. The annual rate of deficit (national income accounts basis) is expected to be more than \$5 billion, compared with a \$2-1/2 billion deficit rate in the second half of 1966. Although nondefense spending has been held down, both the special costs of Vietnam and further increases in transfer payments for Medicare will add substantially to Federal Government spending. Revenues will continue their normal growth in the first half of 1967; but, unlike 1966, no significant net changes in tax payments will result from recent legislation. An increase in payroll taxes of \$1-1/2 billion (annual rate), which went into effect at the beginning of 1967, will be nearly offset by the effect of the system of graduated withholding on income tax collections. As a result of this system, which was instituted mid-year, an additional \$1 billion in personal taxes was collected during 1966. Reflecting this, net final payments on personal tax liabilities for 1966 are expected to be correspondingly smaller.

By mid-year 1967, construction should be recovering with the stimulus of monetary ease; and inventory investment should be leveling off at a moderate rate. In combination, these two sectors should significantly strengthen over-all private demand. A shift toward restraint in fiscal policy is appropriate at that time to assure that demand does not outrun capacity, that movement toward restoration of price stability is maintained, and that monetary policy does not have to be tightened again.

In line with this set of aims, the President is asking the Congress to enact, as of mid-year, a 6 percent surcharge on personal and corporate income tax liabilities with an exemption for low-income families. The tax will remain in effect for 2 years or as long as the unusual special Vietnam costs continue. The form of this proposed temporary tax increase parallels the conclusion of the Subcommittee on Fiscal Policy of the Joint Economic Committee that "... a uniform percentage addition to ... corporate and personal income tax liabilities... , to be effective for a stated period, best satisfies criteria for shortrun stabilizing revenue charges." Once fully in effect, the surcharge will drain

off an estimated \$5.8 billion (annual rate) of private incomes -- \$3.9 billion from individuals and \$1.9 billion from corporations.

On the expenditure side, defense purchases will continue to rise but at a diminishing rate during the course of 1967. Transfer payments in the second half of 1967 will exceed the rate in the first half by \$4-1/2 billion, reflecting primarily the proposed increase in Social Security benefits. The President is requesting benefit liberalization amounting to \$4 billion (annual rate) to begin by mid-year, to support the needs of the elderly. The liberalization will be followed by an increase in the payroll tax base at the beginning of 1968. Reflecting the income tax surcharge, normal revenue growth, and increased expenditures, the rate of budget deficit will be reduced to about \$3 billion in the second half of the year, and the budget is expected to be approximately in balance in the first half of 1968.

6. *Economic Outlook*

GNP for 1967 is expected to reach \$787 billion, contrasted with the \$740 billion now estimated for 1966. In the nature of economic forecasting, the projected advance of \$47 billion must be viewed as the midpoint of a range of possible outcomes, rather than a precise estimate.

Like any quantitative forecast, the estimated rise of \$47 billion is meant to convey important qualitative judgements. The advance will be considerably less rapid than the record increase of \$58 billion in GNP in 1966. Healthy forward motion will nevertheless be maintained. Real output should expand nearly in line with the 4 percent growth of potential. The price record should improve; over-all prices may increase slightly more than 2-1/2 percent. Finally and most important, the U.S. should continue to experience substantially full employment in 1967. The unemployment rate should be essentially the same as in 1966, when it averaged 3.9 percent. After allowance for an increase of more than 300,000 in the Armed Forces, the civilian labor force should expand by about 1-1/4 million, and civilian employment should approximately keep pace.

A more balanced composition of output is expected in 1967, reflecting the aims and effects of policy. Neither business fixed investment nor inventory investment are expected to be strong stimulating forces. On the other hand, housing should gain as the year develops, and defense outlays will continue to provide economic stimulus.

Business Fixed Investment. After increasing by an average of 13-1/2 percent annually over the past 3 years, business fixed investment should expand much more slowly in 1967. Evidence of this is already provided in the November survey of intentions for plant and equipment spending. Investment should increase only slightly from its level in the fourth quarter of 1966, and should show a rise of about \$3 billion from 1966 to 1967. This pace would be a welcome respite, permitting pressures on capital goods industries to abate. The

ratio of business investment to GNP should decline slowly to a more sustainable level near 10-1/4 percent by year end.

Business Inventories. Inventory investment was at a record high last year, partly because of the rise in goods-in-process stocks of industries producing business and defense equipment. Any further buildup of these stocks will be small. Stocks in most areas are expected to rise in line with steady and moderate advances in sales. Inventory investment for 1967 may be about half the \$11-1/2 billion rate experienced in 1966. Most of the decline to a sustainable rate should occur in the first half of the year, with a leveling off thereafter.

Homebuilding. As monetary policy continues to ease, housing starts should begin to rise above their current depressed level. Additional help should come from actions of the Federal Home Loan Bank Board (FHLBB) and the Federal National Mortgage Association (FNMA). Because of the lag between mortgage commitments and construction expenditures, activity should begin to increase very gradually in the first half of 1967 and gain considerable momentum in the latter part. Demographic factors and low vacancy rates point to latent strength in homebuilding, which should become evident during the course of 1967.

Residential construction expenditures are expected to increase by about \$5 billion to \$6 billion from the fourth quarter of 1966 to the fourth quarter of 1967. Even so, for the year as a whole, they would still be about \$1 billion below the 1966 average.

Government. State and local government purchases, which grew by 10 percent, or \$7 billion in 1966, should expand in 1967 by about \$8 billion in response to growing needs and strongly increasing revenues. The increase in Federal purchases from 1966 to 1967 is expected to be \$12 billion, mostly for defense. But the rate of advance will taper off during the course of the year.

Net Exports. As the growth of imports moderates and exports show strength, net exports should expand throughout the year, rising about \$1 billion from 1966 to 1967.

Consumption. The fiscal program for 1967 will have a direct impact on after-tax incomes of households and thus on their consumption outlays. The more moderate growth expected in employment and the net effect of proposed policy measures will hold the growth of disposable personal income in 1967 somewhat below the gain in 1966.

This advance in disposable income should make possible a gain in consumption of more than \$30 billion in 1967, compared with a rise of \$33-1/2 billion in 1966. In real terms, the expected gains in consumption and disposable income in 1967 are expected approximately to match those of 1966. The saving rate in 1967 should remain close to the 1966 level of 5-1/4 percent, a little below the average of recent years.

Flexibility. The program and the outlook for 1967 provide good prospects for a growth of demand that keeps pace with capacity. But the experience of 1966 is a clear reminder that surprises can develop and that policy must be alert to them. This year, the risks are on both sides: demand could grow too sluggishly or too strongly. A balance of risks is a necessary feature of a full employment economy moving ahead essentially in line with potential.

In the first half of 1967, there are forces which could make for sluggish private demand, but a sizable stimulus from fiscal policy will help to clear the hurdles. Then, in the second half, housing should move up strongly, the rate of inventory investment should stop declining, and transfer payments will rise. Indeed, with these developments, private demand could once again move ahead rapidly, perhaps even too rapidly. But, by that time, the President's tax program will be moderating the advance.

CHAPTER II

UNITED STATES TRADE POLICY AND TRENDS

United States participation in the Kennedy Round negotiations and our interest in commodity trade problems reflect recognition of the vital role of the external sector for the developing countries.

1. The Kennedy Round

As regards the Kennedy Round, President Johnson at the April Summit Meeting stated:

"We are now devoting a major effort to try to make the Kennedy Round negotiations a success. If they succeed, they will help us all--including Latin America.

But the process of freeing trade from unnecessary restrictions will not come to an end when the current important Kennedy Round negotiations are completed.

We have been examining the kind of trade initiatives that the United States should propose in the years ahead. We are convinced that our future trade policy must pay special attention to the needs of the developing countries in Latin America and elsewhere in the world.

We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.

We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labor leaders, and we will seek the cooperation of other Governments in the world trading community to see whether a broad consensus can be reached along these lines."

Those countries participating in the Kennedy Round talks have agreed that all major issues should be resolved by the end of April in order to allow adequate time to translate the results of the negotiating into the formal agreement which President Johnson must approve prior to the deadline of June 30 set by the Trade Expansion Act of 1962 which provides the authority to undertake these trade negotiations.

As part of the original principles governing the Kennedy Round negotiations, the Ministers of the Contracting Parties of the GATT agreed that every effort should be made to reduce barriers to the exports of the less developed countries, but that the developed countries could not expect to receive full reciprocity from the less developed countries. Accordingly, the United States has made a maximum offer to reduce or eliminate the duties on products principally supplied by participating less developed countries without expecting reciprocal concessions which would be inconsistent with their individual development, financial and trade needs.

The less developed countries obviously have much to gain from multi-lateral reductions in tariffs, quotas, and other barriers to trade, on manufactured as well as primary products. To this end the United States is working intensively in the Kennedy Round to encourage all the developed countries to make maximum tariff reductions on industrial and agricultural products, to reduce or eliminate many non-tariff barriers, and to progress towards meeting the aspirations of the less developed countries to achieve a larger role in world trade.

A successful Kennedy Round will provide the less developed countries with a significant opportunity to gain access to world markets. Nevertheless, the Kennedy Round is not the end of the trade liberalization road. In his January 1967 Economic Report to the Congress, President Johnson said:

"We must look beyond the negotiations in Geneva to further progress in years ahead. We must begin to shape a trade policy for the next decade that is responsive to the needs of both the less developed and the advanced countries."

2. Recent Policy and Legislative Developments in Selected Commodities

Recent U.S. policy and legislative developments for selected commodities are described below:

Coffee: The United States has cooperated fully in efforts to strengthen the enforcement features of the International Coffee Agreement and improve its administrative functioning. The United States, with other importing countries, issued regulations in April 1966 requiring an accompanying certificate of origin for coffee imported from "entrepots", (i. e., "tourist" coffee). In November 1966 it imposed restrictions on imports of coffee from non-member producing countries, well in advance of the deadline established in the Coffee Council resolution.

At the April 1967 Summit Meeting at Punta del Este, Uruguay, President Johnson stated:

"We also recognize the very special importance for certain Latin American countries of earnings from coffee exports. In our programs for assistance for agricultural development, we are already helping

prevent chronic surpluses. As a further step in this direction we, are prepared to lend \$15 million to the proposed International Coffee Diversification and Development Fund with the understanding that the coffee producing countries agree to contribute \$30-\$50 million per year over the next five years, and to lend up to \$15 million more to match contributions by other coffee-consuming members of the International Coffee Agreement. "

Cotton: The cotton provisions of the 1965 Farm Act, which became effective for the first time in 1966, have resulted in a marked improvement in the cotton supply situation. Plantings in the United States dropped from 13.6 million acres in 1965 to 9.6 million acres in 1966. Production, which had approximated 15 million bales in 1964 and 1965, fell to 9.6 million bales last year. The lower cotton prices under the new program have improved the competitive position of cotton vis-a-vis synthetic fibers, and mill consumption is running at record levels.

Recent improvement in prices of longer staples is reflected in the premiums established for next year's crop, which should lead to quality improvement and an increase in cotton consumption.

3. Trends of United States Trade with Latin America

The United States is both the largest single customer for Latin America and the largest source of supply, accounting for more than 40 per cent of Latin America's total trade.

Compared with 1960, the last year preceding the Alliance, imports by the United States from the 19 Latin American Republics grew steadily from \$3.17 billion to an estimated \$3.97 billion in 1966. At the same time, exports from the United States to Latin America grew from \$3.25 billion to an estimated \$4.23 billion. While the average rate of growth of exports has been slightly higher than that of imports, there have been market fluctuations from year to year in the flow of United States exports.

Increases in imports by the United States have come mainly from Central America, Panama, Argentina, Ecuador, Mexico, Peru, Uruguay, and Bolivia. Sales of these countries in the United States market increased at an average annual rate of more than 15 per cent between 1960 and 1966.

United States imports in 1966 from the 19 Latin American Republics increased by an estimated \$295 million over the 1965 level, an increase of 8 per cent. This was a record for total imports from the area and was the sixth consecutive year of the Alliance for such imports to show appreciable gains over the previous year. United States imports from most Latin American countries increased, with gains ranging from 29 per cent and 22 per cent respectively in the cases of Peru and Argentina to 9 per cent in the case of the Central

American Region. United States imports from five countries--Colombia, Ecuador, Uruguay, Venezuela, and Bolivia--declined, ranging from 2 to 12 per cent below 1965 levels.

United States exports in 1966 to the 19 Latin American Republics reached \$4,235 million compared to \$3,788 million in 1965, an increase of 12 per cent. Except for declines in the cases of Argentina and Venezuela, United States exports to individual countries increased in amounts ranging from 66 per cent in the case of Brazil to 4 per cent in the case of Ecuador.

Latin American countries continued to rely heavily upon the sale of raw materials and foodstuffs. In the United States, however, as in the world at large, the demand for finished manufactures is growing at a much faster rate than demand for raw materials. From 1960-1965 the quantum of imports of finished manufactures by the United States from all sources increased by 64 per cent in contrast to 21 per cent for imports of raw materials. These trends in relative demand will continue to influence the opportunities to expand Latin American trade and indicate the importance of efforts to promote its exports of processed goods.

CHAPTER III

UNITED STATES PARTICIPATION IN THE ALLIANCE FOR PROGRESS

1. *Agricultural Modernization*

The importance of increased effort in the agricultural and rural sector has been underscored by President Johnson, who indicated the priority of agriculture, along with education and health, in his guidelines for the New Initiatives in foreign assistance. More recently, at the Summit Conference in Punta del Este, the Chiefs of State pledged, "The living conditions of the rural workers and farmers of Latin America will be transformed, to guarantee their full participation in economic and social progress. For that purpose, integrated programs of modernization, land settlement and agrarian reform will be carried out as the countries so require. Similarly, productivity will be improved and agricultural production diversified. Furthermore, recognizing that the Continent's capacity for food production entails a dual responsibility, a special effort will be made to produce sufficient food for the growing needs of their own peoples and to contribute toward feeding the peoples of other regions."

The problems to be faced in such a program are formidable. The interdependence of the various components of a modernized agriculture sector and a resultant improved rural standard of living are only now beginning to be fully understood. To obtain improved productivity and an agriculture that is increasingly market oriented, better seed, fertilizer, and cultivating techniques must be utilized. However, these components serve a limited purpose unless adequate extension services are provided; increased yields also require not only improved farm to market road network but better and more regular transport services, adequate storage facilities, economic and flexible credit facilities. The sale of food must be made at prices the mass consumer can afford but the farmer on the other hand must have a proper stimulus. This frequent lack of a profit incentive is a tremendous obstacle to increased production and modernization. Finally, measures to bring new land under cultivation and to promote agrarian reform must be stepped up so that increasing numbers of landless workers may become productive farmers as well as consumers of a growing array of locally produced articles.

In 1966 AID missions concentrated their efforts on projects directly related to these aspects of agricultural development and rural modernization. These included help to ministries in the reorganization of their administrative and operative structures, research and demonstration as related to modern productive techniques, grain and food storage programs as an element in modern marketing systems, guidance to government policy makers on pricing and other policies affecting production, and assistance to

agricultural schools and colleges. The following examples are but a few illustrations of the type of activities being carried out.

By December 31, 1966, more than 15,000 Mexican farmers and cooperatives had received supervised agricultural credit loans financed by an AID loan. These funds, along with appropriate extension services, marketing information, and price incentives provided by Mexican public and private institutions are making a positive contribution to achievement of increased production on a sustained basis.

As a short-term measure to increase the productivity of Brazil's farms and provide more food for its growing population, a \$15 million loan was made available for fertilizer imports. Local currency derived from the sale of the fertilizer is used in a selective agricultural credit program to small farming operations designed to increase basic foodstuff production for internal use.

A \$5 million loan made to Uruguay will help in the purchase of fertilizer to boost its farm production and in this case, the country's export earnings. In Chile, Food for Freedom agricultural commodities are being used to benefit about 35,000 workers and their families with the food going to training centers operated by the Rural Training Institute. (See table 3)

2. Market Integration

An important aspect of rural modernization and agricultural development is the need to improve the conditions of rural-urban interchange which will expand agricultural production on the one hand and on the other reduce food prices to the urban populace and expand production of consumer goods for sale in rural areas.

The specific kinds of action involved range from programs which create new urban mass-marketing institutions to evaluations of the risk factors which inhibit individual farmers from responding to the possibilities for expanded agricultural production.

A Latin American Regional Market Planning Center was organized in 1966 to provide guidance in integrated planning and technical assistance in marketing. Since that time work has been carried forward in cooperation with agricultural, industrial or planning ministries in five countries in South America and in the Central American Common Market. Some of the activities completed or undertaken in the past year include:

In the Northeast of Brazil, the Market Planning Center in conjunction with SUDENE (Superintendency for the Development of the Northeast) is conducting a major study of the market interchange process for 10 basic agricultural commodities and for consumer products made in urban areas as well.

This \$600,000 project, whose costs are being shared by the Government of Brazil and the AID Mission will provide a data base for an integrated program of marketing and agricultural production changes as well as human resources development. It will also provide information to assist the GERAN (Special Group for the Rationalization of the Northeast Sugar Agro-Industry) group establish a program of agricultural diversification. It is anticipated that major programs for the reform of facilities and institutions in Recife will begin by the end of 1967. The income and employment effects of alternative courses of investment as well as changes in tax policy or import/export policy following developments in the Recife area are being measured by a systems analysis based on data locally compiled.

A Market Planning Center, in conjunction with the Government of Bolivia, is conducting a study of flows within the La Paz food shed with the objective of sharply reducing food prices in the urban market centers while preserving or improving the income of the farmer. The cost/benefit relations of alternative courses of action are being measured. Wholesale and rural collection facilities are being considered and multi-purpose rural community stores are being developed in conjunction with a wool production and marketing program.

3. *The "War on Hunger"*

In view of the growing need and demand for food, President Johnson recommended major changes in February 1966 in the food aid program, and Congress adopted new approaches for The Agricultural Trade Development and Assistance Act of 1954, as amended (PL 480). The legislation now states that the policy of the United States is "...to use the abundant agricultural productivity of the United States to combat hunger and malnutrition and to encourage economic development in the developing countries, with particular emphasis on assistance to those countries that are determined to improve their own agricultural production." This Act makes self-help an integral part of our food aid programs; eliminates the "surplus" concept; authorizes concessional programs tailored to the food needs of recipient countries; and continues to emphasize the development of markets of U. S. produced foodstuffs.

This new emphasis on self-help is called for since the problem of hunger in developing nations concerns all nations, particularly the developing economies where agriculture remains the dominant sector. The United States Government will continue to make a major contribution but it is clear that the food-deficit countries must expand their own productive capacities in order to reduce their food import requirements as well as to respond to new export needs. Thus, a major purpose of the 1966 amendment is to encourage developing countries to take steps to reach these goals. The new legislation also lists criteria for evaluating self-help efforts, including development of adequate storage facilities; improved marketing systems;

inducements for private enterprise; encouragement of the use of fertilizer, farm machinery, and agro-business industries, stepped up training and research programs; adequate price incentives for farmers; and government policies and budgets intended to stimulate production of more food crops.

To concentrate U. S. Government efforts in this sector and improve our administrative capacity to carry out our responsibility, an Office of the War on Hunger was established in A. I. D. This office will coordinate activities and programs concerned with food and nutrition, population, and agricultural development in general.

One effort directed to the War on Hunger is the Food for Freedom program which assists countries to establish and operate pre-school and school children feeding programs -- a primary means of fighting malnutrition. Host government support for these programs is growing, as indicated by a Brazilian law passed in 1966 requiring all new public schools to be built with school kitchens or to reserve space for their future installation. Brazilian support of this program has grown from \$227,000 in 1964 to \$2.7 million in 1966.

Other activities include U. S. contributions to the World Food Program giving assistance to victims of drought in Perú and farmers settling new lands in Surinam. Rural and vocational training centers were also supported in Chile, Bolivia, and Costa Rica.

In Brazil, Bolivia, and other countries, the local currency derived from PL 480 programs is particularly important as a source of funds for development projects. Funds so derived have been used for setting up water supply systems in isolated areas, enabling miners to improve their machinery and technology, and through a local currency loan, to increase the lending capacity of La Primera, the Bolivian savings and loan association. In Brazil livestock expansion, demonstration land resettlement research projects are given support through use of such resources.

4. Title IX - Popular Participation in Development

Although activities carried out under the Title IX frequently fall within the urban sector, its main impact is felt in rural areas. Title IX has developed in response to the efforts of countries both in Latin America as in other regions to decentralize at least some of the functions of traditional governments. In recognition of the importance of popular participation in the process of national development, the U. S. Congress in its 1966 legislation included a paragraph which said, "...emphasis shall be placed on assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions."

Activities in this category include ten projects in community development, twelve with cooperatives and twenty with labor groups. The community development program in the Dominican Republic operates as a multi-purpose activity using self-help to develop a network of roads, schools and markets, as well as farmers' associations. The AID Mission in Panamá is cooperating with communities in an attack on urban problems through an urban community development program involving the urban masses in planning for and solving some of their own problems. This includes assistance to those communities willing to invest their labor in building schools. The program's success to date has been used as justification for a loan for helping the project achieve its major long-run objective, namely the establishment of effective local self-government.

With U. S. assistance, Brazil has launched a program to finance locally planned and implemented water and sewer systems financed from a national revolving fund. A program is being planned in Colombia with the objective of decentralizing responsibility through providing local communities with financing capability so that they can make the decisions and finance the cost of certain aspects of education. In many of these undertakings, AID personnel have worked with the Peace Corps, particularly in community development and agricultural cooperatives. The current roster of joint efforts includes community development --Bolivia, Perú, Dominican Republic and Panamá; teacher training --Dominican Republic; educational television --Colombia; agricultural cooperatives --Honduras, Panamá, Perú and Chile; and arts and crafts marketing cooperatives--Ecuador, Peru and Bolivia.

5. Education-Manpower

Among the accomplishments of the Summit meeting was the commitment of the Presidents to promote education for development and to harness science and technology for accelerated economic-social progress. The United States encouraged this initiative and is preparing now to increase significantly its assistance to both bilateral and multinational programs and projects designed to carry out the Summit Action Program. Major new undertakings include the establishment of a Regional Scientific and Technological Development Program to advance science and technology in Latin America as well as innovative projects in a number of areas.

While the Summit decisions will give added impulse to education, AID projects presently being carried out provide a good base for an enlarged effort. Through some fifty-two contracts, U. S. universities have been helping Latin American educators modify old and create new institutions in many fields including business administration, agronomy and animal husbandry, specialized fields of engineering and the basic physical and social sciences. Assistance has been given in the organization of modern library services, in the development of laboratory and research facilities and in the organization of teacher and specialist training programs.

Recently, AID, with the assistance of the Council on Higher Education in the American Republics, surveyed the educational planning facilities in Chile, Perú and Guatemala. In Colombia, the establishment of comprehensive secondary schools and increased emphasis on educational research conform to recommendations made by a planning team comprised of representatives of AID, the World Bank and UNESCO. In addition, AID is providing assistance to Chile, Ecuador, Bolivia and Honduras in establishing manpower requirements and translating these into educational and training action programs.

A critical limitation in expanding educational opportunity and in improving the quality of educational programs is the shortage of qualified teachers and administrative personnel. During the past year AID contracted universities have initiated comprehensive programs in teacher education in the Dominican Republic and Jamaica. These efforts are aimed not only at increasing the supply of qualified primary and secondary school teachers, but involve the improvement of curricula, course content and methodology. Teach Corps assistance in the training of teachers in-service has proven highly successful. At the higher education level, more than 300 students from Latin American schools and universities have been selected by the Latin American Scholarship Program of American Universities for up to four years of studies. These students upon return to their home countries will serve as faculty members on the staff of institutions of higher education.

Additional AID assisted activities directed at improvement in the education sector include: (a) the Regional Textbook Development Center of the Organization of the Central American States (ODECA) which has produced more than 5.5 million copies of basic primary school textbooks over the past three years, and the textbook programs that are developing in Ecuador and Bolivia; (b) The Superior Council of the Central American Universities (CSUCA) program for regional integration of higher education; (c) the Regional Technical Aids Center (RTAC) efforts in México City in the production of books for use in secondary and higher education and the provision of educational films; (d) an educational television program in Colombia which serves more than 400,000 children; (e) construction of primary school classrooms; and (f) participant training in conjunction with planned educational programs.

The future plans for AID assistance will place greater emphasis on the expansion of secondary, vocational and higher education as well as qualitative improvements at all levels including the systems' administrative capability. On the basis of demonstrated need and self-help, it is anticipated that new initiatives will include post-graduate training and research in science and technology; expanded use of new educational media; establishment of closer university-to-university relationships; an expansion of educational opportunities at the middle and higher levels directed at critical manpower needs, improved planning and administrative methods and mechanisms.

6. *Health Programs*

The Alliance goal "to increase life expectancy at birth and to increase the ability to learn and produce by enjoying individual and public health" was reaffirmed as essential to economic and social growth both in the new initiatives stressed by President Johnson as well as the Summit Declaration of the Presidents. Through domestic commitment and international cooperation, the U. S. Government has supported the health programs called for in the Charter of Punta del Este.

The AID program in 1966 continued to work on projects in those sectors given high priority in the Summit declaration. These include multilateral programs in the field of communicable disease eradication through U. S. contributions to the Pan American Health Organization as well as bilateral assistance in the form of loans for malaria eradication to Brazil, Panamá, Ecuador and Central American Republics. "Matching" local currency is being given for malaria, tuberculosis and silicosis programs in Bolivia. Assistance is being provided also to a number of national health services which will increase their administrative and planning capability for communicable disease eradication.

AID assistance was continued for the development of regional and national water and sewerage distribution systems including the use of community development techniques to develop cooperative efforts. The establishment of national water authorities is being promoted to provide institutions responsible for long range planning in the conservation and development of water resources, construction of systems, and in the development of operational and maintenance capability by local governmental bodies. Efforts are being made to establish the principle of providing water as a service which must be paid for by the consumer and hence to operate water systems as self-supporting enterprises.

Other AID programs focused on the gradual creation of locally financed and administered health and sanitation services to improve medical techniques and services at the community level in addition to the traditional national level programs. Small comprehensive health centers and cooperative services for water, drugs, and medical care are being encouraged to accomplish this.

Regional and diverse official and voluntary organizations supported by AID funds are playing an important role in family planning research, training and action programs in Latin America. Efforts are being made to develop within each country a health plan which sets priorities for investment in the health sector based on realistic budget plans and appropriations.

7. Housing and Urban Development Activities

The rate of urbanization in Latin America is the highest of any developing region in the world and is creating grave social, political and economic problems.

For that portion of the population which can afford various levels of housing, the great need is institutions which can mobilize local resources and channel these resources into long-term home mortgages at reasonable interest rates and reasonable downpayments. The expanding squatter settlements can only be eradicated through drastic measures and extensive low cost housing programs which require large sums.

Housing, moreover, is not needed purely for social and political reasons. On the one hand, it is social overhead or infrastructure that is important to economic development, and on the other, in and of itself, it is an industry which must be an integral and essential part of economic development.

Two agencies have been providing financial assistance for housing and urban development in Latin America. The Inter-American Development Bank, with funds allotted under the Social Progress Trust Fund and Fund for Special Operations, has already committed \$280 million in loans for housing. These loans have been primarily for low income housing sponsored by national public housing institutes with an emphasis on aided self-help and cooperatives. The other institution is A.I.D. which has loaned \$170 million to date and has loaned, granted, or authorized the release of approximately \$50 million worth of local currency. In addition, A.I.D. has a program totaling \$450 million under which it can authorize guarantees of U.S. capital invested in Latin America.

Through the combination of AID-IDB, almost every country in Latin America has participated in this loan assistance. Inasmuch as loans are matched to a considerable degree by host country contributions and inputs, and by downpayments, this means that over a billion dollars will be invested in housing through the present program alone.

Institutions have been created by A.I.D.'s technical and financial assistance in the form of savings and loan associations, which have already made loans for housing totaling \$290 million and which have over 470,000 savers and \$170 million in net savings. These institutions are of a permanent and continuing character and are mobilizing savings at a multi-million dollar rate. During the last year, A.I.D. made "seed" capital loans totaling \$10.8 million for such systems in the Dominican Republic, Nicaragua and Panama.

Another form of institution that is slowly growing in importance and acceptability is the housing cooperative. Through the contractual technical

assistance of the Foundation for Cooperative Housing, federations of housing cooperatives have either been created or strengthened in such countries as Bolivia, Brazil, Chile, Colombia, Honduras, Nicaragua, Panama and Peru. Actual physical projects are or will shortly be under way in Brazil, Colombia, Honduras, Nicaragua and Panama. Emphasis is being given to the advantages of the single or blanket cooperative mortgage. During the last year, A.I.D. has made dollar loans for cooperatives in Nicaragua and Panama and approved use of local currency for a cooperative program in Colombia.

In the field of economic integration, A.I.D. has helped the Central American Bank for Economic Integration develop a Home Loan Department intended to act as a source of secondary financing for home mortgages issued by the various home credit institutions of Central America and "seeded" this Department with a \$10 million loan. This should result in a standardization of mortgage documents and lending practices, provide uniform norms of construction and design, and be a source of liquidity and refinancing.

Also A.I.D. has been providing a variety of other forms of technical assistance designed to create or improve institutional framework or to meet certain specific problems. For example, one of the needs of both public and private authorities is current information on the present and projected investment in construction of money, labor, and materials. Without such information, it is impossible to program or schedule investments. Through a qualified contractor, A.I.D. has been assisting in the establishment of national systems to compile, evaluate and disseminate such information. In order to determine effective demand in individual urban centers, A.I.D. has developed a manual for the making of market analyses which can be utilized by persons with limited economic background. To improve the knowledge and calibre of personnel within the savings and loan systems, the American Savings and Loan Institute, with A.I.D. funds, is now engaged in developing a fivefold program of translation, correspondence courses, local study groups, and U.S. training. To assist local governments control the haphazard growth of their communities, coordinate local governmental decisions with each other and with those of private interests, and correlate urban physical development with regional development, and national economic planning, A.I.D. has developed guidelines and an approach to urban development and is supplementing these guidelines with grants and loans for the formulation of actual physical, economic and social plans.

CHAPTER IV

LONG TERM CAPITAL ASSISTANCE

1. Trends in AID Support

Total disbursements under all forms of A.I.D. assistance to Latin America have been increasing annually from \$316 million in FY 1963 to \$465 million in FY 1966 and are estimated to reach \$544 million in FY 1967. The share of development loan disbursements shows a similar rising trend from \$151 million in FY 1964 to \$313 million in FY 1966 with an estimated total of at least \$450 million in FY 1967, which will approach the expected total of new loan authorizations of about \$470 million. This rising trend of disbursements reflects not so much an increasing rate of funding as an accelerated pace of program implementation.

For the same reason the development loan pipeline (funds obligated but not disbursed) which was increasing from \$466 million in FY 1963 to \$1,091 million in FY 1966, is levelling off with \$1,109 million estimated for FY 1967.

As an interesting corollary, disbursements under project loans, estimated at about \$250 million in FY 1967 are expected, for the first time since the initiation of the Alliance for Progress, to be higher than project loan authorizations and should exceed disbursements under program loans. This results, in part, from the nature of project loans where small initial disbursements are followed by a much higher rate of spending in the second and third year of project execution, and, in part, from improved project execution by both A.I.D. and the recipient countries.

A new form of A.I.D. loan assistance, sector lending, has been initiated during FY 1967. This lending technique is likely to be widely used in the future. Sector loans are designed to assist those Latin American countries which are willing to mobilize an increasing share of their own resources to develop the agricultural, education and health sectors and, at the same time, adopt policies that will remove obstacles to more rapid growth or make qualitative improvements in these sectors.

Since the adoption of the action plan of the Alliance for Progress at the IA-ECOSOC meeting in Buenos Aires in April 1966, A.I.D. has continued to finance with dollar loans local costs of development projects and programs on a significant and increasing scale. In doing so it had to strike a reasonable balance between the evident need for substantial local cost financing to speed Latin American development, and the constraints on such financing arising from current United States balance-of-payments problems. The extent of A.I.D. local currency financing is evidenced by the fact that of the \$505 million total loan authorizations in FY 1966, \$331 million is becoming available to cover

local costs of programs and projects. Since the investment expenditures for agricultural, educational and health sector activities consist largely of goods and services available locally, A.I.D. sector loans are also likely to result in a significant amount of local cost financing.

It should be noted that, because of the U.S. balance-of-payments situation, A.I.D. dollars used to finance local costs are tied to purchases in the United States under the Special Letter of Credit (SLC) technique. The SLC system applicable to local cost financing of development projects operates in general in such a way that no additional documentation is required from Latin American importers.

In its FY 1966/67 lending program A.I.D. worked intensively with both private contractors and government authorities in an attempt to help local consulting and construction firms to participate more fully in A.I.D. financed contracts. At the same time, in order to carry out the legislative requirements, to which it is subject, A.I.D. has to assure reasonable performance standards and minimize possible economic waste resulting from faulty planning and delays in project execution.

Although A.I.D. qualification standards are identical for both the United States and Latin American contractors, local firms often lack prior experience in working on sizable and complicated projects and A.I.D. bonding requirements are more stringent than those usually applied in the case of activities financed by local governments. One way of breaking this impasse is the promotion of joint ventures between Latin American and United States firms as well as widespread subcontracting by United States firms which secure the prime contracts under A.I.D. loans. At the same time A.I.D. has attempted to help local contracting firms in working out methods for securing performance bonding that are well adjusted to local conditions and has encouraged local credit institutions to help them with their financial and collateral problems.

2. Self-Help Orientation of Capital Assistance

President Johnson's definition of self-help in his 1967 Foreign Aid Message as "the life blood of economic development" has been the underlying principle of A.I.D. capital assistance operations in FY 1967 and will continue to guide the allocation of FY 1968 funds.

A.I.D. attempts to measure self-help in the form of significant improvement of fiscal, monetary, agricultural, exchange, trade, investment and other overall policies, as well as to encourage more effective planning and execution of development programs and projects. A.I.D. insistence on self-help measures mean that A.I.D. is not likely to make its limited funds available to countries which are not prepared to mobilize their own resources and to undertake needed structural changes. The bulk of A.I.D. assistance is therefore being channeled to those countries whose self-help performance is satisfactory.

Self-help is not limited to measures taken by governments. In many countries self-help activities are being initiated and implemented at grass-root levels, often with governmental support. In Peru, for instance, the "Cooperacion Popular" with United States and Inter-American Development Bank assistance, is helping communities in locally selected projects, but the communities themselves frequently contribute more than double the amount of the assistance received.

All major international lending agencies have similar self-help requirements and A.I.D. coordinates closely with them. In this context the actions of the CIAP are of particular significance. In fact, as a result of legislation passed by the United States Congress in 1966, on loan from Alliance for Progress funds may be made unless such action is consistent with CIAP's findings and recommendations.

3. Task Ahead

The magnitude of financial assistance is considerable but it is still inadequate in terms of the total need. Housing construction is falling behind family formation. A considerable amount of success has been achieved with A.I.D. technical assistance in the creation of institutions in the private sector, but these still need additional inputs of financial help and a continuance of varying kinds of technical counsel and advice. A.I.D.'s technical assistance to the public sector has been extremely limited.

Experience has shown that technical assistance without financial help proves wholly inadequate, and that, concomitantly, financial help without technical guidance is often improperly used. National housing policy must be developed within the framework of national economic plans. In the private sector we must build upon the successful savings and loan system and create similar systems in those countries where they do not now exist. To complement these home credit institutions, both technical and financial assistance is needed in the development of internal forms of secondary markets and secondary market facilities. The whole concept and field of housing cooperatives needs increasing support in order to achieve economies in construction and management, provide domestic control and maintenance and install a sense of responsibility in the recipients of housing aid. The idea of urban development and housing as only one element of urban development must be promoted and assured. Local planning bodies must be strengthened and their functions defined and enlarged. Technical assistance is necessary to assure proper physical, economic and social urban planning so that the metropolitan areas may develop logically and systematically. In the public sector an attack must be made upon the growing squatter settlements which comprise so much of the urban population. There must be an acceptance of lower construction, space and amenity standards which will permit varying approaches to squatter settlement eradication such as land and utility programs, core housing designed for expansion, and further uses of aided self help. Technical assistance must also be provided

the national public housing institutes so that they may address themselves to the lower income groups for which they were originally established, and to assure proper management, which, in turn, will result in decreasing payment delinquencies and better maintenance.

4. *U.S. Private Enterprise in Latin America*

United States direct private investments in Latin America showed continued growth in 1966 reaching an estimated \$9,371 million. Such investments have shown an average annual growth rate of about 5% since 1960.

As Table 4 shows, the fields of investment are petroleum (31%), manufacturing (28%), mining (12%), trade (11%), and utilities (6%) and all others (12%). Investment patterns since 1960 show a shift from public utilities and mining with sharp increases in trade, manufacturing and "other" industries. Undoubtedly, these shifts reflect the gradual development of more diversified economies with subsequent investment opportunities opening in new fields.

The distribution of investment shows the largest amounts are invested in the Venezuelan petroleum industry (\$2,033 million). This presents a distorted picture and tends to obscure investment trends in the other countries. U. S. private investments are more or less evenly spread among Argentine, Brazil, Mexico and Chile with substantial amounts also in Peru, Panama and Colombia.

Increases in U.S. private investments since 1960 were heaviest in Argentina, Mexico and Panama and were substantial in Brazil. In the smaller countries increases were also pronounced in contrast with the previously existing situation when they received relatively limited shares of U.S. private investments.

In the last few years net new private capital flow from the United States was directed largely to manufacturing industries. The bulk of new funds for manufacturing industries was invested in Argentina and Mexico. Latin America manufacturing investments by U. S. firms, especially for Brazil, show a moderate increase in 1966 to a level that will be sustained in 1967.

Changes in the value of U.S. private investment result principally from the net changes (1) in new capital flows from abroad and (2) in retained and re-invested earnings. For the region (excluding Venezuela) during the first five years of the Alliance, net new investment averaged almost \$400 million per year, about \$200 million from retained earnings and about \$200 million from net new capital flow from the United States.

A major new element in the Latin American investment picture is the trend to integration with its prospects for broader internal markets. This is already a fact in Central America and since the Summit, may become increasingly true both in additional sub-regional groupings and for the region

as a whole. While foreign private investment in most cases represents only a small percentage of the total, it frequently can make contributions much greater than its monetary input. The managerial technical and scientific know-how which result from such investments can have dynamic multiplier and "linkage" effects including investment in other sectors and provide growth points for the economy as a whole. Since the market governs the flow of private investment, much can be done by the developing countries to provide attractive investment climates. U.S. private investors have a broad range of investment opportunities in their home market, in Canada and Europe as well as the developing countries. In this competitive environment for funds, the countries with policies and practices which encourage private investment (both national and foreign) have a considerable advantage.

5. Assistance to the Latin American Private Sector

Certain AID activities are aimed at strengthening the Latin American private sector through (A) encouraging private investment, (B) the provision of technical assistance and (C) direct loans to private projects.

A. Activities encouraging investment:

The "Investment Survey Program" under which AID participates in 50 percent of the cost of preinvestment studies undertaken for private U.S. firms. As of December 31, 1966, AID had sponsored 105 such private surveys in Latin America for a total AID commitment of \$1,504,000;

A "specific risk" investment guaranty program under which AID guaranties U.S. investors against the risks of war, expropriation, or the inconvertibility of currency. During calendar year 1966, AID issued 280 specific risk guaranties to U.S. investors in Latin America, for a combined value of \$319 million;

An extended risk guaranty program under which A.I.D. can guarantee up to 75 percent of all-risks associated with loans from U.S. sources to private projects. As of December 31, 1966, A.I.D. had authorized extended risk guaranties for three projects in Latin America with total guaranteed investment of approximately \$25 million;

A local currency ("Cooley") lending program under which A.I.D. relends to U.S. firms or affiliates a part of the proceeds of P. L. 480, Title I sales of U.S. surplus agricultural commodities. From the inception of the program through December 31, 1966, A.I.D. has extended 77 Cooley loans amounting to roughly the equivalent of \$26 million.

B. Technical assistance activities:

Eighteen industrial development/productivity centers have been or are being established; business administration training has been promoted through help in organizing or modernizing undergraduate and graduate level institutions and management associations; joint-venture investments will be pushed through the Inter-American Investment Promotion Clearinghouse in the U.S.; under the Private Enterprise Promotion Program local, regional and national area development organizations have been established; assistance has been given to government agencies and private organizations working in the field of trade and export promotion; and help has been provided to rural electric, farm supplies, credit and marketing cooperatives in both their initial organization and in operational improvements;

The Executive Service Corps, (IESC) a private non-profit organization directed and managed by a group of leading American businessmen and partially funded by a small AID grant, offers the services of experienced volunteer American businessmen to counsel and provide guidance in production, marketing and financing techniques. In 1966, the IESC completed 150 projects and expects to complete 350 during 1967 of which 66 projects are in 17 Latin American countries. Examples of activities under way in Latin America include the review and modernization of the merchandizing procedures of retail department stores and reorientation of the sales policies and marketing techniques of two large shopping center markets;

Through the Partners of the Alliance Inc., a private, non-profit group, AID provides another means by which the U. S. grassroots private sector is able to participate in Latin American development. In the three years of its existence, the Partners of the Alliance has established relations with citizen groups in thirty states who are working with citizen groups in 15 Latin American countries. Projects have been or are being undertaken in the fields of agriculture, education, public health, commerce and industry, community development and civic organization, and in cultural exchanges. The multiplier value of the Partners' program may be seen in the fact that since its inception in 1964, roughly \$555,000 of AID funds have resulted in an estimated \$7.3 million worth of technical assistance and equipment being channeled to various projects in Latin America. To give it long range stability the Partners of the Alliance group was incorporated in early 1967 and is expected to attain financial self-sufficiency within the next two-year period. National committees have been organized to plan and stimulate programs in education, agriculture and health. Illustrative of the Partners activities in 1967 is a water supply project serving twenty-five communities in the Choluteca area of Honduras. The Vermont Partners of the Alliance Committee provided three technicians, a two-ton dump truck, twenty pumps and pipe to install water supplies to wells that had been dug by the people according to a community-wide development program. Another example is the agriculture project of the Texas Partners of the Alliance Committee under which a 5-man team of professors and graduate agricultural students will work for 3-month periods in the Chira Valley of

Peru to assist the people in improving production methods and in organizing a production and marketing cooperative. The people of the Chira Valley will provide land, labor, fertilizer, seed, and simple buildings as their self-help contributions. They will also provide housing for the Texas team.

C. As of December 31, 1966 direct dollar loans totalling \$78.4 million have been made to fourteen private projects. Projects so funded include a kenaf fibre plant in Guatemala, electric power distribution, rubber, carbon blank, fertilizer and paper facilities in Brazil. Loans totalling roughly \$100 million had been made by AID to industrial intermediate credit institutions in 12 Latin American countries as well as to the Central American Bank for Economic Integration. This total does not include loans made to housing and agricultural institutions.

6. Housing Guaranty Program

A program showing remarkable growth is that for extending guarantes for private U.S. investment in pilot demonstration housing projects. In 1962, the first year of the program, only one guaranty was issued for \$1.25 million. In 1963, four guarantes totalling \$29 million were issued. As of December 31, 1966, 37 guarantes totalling \$200 million were authorized.

The Foreign Assistance Act of 1965 increased the ceiling of Latin American housing guarantes from \$250 million to \$400 million. Reopening of the application period in 1966 resulted in \$587 million dollars of new applications, which are currently undergoing a competitive evaluation process.

In 1966, the Foreign Assistance Act again provided an increase of guaranty authority, this time to a total of \$450 million dollars, with the further provision that \$300 million of this \$450 million go for pilot demonstration projects.

Through the program local private financial institutions, government housing banks, public mortgage insurance agencies, and local businessmen, receive an opportunity to apply their skills to projects of substantial size. The program can be described as an international system of mortgage insurance.

The investor pays a fee to AID for its guaranty, ranging from 1/2 of 1% to 2%, depending on other security offered. It is expected that in the long run the program will be completely self-financing, with all administrative expenses and claims paid from fee income.

ANNEX

Statistical Tables

Table 1. Changes in U.S. Economic Activity Since 1961

Measures of economic activity	Percentage changes per year					
	1961 to 1966	1961 to 1962	1962 to 1963	1963 to 1964	1964 to 1965	1965 to 1966 ¹
Production:						
Gross national product, constant prices ²	5.4	6.6	4.0	5.3	5.9	5.4
Personal consumption expenditures	5.2	4.9	4.4	5.8	6.0	4.9
Business fixed investment	9.7	9.2	4.4	10.6	13.1	11.2
Residential structures	(3)	10.2	4.2	- .8	-2.0	-10.8
Government purchases of goods and services	4.2	7.0	2.0	1.6	2.5	8.0
Federal	3.3	9.9	- .8	-2.9	(3)	10.9
State and local	5.2	3.5	5.5	6.6	5.4	5.0
Industrial production	7.3	7.8	5.1	6.4	8.4	9.0
Prices: GNP deflator	1.8	1.1	1.3	1.6	1.8	3.0
Employment:						
Total civilian employment	2.2	1.8	1.4	2.2	2.6	2.6
Nonagricultural payroll employment	3.4	2.9	2.0	2.9	4.2	5.1

¹ Preliminary.

² Includes change in business inventories and net exports of goods and services, not shown separately.

³ Less than .05 percent

Sources: Department of Commerce, Department of Labor, Board of Governors of the Federal Reserve System, and Council of Economic Advisers

Table 2. Changes in U.S. Gross National Product During Two Periods Since Mid-1965
(Billions of dollars, seasonally adjusted annual rates)

Expenditure category	Change	
	1965 II to 1966 I	1966 I to 1966 IV ¹
Gross national product	48.3	37.9
Personal consumption expenditures	28.8	18.8
Durable goods	5.9	-.2
Nondurable goods	12.5	6.8
Services	10.4	12.2
Gross private domestic investment	10.8	3.5
Fixed investment ²	9.6	-2.0
Business fixed investment	9.1	4.7
Residential structures	.5	-6.7
Change in business inventories	1.3	5.5
New exports of goods and services	-2.2	-1.2
Government purchases of goods and services	10.7	16.9
Federal	6.3	10.6
National defense	5.5	10.9
Other	.9	-.4
State and local	4.4	6.3

¹Preliminary.

²Nonresidential structures and producers' durable equipment

Note: Detail will not necessarily add to total because of rounding.

Sources: Department of Commerce and Council of Economic Advisers.

Table 3. U.S. New Initiative Programs in Agriculture, Education,
and Health in Latin America

OBLIGATIONS - (\$ Thousands)

<u>Activity</u>	<u>Fund</u>	<u>FY 1965</u>	<u>FY 1966</u>	<u>FY 1967 (Est.)</u>
Agriculture	DL	137,700	150,080	148,000
	TC	12,547	15,074	17,105
	SA	<u>1,050</u>	<u>7,750</u>	<u>8,000</u>
TOTAL		151,297	172,904	173,105
Education	DL	9,175	4,625	21,350
	TC	17,766	18,107	18,537
	SA	<u>-</u>	<u>2,000</u>	<u>1,450</u>
TOTAL		26,941	24,732	41,337
Health	DL	2,600	11,905	30,806
	TC	7,237	4,834	5,575
	SA	<u>4,614</u>	<u>1,400</u>	<u>3,400</u>
TOTAL		14,451	18,139	39,781

Table 4.

**U.S. Direct Private Investments in Latin America
(19 republics) by Industrial Sector**

(Millions of U.S. dollars)

	<u>1960</u>	<u>1965</u>
Total	7409	9371
Mining	1155	1114
Petroleum	2732	3034
Manufacturing	1500	2741
Public Utilities	818	596
Trade	674	1034
Other	530	852

**U.S. Direct Private Investments in Latin America
(19 republics) by Countries**

(Millions of U.S. dollars)

	<u>1960</u>	<u>1965</u>
Total	7409	9317
México	795	1177
Panamá	405	704
Argentina	472	992
Brazil	953	1073
Chile	738	829
Colombia	424	527
Perú	446	515
Venezuela	2569	2715
Others	607	840

U.S. ECONOMIC ASSISTANCE TO LATIN AMERICA
 COMMITMENTS FOR CALENDAR YEARS 1961-1966 a/
 (Millions of U.S. Dollars)

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank (Long Term) b/</u>	<u>Food for Peace (Less U.S. Uses Title I) c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
ARGENTINA						
1961	7.5	-	-	-	-	7.5
1962	41.8	4.6	-	-	-	81.4
1963	80.9	-	-	35.0	-	80.9
1964	9.1	1.4	-	-	-	14.0
1965	1.4	51.5	-	3.5	-	57.9
1966	1.6	-	-	5.0	-	1.6
BOLIVIA						
1961	29.9	-	0.6	-	-	30.5
1962	25.3	-	19.3	6.5	1.4	52.5
1963	45.6	-	9.2	4.4	1.1	60.3
1964	48.0	-	15.5	0.3	2.2	66.0
1965	10.1	-	4.4	3.3	1.3	19.1
1966	28.3	-	6.2	-	2.7	37.2
BRAZIL						
1961	71.8	162.4	64.3	4.1	-	302.6
1962	29.2	-	117.5	46.7	0.9	194.3
1963	87.2	-	111.1	4.5	1.9	204.7
1964	323.2	-	116.4	6.7	4.2	450.5
1965	105.1	15.3	50.2	-	2.6	173.2
1966	238.3	3.9	81.0	-	6.4	329.6
CHILE						
1961	111.9	12.0	8.6	10.2	-	142.7
1962	42.4	46.4	24.3	9.3	1.1	123.5
1963	51.1	17.0	8.1	2.6	0.8	79.6
1964	152.5	19.6	30.6	9.8	2.3	214.8
1965	16.4	3.6	25.8	3.5	1.3	50.6
1966	93.2	2.6	8.1	-	2.8	106.7

COMMITMENTS

Country & Year	<u>AID</u>	Export-Import Bank (Long Term) b/	Food for Peace (Less U.S. Uses Title I) c/	Social Progress Trust Fund .d/	Peace Corps e/	Total
COLOMBIA						
1961	6.5	53.1	6.7	22.8	-	89.1
1962	94.6	3.4	10.9	8.5	2.6	120.0
1963	33.8	2.5	20.3	-	4.0	60.6
1964	79.7	23.0	18.5	18.1	4.5	143.8
1965	68.6	4.0	13.7	0.5	2.1	88.9
1966	22.3	3.4	12.6	-	5.1	43.4
COSTA RICA						
1961	9.8	4.5	-	3.5	-	17.8
1962	2.0	-	-	-	0.3	2.3
1963	19.7	-	2.4	0.1	0.3	22.5
1964	4.8	-	0.9	9.0	0.6	15.3
1965	7.7	-	1.7	-	0.4	9.8
1966	2.1	3.2	0.9	-	1.3	7.5
DOM. REP.						
1961	*	-	0.1	-	-	0.1
1962	30.3	8.0	7.6	6.5	1.0	53.4
1963	25.8	-	13.9	-	1.0	40.7
1964	6.5	7.4	8.4	2.0	1.0	25.3
1965	84.2	5.2	16.1	1.7	0.6	107.8
1966	59.3	8.1	5.2	-	1.0	73.6
ECUADOR						
1961	13.3	0.4	2.6	-	-	16.3
1962	25.9	0.5	2.0	13.6	1.3	43.3
1963	8.3	0.8	5.0	10.9	1.6	26.6
1964	21.2	8.0	5.8	0.3	2.9	38.2
1965	12.4	6.3	6.2	3.0	1.1	29.0
1966	15.8	-	2.4	-	2.7	20.9
EL SALVADOR						
1961	3.0	9.4	0.1	5.5	-	18.0
1962	3.8	-	3.5	6.1	0.2	13.6
1963	19.2	-	2.3	-	0.3	21.8
1964	11.0	-	3.7	4.4	0.4	19.5
1965	5.5	2.5	2.7	6.0	0.3	17.0
1966	3.3	-	1.6	-	0.9	5.8

* Less than \$50,000.

COMMITMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Rank (Long Term) b/</u>	<u>Food for Peace (Less U.S. Uses Title I) c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
GUATEMALA						
1961	3.1	-	0.6	-	-	3.7
1962	4.2	-	1.0	8.8	0.4	14.4
1963	3.7	-	2.1	2.5	1.0	9.3
1964	10.6	4.6	3.0	3.0	0.5	21.7
1965	3.8	-	1.1	-	0.4	5.3
1966	3.7	2.3	0.9	-	0.4	7.3
HAITI						
1961	3.3	-	0.9	-	-	4.2
1962	9.7	-	0.8	-	-	10.5
1963	1.5	-	1.1	-	-	2.6
1964	1.5	-	2.2	-	-	3.7
1965	1.4	3.0	0.7	-	-	5.1
1966	2.7	-	0.7	-	-	3.4
HONDURAS						
1961	4.9	-	0.3	-	-	5.2
1962	4.0	-	0.2	3.5	0.2	7.9
1963	6.1	-	0.5	3.7	0.3	10.6
1964	9.6	-	0.7	0.4	0.9	11.6
1965	8.4	0.4	0.4	-	0.5	9.7
1966	5.6	-	1.0	-	1.0	7.6
MEXICO						
1961	1.2	19.3	3.5	-	-	24.0
1962	20.6	13.7	9.0	13.6	-	56.9
1963	20.3	28.9	14.5	17.1	-	80.8
1964	2.4	100.5	20.3	-	-	123.2
1965	24.9	18.3	4.9	4.8	-	52.9
1966	0.2	98.7 b/	0.1	-	-	99.0
NICARAGUA						
1961	8.0	2.0	0.3	-	-	10.3
1962	4.3	-	1.1	7.7	-	13.1
1963	3.4	1.2	1.9	0.2	-	6.7
1964	8.0	-	1.9	5.2	-	15.1
1965	14.3	2.8	0.9	-	-	18.0
1966	14.1	-	1.2	-	-	15.3

COMMITMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank (Long Term) b/</u>	<u>Food for Peace (Less U.S. Uses Title I) c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
PANAMA						
1961	2.5	-	0.4	7.6	-	10.5
1962	18.0	1.9	0.5	2.8	*	23.2
1963	8.2	7.4	0.8	-	0.6	17.0
1964	11.6	3.5	0.8	-	7.8	23.7
1965	5.5	-	0.5	2.5	0.8	9.3
1966	21.7	-	0.5	-	0.9	23.1
PARAGUAY						
1961	9.0	-	7.8	-	-	16.8
1962	2.8	-	2.9	2.9	-	8.6
1963	3.0	-	3.0	-	-	6.0
1964	5.7	-	3.9	3.4	-	13.0
1965	2.2	-	0.3	1.5	-	4.0
1966	11.6	-	2.9	-	0.2	14.7
PERU						
1961	4.2	8.5	3.2	23.8	-	39.7
1962	26.0	14.4	6.3	2.5	1.3	50.5
1963	7.4	13.4	8.3	-	2.8	31.9
1964	33.7	37.0	13.3	9.6	3.2	96.8
1965	5.3	1.0	8.0	9.3	1.6	25.2
1966	18.8	8.4	7.3	-	3.5	38.0
URUGUAY						
1961	0.1	1.9	0.2	2.5	-	4.7
1962	1.3	5.2	1.9	8.0	*	16.4
1963	7.1	-	0.8	-	0.6	8.5
1964	6.4	-	1.0	-	0.2	7.6
1965	1.0	-	0.7	-	0.2	1.9
1966	6.0	-	0.5	-	0.4	6.9
VENEZUELA						
1961	10.2	27.9	*	32.0	-	70.1
1962	42.8	-	12.5	20.0	1.0	76.3
1963	2.1	19.0	6.6	1.0	0.8	29.5
1964	1.7	12.7	10.3	10.0	2.2	36.9
1965	1.9	12.5	4.2	10.0	1.4	30.0
1966	1.6	8.8	3.9	-	3.9	18.2

* Less than \$50,000.

COMMITMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank (Long Term) b/</u>	<u>Food for Peace (Less U.S. Uses Title I) c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
REGIONAL						
1961	4.2	-	-	-	1.6	5.8
1962	17.1	-	-	2.2	4.3	23.6
1963	14.9	-	0.3	3.2	1.2	19.6
1964	48.4	-	0.4	3.9	6.8	59.5
1965	11.0	-	0.1	5.0	9.2	25.3
1966	18.2	-	0.1	5.0	4.2	27.5
ROCAP**						
1961	7.0 f/	-	-	-	-	7.0
1962	1.0	-	-	2.9	-	3.9
1963	18.2	-	-	-	-	18.2
1964	19.1	-	-	-	-	19.1
1965	38.7	-	-	-	-	38.7
1966	3.9	-	-	-	-	3.9
TOTAL BY CY						
1961	311.4	301.4	100.2	112.0	1.6	826.6
1962	447.1	98.1	221.3	207.1	16.0	989.6
1963	467.5	90.2	212.2	50.2	18.3	838.4
1964	814.7	217.7	257.6	89.6	39.7	1,419.3
1965	429.8	126.4	142.6	56.1	23.8	778.7
1966	572.3	139.4 b/	137.1	5.0	37.4	891.2
TOTAL BY FY g/						
1961	248.1	449.9	144.3	-	1.9	844.2
1962	472.3	99.7	128.4	226.0	9.7	936.1
1963	534.3	62.2	164.9	127.4	18.5	907.3
1964	604.9	165.7	330.0	42.3	32.2	1,175.1
1965	512.4	166.0	110.3	101.1	32.7	922.5
1966	635.1	124.5 b/	198.8	23.8	36.6	1,018.8

** Regional Office for Central America and Panama was established July 1, 1962 with headquarters in Guatemala City. Data for 1961 is for Central American Bank for Economic Integration only.

COMMITMENTS

FOOTNOTES:

- a/ Excludes: (1) Military assistance.
(2) U. S. subscriptions and contributions to the Inter-American Development Bank which totaled \$970.0 million.
(3) U. S. Treasury compensatory financing.
- b/ Excludes debt re-scheduling or consolidation credits and deferrals of transfer.
Excludes refunding as follows: Argentina, \$87.4 million; Bolivia, \$33.9 million; Brazil, \$397.2 million; Chile, \$40.4 million; and Costa Rica, \$5.1 million.
Excludes \$90.0 million short-term loan to Mexico to refinance U. S. purchases in 1966.
- c/ Excludes Title I of PL 480 sales agreements for agricultural products intended for generation of local currency for U. S. uses. The U. S. Government considers as economic assistance only that portion of goods committed which will result in generation of local currency for Country Uses. Ocean freight is included for all Titles except Title III.
- d/ SPTF technical assistance grants for various countries and administrative funds are for fiscal years and are totaled under REGIONAL. Funds to Central American universities are included under ROCAP.
- e/ The Peace Corps is shown by country. Not included is \$2.1 million for the Rama Road during CY 1963. CY 1961 includes the Inter-American Highway under Peace Corps REGIONAL. CY 1962-1966 include the Inter-American Highway and Peace Corps Regional funds under REGIONAL. Peace Corps fiscal year figures include Peace Corps Regional and the Inter-American Highway funds.
- f/ Includes a \$5.0 million loan and a \$2.0 million grant to Central American Bank for Economic Integration.
- g/ Includes the 19 Latin American Republics which were signatories of the Act of Bogota which formalized the Alliance for Progress as well as ROCAP and Regional.

U.S. ECONOMIC ASSISTANCE TO LATIN AMERICA
DISBURSEMENTS FOR CALENDAR YEARS 1961-1966 a/
(Millions of U.S. Dollars)

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank b/</u>	<u>Food for Peace c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
ARGENTINA						
1961	8.3	47.7	-	-	-	56.0
1962	21.4	62.8	-	-	-	84.2
1963	2.3	16.3	-	3.1	-	21.7
1964	16.5	1.5	-	0.5	-	18.5
1965	17.0	2.7	-	3.4	-	23.1
1966	9.3	24.4	-	2.5	-	36.2
BOLIVIA						
1961	18.5	-	3.5	-	-	22.0
1962	26.6	-	7.4	-	0.6	34.6
1963	29.3	*	15.2	0.1	0.6	45.2
1964	22.1	0.1	7.9	2.3	0.9	33.3
1965	17.9	-	6.1	2.0	2.4	28.4
1966	12.6	-	4.5	2.5	2.1	21.7
BRAZIL						
1961	56.5	146.5	94.3	-	-	297.3
1962	35.1	62.2	64.3	2.4	0.7	164.7
1963	22.6	36.2	72.5	7.2	1.2	156.7
1964	60.9	1.0	127.9	15.9	1.1	212.8
1965	109.8	*	35.1	13.6	5.1	163.6
1966	224.6	2.4	61.8	5.5	4.6	298.9
CHILE						
1961	49.3	59.7	27.2	-	0.2	136.4
1962	67.2	21.4	12.3	1.9	*	102.8
1963	75.4	34.6	19.2	3.9	0.4	133.5
1964	76.9	16.0	21.2	6.7	0.7	121.5
1965	55.7	26.6	16.4	9.5	2.9	111.1
1966	66.0	9.5	11.2	3.5	2.4	92.6

* Less than \$50,000.

DISBURSEMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank b/</u>	<u>Food for Peace c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
COLOMBIA						
1961	4.5	55.1	15.4	-	0.2	75.2
1962	41.9	3.2	14.5	3.8	0.7	64.1
1963	65.2	5.1	18.9	9.5	1.9	100.6
1964	44.1	0.6	9.1	6.8	2.1	62.7
1965	43.8	10.7	8.7	5.1	3.5	71.8
1966	63.0	10.5	6.6	7.2	4.2	91.5
COSTA RICA						
1961	2.0	2.0	-	0.4	-	4.4
1962	6.2	1.9	-	1.6	-	9.7
1963	2.9	1.2	1.1	1.6	0.2	7.0
1964	5.3	0.8	1.9	-	0.3	8.3
1965	10.5	0.2	1.1	0.6	0.7	13.1
1966	7.1	0.4	1.2	1.6	1.0	11.3
DOM. REP.						
1961	-	-	0.1	-	-	0.1
1962	17.2	*	3.6	0.5	0.1	21.4
1963	29.6	2.6	12.6	1.7	1.1	47.6
1964	11.5	0.5	13.8	0.9	0.9	27.6
1965	64.3	6.1	8.4	0.2	1.0	80.0
1966	40.3	3.2	6.0	1.4	0.9	51.8
ECUADOR						
1961	9.6	0.5	3.9	-	-	14.0
1962	12.0	0.4	2.4	-	0.1	14.9
1963	10.7	0.3	4.1	1.2	0.9	17.2
1964	9.9	-	7.2	2.8	1.2	21.1
1965	8.6	0.3	3.4	6.6	2.2	21.1
1966	12.7	1.1	1.7	6.7	1.6	23.8
EL SALVADOR						
1961	1.1	6.9	0.1	-	-	8.1
1962	1.8	0.5	2.1	1.7	-	6.1
1963	3.5	0.8	2.3	5.0	0.2	11.8
1964	6.4	1.1	3.7	2.5	0.3	14.0
1965	10.3	0.3	2.2	1.5	1.4	15.7
1966	11.2	0.1	2.1	4.9	0.7	19.0

* Less than \$50,000.

DISBURSEMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank b/</u>	<u>Food for Peace c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
GUATEMALA						
1961	10.8	0.6	0.6	-	-	12.0
1962	5.5	1.0	1.0	-	-	7.5
1963	5.1	3.1	2.1	0.1	0.3	10.7
1964	4.9	1.6	1.8	1.5	0.5	10.3
1965	4.6	2.4	1.1	2.8	0.6	11.5
1966	3.5	1.1	0.9	1.5	0.4	7.4
HAITI						
1961	15.1	-	0.9	-	-	16.0
1962	4.1	-	0.8	-	-	4.9
1963	2.3	-	1.1	-	-	3.4
1964	1.6	-	2.1	-	-	3.7
1965	1.0	3.0	0.7	-	-	4.7
1966	2.5	-	0.7	-	-	3.2
HONDURAS						
1961	5.5	0.3	0.3	-	-	6.1
1962	5.2	0.1	0.2	-	-	5.5
1963	4.0	-	0.5	0.7	0.2	5.4
1964	2.7	-	0.9	1.0	0.4	5.0
1965	5.9	-	0.4	2.9	0.8	10.0
1966	5.3	-	0.7	0.8	0.8	7.6
MEXICO						
1961	0.6	109.1	3.5	-	-	113.2
1962	0.8	44.6	8.9	-	-	54.3
1963	2.6	16.2	13.8	0.7	-	33.3
1964	8.2	28.0	20.6	3.1	-	59.9
1965	13.1	44.3	6.7	5.6	-	69.7
1966	22.3	52.8	0.1	7.4	-	82.6
NICARAGUA						
1961	1.8	4.6	0.3	-	-	6.7
1962	3.3	2.7	1.1	0.3	-	7.4
1963	3.5	0.1	1.9	3.0	-	8.5
1964	4.7	*	1.2	2.7	-	8.6
1965	4.7	-	1.2	1.9	-	7.8
1966	8.3	1.7	1.2	0.8	-	12.0

* Less than \$50,000.

DISBURSEMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank b/</u>	<u>Food for Peace c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
<u>PANAMA</u>						
1961	3.2	2.1	0.4	0.5	-	6.2
1962	6.3	1.5	0.5	2.6	-	10.9
1963	7.1	5.4	0.8	4.3	0.3	17.9
1964	6.0	0.8	1.0	2.3	0.4	10.5
1965	11.5	6.0	0.6	1.0	1.0	20.1
1966	14.4	4.3	0.5	0.7	1.0	20.9
<u>PARAGUAY</u>						
1961	2.8	0.1	6.0	-	-	8.9
1962	4.3	*	0.4	-	-	4.7
1963	4.2	3.2	5.9	0.1	-	10.4
1964	5.4	*	2.8	0.5	-	8.7
1965	2.7	-	0.3	2.1	-	5.1
1966	3.0	-	3.1	0.2	*	6.3
<u>PERU</u>						
1961	2.2	7.9	5.6	-	-	15.7
1962	4.4	12.9	6.4	4.7	0.7	29.1
1963	6.6	9.3	4.3	5.7	1.8	27.7
1964	12.6	8.4	10.8	6.7	1.7	40.2
1965	20.6	18.2	5.3	7.2	3.4	54.7
1966	20.4	19.2	5.0	5.6	2.4	52.6
<u>URUGUAY</u>						
1961	3.2	0.7	0.3	-	-	4.2
1962	2.5	1.3	1.3	-	-	5.1
1963	7.1	1.5	0.9	-	*	9.5
1964	1.1	0.3	0.9	-	0.1	2.4
1965	1.8	0.1	0.7	1.0	0.3	3.9
1966	1.5	0.8	0.5	1.3	0.5	4.6
<u>VENEZUELA</u>						
1961	0.3	28.6	-	-	-	28.9
1962	3.2	54.6	1.0	3.0	0.2	62.0
1963	10.7	7.1	6.6	17.9	0.5	42.8
1964	12.2	4.6	6.7	10.8	0.8	35.1
1965	12.4	15.2	4.4	3.0	2.4	37.4
1966	10.8	15.4	3.9	15.3	2.9	48.3

* Less than \$50,000.

DISBURSEMENTS

<u>Country & Year</u>	<u>AID</u>	<u>Export-Import Bank b/</u>	<u>Food for Peace c/</u>	<u>Social Progress Trust Fund d/</u>	<u>Peace Corps e/</u>	<u>Total</u>
REGIONAL						
1961	3.2	*	0.1	0.6	10.5	14.4
1962	7.6	-	0.1	2.8	5.5	16.0
1963	14.1	-	0.1	3.2	2.1	19.5
1964	17.8	-	0.1	3.9	0.8	22.6
1965	12.3	-	0.1	4.3	-	16.7
1966	18.4	-	0.1	4.3	1.3	24.1
ROCAP **						
1961	2.0	-	-	-	-	2.0
1962	0.8	-	-	-	-	0.8
1963	1.3	-	-	-	-	1.3
1964	3.6	-	-	0.1	-	3.7
1965	11.2	-	-	0.2	-	11.4
1966	12.7	-	-	0.6	-	13.3
TOTAL BY CY						
1961	200.5	472.4	162.5	1.5	10.9	847.8
1962	277.4	271.2	128.3	25.3	8.6	710.8
1963	327.1	140.0	183.9	69.0	11.7	731.7
1964	340.4	65.4	241.6	71.0	12.2	730.6
1965	439.7	136.1	102.9	74.5	27.7	780.9
1966	569.9	146.9	111.8	74.3	26.8	929.7
TOTAL BY FY f/						
1961	114.0	208.8	98.6	-	2.7	424.1
1962	281.6	555.1	148.9	6.3	1.1	993.0
1963	312.6	157.0	178.8	48.8	14.6	711.8
1964	275.2	77.4	194.7	63.2	10.8	621.3
1965	414.0	102.4	160.8	65.7	23.2	768.1
1966	469.9	134.8	118.2	77.6	16.3	816.8

* Less than \$50,000.

** Regional Office for Central America and Panama was established July 1, 1962 with headquarters in Guatemala City. Data for 1961 is for Central American Bank for Economic Integration only.

DISBURSEMENTS

FOOTNOTES:

- a/ Excludes: (1) Military assistance.
(2) U. S. subscriptions and contributions to the IDB which totaled \$970.0 million.
(3) U. S. Treasury compensatory financing.
- b/ Excludes debt re-scheduling.
Includes long and short-term loans. (Short-term transactions seldom exceed 10% of lending in any period).
- c/ Excludes value of goods delivered under Title I of PL 480 estimated to result in generation of local currency for U. S. uses. Data include some estimates, particularly for Titles I and II.
- d/ SPTF technical assistance grants and administrative funds for various countries have not been computed by country and are included under REGIONAL. Funds to Central American universities are included under ROCAP.
- e/ The Peace Corps is shown by country. Inter-American Highway and Peace Corps Regional funds are included under REGIONAL. (Not included is Rama Road CY 1961 - $\frac{1}{2}$ 64 of \$4.0 million.)
Peace Corps fiscal year figures include Peace Corps Regional and the Inter-American Highway funds.
- f/ Includes the 19 Latin American Republics which were signatories of the Act of Bogota which formalized the Alliance for Progress as well as ROCAP and Regional.

Details may not add to totals due to rounding.