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ECONOMIC DEVELOPMENTS IN SOUTH AMERICA 214

214

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

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WILLIAM H. MOORE, *Economist*

CONTENTS

STATEMENTS

ADDITIONAL INFORMATION

APPENDIXES

ECONOMIC DEVELOPMENTS IN SOUTH AMERICA

THURSDAY, MAY 10, 1962

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC
RELATIONSHIPS OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 4200, New Senate Office Building, Hon. John Sparkman (chairman of the subcommittee) presiding.

Present: Senators Sparkman and Javits; Representatives Griffiths and Curtis.

Present also: John W. Lehman, deputy executive director, and William H. Moore, economist.

Senator SPARKMAN. Let the committee come to order.

The Latin American States have reached a stage in historic development in which longstanding social and economic imbalances seem to require new solutions if these countries are to grow, as is their natural bent, along Western democratic lines.

The United States, for its part, has long recognized the closeness of the Latin American countries as neighbors, and felt the desirability of closer association in the interests of trade, culture, peace, and security. This awareness on the part of the United States, dating back to the Monroe Doctrine in 1823 and, coming down through various Pan American conferences, has, admittedly, not always been as well implemented as it might have been, and has been often misunderstood.

Progress toward mutual trust has been slowed partly by differences in tradition and temperament. The people of the United States find the political instability and at times the political organization of our neighbors to the south difficult to understand. The people of Latin America, on the other hand, with strong natural, cultural, and ethnic ties to Western Europe, tend to have an exaggerated fear of Yankee paternalism, and may respond with evidences of a distrust or resistance that are discouraging and frustrating to what we mean to be helpful efforts.

Faced today with the world ambitions of an irreligious and unscrupulous aggressor, neither Latin America nor the United States can afford to indulge any longer these differences in temperament or tradition.

The Alliance for Progress, with its mutual obligations, is an attempt to overcome these inter-American differences and to present a cooperative and united front. It needs all the support it can be given on both sides of the Rio Grande.

These hearings carry on the inquiry begun by this subcommittee last fall by conferences in South America on how inter-American policies can be more closely meshed and the Alliance made genuinely effective. We reported our observations based on several score of conferences held in South America in a recent report entitled "Economic Policies and Programs in South America."

The hearings today and tomorrow continue that study with a view to confirming or modifying the findings of our on-the-spot conferences. We especially hope to get suggestions on how our policies and programs can be improved still further. We are well aware that many people, overwhelmed by the difficulties of a good program, are inclined to pass it off by saying we are "too late with too little" in South America, or, more recently, criticize the Alliance for Progress for not having shown greater results in the short year since its conception and formalizing at Punta del Este last August.

We are fully aware of the great task and the great competence for overcoming these problems that the officials of the Alliance bring to the task. It is our hope that in these hearings, in addition to informing ourselves, we will be helping these officials by providing an opportunity to gain additional views and experiences from nongovernmental experts as to how our policies and programs can be improved and made more effective. Incidentally, each of these witnesses is appearing to give us the benefit of his own views and experience which do not necessarily represent or coincide with the views or policies of the organization with which each is associated.

Without in any way suggesting a list of exclusive or inclusive questions, an appropriate frame of reference for our inquiry involves such questions as these:

> What are the chief present deterrents to private investment in Latin America?
>
> What are the relative roles of "people to people" and "government to government" aid, loans, and programs?
>
> What are the hopes for diversified production to reduce the traditional dependence of the several countries on a few primary commodities?
>
> Are the Latin American countries themselves willing and able to do what is necessary to bring about the kind of economic and social changes contemplated by the Alliance for Progress?
>
> What can we, in all our sincerity and zeal as good neighbors, best do to win the understanding and trust of Latin America?

As far as possible, we will hear the opening statements from each of the members of the panel without interruption and then proceed to the questioning. I will ask that the panelists, as suggested in our invitation, to observe the 10-minute time limit in their opening statements. You are each, of course, invited to submit longer statements for the record.

We are most grateful to all of you for your help on this important problem.

May I also say this, before we get started—it was not included in our letter to you, since it happened recently. Over the last few days articles have appeared in the papers and comments have been made on the radio about the flight of capital from Latin American countries. I hope you will be thinking of that, and that you will feel free to comment on it, because it is, at least to me—and I should think to all of us—a disturbing item of news.

You panel members may have more information than we have been able to get from the news commentaries and from the news items that have appeared in the press. You may have answers to the question that naturally arises in our minds.

How can this outflow of capital from the Latin American countries be checked? I think it is rather apparent that there would be increasing hesitancy particularly on the part of U.S. private investors, to invest their money in countries where local investors instead of using their funds for investment purposes at home, are taking or sending them out of the country.

Before we proceed I believe it would be helpful if we put in the record the press release describing these hearings and the list of witnesses which tells a little of the background and associations of our distinguished panelists for today and tomorrow.

[Press release, Congress of the United States, Joint Economic Committee, May 8, 1962]

SUBCOMMITTEE ANNOUNCES HEARINGS ON ECONOMIC DEVELOPMENTS IN SOUTH AMERICA

Senator John Sparkman (Democrat, of Alabama), chairman of the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, announced today that the subcommittee will hold hearings May 10 and 11 on Economic Developments in South America.

The tremendous significance which the economies of the Latin American countries have to world trade and political developments, and to the stability and growth of domestic economy of the United States, is being thrust upon us today as never before.

> How can our economic policies and programs in relation to Latin America be improved?
>
> What are the bottlenecks to investment, diversified production, and economic growth in Latin America?
>
> Are the Latin American countries willing and able to do what is necessary to bring the kind of changes contemplated by the Alliance for Progress?
>
> What can a good neighbor do to help?

These are questions that demand continuous and intensive study by every responsible American and policymaking group.

To this end, the Subcommittee on Inter-American Economic Relationships in January of this year issued a report on "Economic Policies and Programs in South America." The report presents observations based on a series of on-the-spot conferences with businessmen, labor leaders, university economists, local government officials, and our Embassy staffs in six South American countries, November 4–21, 1961.

Senator Sparkman's announcement today related to a continuation of that study, focusing especially on the findings already reported by the subcommittee and on inter-American developments since the earlier on-the-spot inquiry.

The forthcoming hearing will consist of two roundtables. The first of these roundtables will bring together analysts in economic development, agriculture, taxation, and labor, who have specialized in South American studies in those fields. The second roundtable is made up of representatives of firms which have had long South American investment and merchandising experience. A schedule of hearings and list of witnesses is attached.

Members of the subcommittee, in addition to Chairman Sparkman, are Senator John Marshall Butler, of Maryland, and Representatives Richard Bolling, Missouri; Hale Boggs, Louisiana; Martha W. Griffiths, Michigan; and Thomas B. Curtis, Missouri.

LIST OF WITNESSES AND SCHEDULE OF HEARINGS ON ECONOMIC DEVELOPMENTS IN SOUTH AMERICA

PANEL DISCUSSION

Thursday, May 10, 1962, 10 a.m., Room 4200, New Senate Office Building

Tom E. Davis, University of Chicago, Chicago, Ill.

Professor Davis, of the economic development faculty, has recently returned from Santiago, Chile, where he was in charge of the University of Chicago's cooperative program with the Catholic University of Chile.

William S. Barnes, Harvard Law School, Cambridge, Mass.

Professor Barnes is in charge of the Harvard Law School's international program in taxation. The program includes a cooperative project with the Organization for American States, Economic Commission for Latin America, and the International Development Bank on tax administration.

Raymond J. Penn, University of Wisconsin, Madison, Wis.

Professor Penn is an agricultural economist who has worked and written widely on South American agricultural problems. He headed an agriculture study team to Venezuela last year.

Seymour Brandwein, research department, AFL–CIO, Washington, D.C.

Mr. Brandwein participated in the people-to-people Latin American program of 1958 and was a representative to the International Labor Organization conferences in Uruguay in 1960. He has also taken part in the American Assembly conferences on South America.

Elba Gomez Del Rey De Kybal, Washington, D.C.

Mrs. Kybal is an economist with the Pan American Union. A native of Argentina, she received her Ph. D. from Radcliffe College and has previously been with the Federal Reserve Bank of New York and the United Nations. With her husband, Mr. Milic Kybal of the Inter-American Development Bank, she prepared the paper on economic development for the University of Iowa's symposium, "Report on Latin America," last fall.

Friday, May 11, 1962, 10 a.m., room 4200, New Senate Office Building

William F. Butler, Chase Manhattan Bank, New York, N.Y.

Mr. Butler, vice president, is associated with the Chase Manhattan's extensive program of research in Latin America. He was a major contributor to the bank's symposium on housing in Latin America this spring.

John F. Gallagher, Sears, Roebuck & Co., Chicago, Ill.

Mr. Gallagher is vice president in charge of foreign operations for Sears Roebuck. He has just returned from a trip to their South American stores.

Leonard Kamsky, W. R. Grace & Co., New York, N.Y.

Mr. Kamsky is economist for W. R. Grace. Much of his work is in connection with their extensive South American operations.

Peter R. Nehemkis, Jr., Whirlpool Corp., Washington, D.C.

Mr. Nehemkis is Washington counsel for the Whirlpool Corp. He is a member of the Foreign Commerce Committee of the U.S. Chamber of Commerce and last fall traveled extensively in eight Latin American countries.

Rodman C. Rockefeller, International Basic Economy Corp., New York, N.Y.

Mr. Rockefeller has been working with IBEC in South America on its extensive program for assisting with the development of local industry and services. The program is currently concerned with the promotion of mutual funds involving local capital, low-cost housing, food processing and distribution, among other interests.

Senator SPARKMAN. For the record I would also like to insert a clipping from the Washington Post of May 5, 1962.

SIX BILLION DOLLARS INVESTED ABROAD—FLIGHT OF NATIVE LATIN CAPITAL THREATENS U.S. ALLIANCE PLAN

(By Gerry Robichaud, Chicago Daily News Service)

MEXICO CITY, May 4.—The massive flight of native capital abroad and the reluctance of private American investors to put money into Latin American enterprises do not augur well for the Alliance for Progress.

By far the more damaging of the two is the flight of Latin American capital to the United States and Europe, where it is placed on deposit in banks or invested in stocks and bonds.

None knows precisely how much money wealthy Latin Americans are sending abroad, but in terms of the widespread poverty that exists in their part of the world even the most conservative estimates are staggering.

Many economists estimate that there is now a minimum of $6 billion in Latin American capital abroad. Daniel Oduber, who has been designated Minister of Economics in the new Costa Rican Government that will take over on May 8, feels that the figure is closer to $10 billion.

Even at the lowest estimate, it amounts to nearly a third of the total spending of $20 billion contemplated under the Alliance for Progress.

It doesn't take an economist to recognize how much good this capital could accomplish if it were brought back to the country of origin and invested.

If Latin Americans with money have so little faith in their own countries as to send much of their wealth abroad, how can they reasonably expect U.S. investors to take the risks that they themselves refuse to take?

Ever since the Communist Cuban regime began confiscating U.S. properties, the rate of new United States and other foreign investments in Latin America has been falling off significantly.

In 1960, new U.S. private investment in Latin America fell to $95 million in contrast to an average of $300 million a year in the previous decade. Revised figures for 1961 put new U.S. investment at $190 million.

This is considerably lower than the $300-million-a-year goal of the Alliance, which also contemplates new private investments from Europe and Japan of about $150 million annually.

If these goals are not met, the Alliance itself will fall short of its own overall objectives. For new private investment from the United States and other foreign sources represents slightly over 22 percent of total Alliance spending.

Yet, as badly as they need new foreign investment, very few Latin American countries have done much to make such investment attractive. Recent expropriations in Brazil and nationalistic financial regulations adopted by other countries have tended to frighten off potential new investors.

Only Peru, Colombia, and Argentina—during the regime of ousted President Arturo Frondizi—have been successful in attracting a significant amount of new investment from private United States and European sources. They have offered tax, customs, and related concessions.

U.S. Secretary of Commerce Luther H. Hodges recently created an American Business Council to help stimulate the interest of U.S. investors in the Alliance program.

But in the final analysis it is only the Latin American countries themselves who can create the climate that will appeal to U.S. investors.

Senator SPARKMAN. I will now call on Prof. Tom E. Davis, of the University of Chicago, to present the first paper.

STATEMENT OF TOM E. DAVIS, UNIVERSITY OF CHICAGO, CHICAGO, ILL.

Mr. DAVIS. I would like to thank the chairman for the invitation to participate in the panel discussion today. I have entitled my highly compressed opening statement "The Rate of Return on Capital in Latin American Economies: With Special Reference to Chile." While it contains some general observations about our Latin American policy, it is chiefly directed toward the following:

First, to explain what is the chief deterrent to private investment, or at least an often neglected deterrent;

Secondly, to throw some light, possibly, on the chairman's questions with respect to the explanation for capital flights.

And lastly, if only indirectly, to indicate some of the sources of opposition, and the reasons for the opposition, to the economic stabilization programs that we have encouraged Latin American countries to adopt.

The private enterprise system, as it has operated in Latin America over the past century, has enjoyed relatively little success in providing for continuing increase in the level of material well-being of the vast bulk of the population as compared to its spectacular achievements in this respect in other portions of Western civilization.

The long series on output, employment, capital stock, and real wages required to buttress this assertion are not readily available for most Latin American countries as a consequence of their meager statistical resources. Chile, by comparison, is relatively well endowed, and the data amply support the contention contained in the text.

At this point, I would like to offer a paper entitled "The Growth of Output, Employment, Capital Stock, and Real Wages in Basic Sectors of the Chilean Economy," for inclusion in the printed record of these hearings.

Senator SPARKMAN. That will be accepted, and it will be printed in the hearings as appendix A.

Mr. DAVIS. Thank you.

This comparative absence of a dynamic private sector, both foreign and domestic, lies at the roots of our concern for the political stability of Latin America and for our trade with, and investments in, the area. This concern is noted in the report of the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee in its "Economic Policies and Programs in South America," pages 25–26. Any analysis of current or prospective economic developments in Latin America or evaluation of our Alliance for Progress program begins, explicitly or implicity, with an explanation of this past performance and proceeds to a prediction of, or a plan for introducing, modifications of the system in the future.

Explanations, incorporated into predictions or programs, are not wanting. Almost invariably, however, they are based on the assertion that, because capital would appear to be relatively scarce in Latin America, the rate of return on capital must necessarily be higher than in the United States or Western Europe. Casual empiricism readily adduces instances where this general proposition appears to be applicable.

Given this preconception, economists, in attempting to "explain" the relatively low fraction of income invested in physical plant and equipment characteristics of Latin America have been forced to introduce such novel considerations as "conspicuous consumption," "vicious circles of poverty," "unproductive investment," "monopolistic impediments," "adverse climates for foreign investments" that presumably differentiate the Latin American countries from the economically more successful.

The policy recommendations stemming from this diagnosis stress: Effective taxation as a means for capturing the "investible surplus" that runs to waste in "conspicuous consumption"; spurs to private foreign investment —by creating a more favorable investment climate—as opposed to direct intergovernmental loans and grants; and anti-inflationary programs, designed to encourage the rechanneling of investible funds toward productive uses as opposed to urban real estate, agricultural land, and foreign exchange.

The policy recommendations have been accepted, and to some degree implemented, without subjecting the basic proposition to empirical investigation. Such meager studies of comparative rates of return as have been attempted suffer from a severe methodological weakness in that they attempt to measure "profits"—in the accounting sense—as a percentage of asset value or owner's equity. A recent estimate that the return to corporate capital in Chile is 9 to 11 percent does not compare favorably, even on this basis, to similar measures for the United States. See Anibal Pinto S. C., "Formacion de Capital en las Empresas Industriales" Santiago, Instituto de Economica, 1960.

In the inflationary environments characteristic of the poorer countries, particularly in Latin America, profits are usually overstated as a consequence of undervaluing—usually at original cost—equipment and raw materials. Given this situation, it is not surprising that shareholders are "rewarded" by stock dividends—and warrants—instead of cash dividends. In these circumstances, if the rate of return on capital is comparatively higher, supergrowth stocks should abound. The annual increase in corporate capital derived from all sources for a sample of Chilean corporations is approximately 6 percent. See J. Prados Arrarte, "Inflacion y Desarrollo Economico," Madrid: Aguilar, 1955. Surprisingly, however, the facsimiles of the IBM's appear to have obtained the bulk of their capital not from reinvested profit, but from large loans received from governments and international organizations.

Calculations of the rate of return on investment—including capital gains—on the average of the common shares of the 307 actively traded corporations on the Santiago Stock Exchange over the period 1929–59 confirms these impressions. Preliminary findings for the period 1940–57 are contained in Tom E. Davis and R. Lueders, "Tasas de Rendimiento de Acciones en la Bolsa de Comercio de Santiago, 1940–57," in Luis Escobar Cerda, "El Mercado de Valores" Santiago, Editorial del Pacifico, 1959.

The 2 percent real annual rate of return received by shareholders of Chilean corporations falls well short of the approximately 5 percent real annual return received by the owners of the 425 U.S. corporations included in the Standard and Poor Industrial list. The optimum long period of investment in shares in Chile begins at the depth of the great depression, 1931, and terminates at the height of the inflation, 1955; but, even over this period, the real annual rate in Chile falls slightly short of 5 percent, while the return for the comparable period in the United States exceeds 8 percent. In other words, the comparatively low rate of return on corporate equity would seem to explain the low fraction of aggregate income invested in physical plant and equipment without the necessity of introducing the notion of "conspicuous consumption," "shortages of foreign exchange," et cetera.

Similarly, the tendency to prefer agricultural land and urban real estate is readily explicable by the fact that the net rental value of these assets would appear to represent some 5 to 7 percent of their current market value. These assets thus offer a superior return in comparison to common stock, which is held presumably because its relatively lower transactions cost and greater divisibility causes it to be a better money substitute than urban real estate and agricultural land, a not unimportant consideration when inflation proceeds at an annual average rate of 20 percent.

Finally, corporate enterprise would appear to have become dependent upon the subsidy implied by the fact that controlled interest rates are well below the average rate of inflation; this in turn would tend to explain the strong opposition—both from organized labor and capitalists—that anti-inflationary programs have encountered in Latin America.

The explanation for the low rate of return on corporate capital—and the dependence of this sector on the "inflation subsidy"—has its origins in the fact that labor and social legislation are not uniformly enforced in Latin America. Larger firms, generally corporations, find that their total wage costs per worker are double or triple those of their smaller competitors. Despite greater investment per worker in plant and equipment, deficiencies in managerial, technical, and manual skills cause unit costs not infrequently to exceed those in the smaller, less capital-intensive, firms. The multiplication of smaller firms underneath this protective umbrella is limited by the basic shortage of entrepreneurs, their inefficient use in small units, and by the limited accessibility of bank credit that, with effective maximum interest rates, is channeled to the larger corporate units.

The political power of organized labor and Government employees—the middle class beneficiaries of the labor and social legislation—is currently so great in most Latin American countries that these benefits could only be scaled down or made uniform (1) by powerful authoritarian governments—and authoritarian governments frequently cannot move against, or owe power to, these groups, e.g., Peron—or (2) by democratic governments drawing their support from broadened electorates that would include the unorganized, frequently self-employed, urban laboring class and the agrarian labor force.

Consequently, the only immediate prospect for restoring dynamism to the private sector of the economy would appear to be those investments in human beings that would raise the product of all types of labor until it surpassed the costs of employing that labor in the modern units in the corporate sector (with the associated higher wage rates and social security benefits) and provided a rate of return on that capital that would offer both the resources and the inducement for rapid expansion.

The Alliance for Progress contains programs designed to achieve these objectives together with measures, for example, in the field of housing, intended to mollify the evil effects of poverty and frustration that are in part the product of the absence of dynamism in the private sector in the past. Educational and technical assistance programs, and the provision of infrastructure, will raise eventually the productivity of labor; but these are expensive and slow yielding investments. Much patience, "welfare" expenditure, and redistributive measures will be called for both here and in Latin America if the private enterprise system (and probably democratic government) is not to be abandoned in the futile search for a more satisfactory political and economic system.

Senator SPARKMAN. Thank you very much.

Prof. William Barnes, Harvard Law School. Mr. Barnes, we are very glad to have you with us.

STATEMENT OF WILLIAM SPRAGUE BARNES, HARVARD LAW SCHOOL, CAMBRIDGE, MASS.

Mr. BARNES. I would like to thank the chairman and the members of the committee for inviting me to testify.

Recently three documents reporting on tax reform and tax measures in Latin America have been published.[1] The subcommittee report on "Economic Policies and Programs in South America" notes that "land reform would include real estate tax reform" but one member expresses disapproval of taxes as an instrument to force division of land, favoring the use of tax policy to encourage agricultural productivity.[2]

I concur in this point of view, and would like to concentrate my remarks this morning on the problem of taxation of land.

The first annual report on the Social Progress Trust Fund, although obviously a self-serving document, is accurate and up to date.

The staff report of the Agency for International Development is the most recent and informative document.

Finally I would like to point out to the committee the wording of some of the relevant provisions of the charter of Punta del Este (ch. II, 2d.):

> More effective, rational, and equitable mobilization and use of financial resources through the reform of tax structures, including fair and adequate taxation of large incomes and real estate, and the strict application of measures to improve fiscal administration * * *.

EXAMPLES OF RECENT TAX DEVELOPMENTS

As examples of recent tax developments, in Columbia they have made a major tax reform in December 1960, part of which included a 4-percent tax on unimproved land in urban areas, which is to be administered by the urban governments; in Chile the point 4 program has developed a significant tax administration training school as part of the development of tax reform; in Mexico the recent tax legislation passed in December 1961, has introduced new rates and new taxes, although its total impact is as yet uncertain; Bolivia has, in its major effort to achieve tax reform, introduced a proposal to tax the land of the campesinos, the farmers, who have, under the Land Reform Act of 1956, received significant distribution of land—the reports that I receive from Bolivia are that the farmers are glad to pay the tax, if for no other reason than that it proves that they really own the land—Argentina has made considerable progress through decentralizing its income tax administration, and in the first year of its efforts to get to the people with tax information and tax collection raised its revenue from an estimated M$N82 billion to M$N100 billion;

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[1] Joint Economic Committee:
Subcommittee report on "Economic Policies and Programs in South America," 87th Cong., 2d sess., transmitted Jan. 24, 1962.
First Annual Report (1961), Social Progress Trust Fund, Inter-American Development Bank, published in March 1962.
(c) "Tax Reform in Latin America Since the Act of Bogotá," Agency for International Development.
Staff report published in House hearings on the Foreign Assistance Act of 1962, pt. III, pp. 473–504.

[2] P. 24 and p. 79.

finally Brazil has modified the state tax structure in the state of Sào Paulo, to introduce a 2- to 6-percent tax rate on land values to encourage utilization, if land remains unused it is subject to double the rate.

CRITERIA FOR TAX REFORM

In discussing tax reform, we must define what are the objectives and how to achieve a balance as between these objectives.

Fair and equitable distribution of the tax burden is obviously one of the goals, but the absence of statistics and proper studies of the tax burden throughout Latin America makes it impossible to move rapidly in this field.

Increased tax revenues and efficient tax collection are, of course, the easiest way to achieve some tax reform, but in many cases this is done at the expense of the people through overemphasis on increases in the sales tax.

Finally the objective of encouragement of savings and investment is the most difficult aspect of tax reform to achieve and involves sophisticated knowledge and understanding of income and profits taxation.

In response to the question raised by the chairman, I would note that in the Colombian tax reform there has been introduced a device to discourage the flight of capital which I would be glad to discuss further during the discussion period.

ANALYSIS OF TAX STRUCTURE

In analyzing the tax structure, we must consider the possibility of achieving a proper balance as between different types of taxes. In Latin America, in countries like Venezuela, there is still the concept that there is "double taxation" if there is taxation of corporate profits and of individual dividends simultaneously. Sales and excise taxes are out of balance; property and capital taxes are underassessed and rates are decidedly low.

In the United States there was, in round figures, a total tax revenue of $120 billion in 1960, spread between three levels of Government; approximately $80 billion from individual and corporate income tax at the Federal, State, and local levels—66 percent; approximately $20 billion from sales, excises, and other "indirect" taxes at all levels—17 percent; and $20 billion from property taxes and estate taxes—17 percent.

The comparable figures in Latin America would be impossible to state categorically, but my own estimates are approximately 20 to 25 percent from income taxes, 70 to 75 percent from sales, excises, import and export duties and 0 to 10 percent from property and other capital taxes.

LATIN AMERICAN TAXATION

Deficiencies in the Latin American tax system have been noted in many of these reports. I simply want to bring before this committee five points which I think deserve consideration: (1) The emphasis on indirect taxes which fall on the consumer and have no relation to the capacity to pay; (2) the dependence or overdependence on revenue from export taxes in countries, for example, such as Chile and Venezuela, making them highly vulnerable to changes and fluctuations in export prices; (3) the emphasis on commercial profits rather than progressive individual income tax rates, for example, the current dispute in Guatemala concerning the introduction of an individual income tax; (4) the limited use of taxation of property values—in the United States, on the average, 30 percent of the sales or market value of real estate is assessed for tax purposes, and rates average approximately 5 percent of this assessment, whereas the average Latin American rate is closer to 1 percent of a greatly understated and underassessed valuation—and (5) centralization of policy and administration in the national capital resulting in an absence of taxpayer morale and an unwillingness to contribute to tax revenues.

RECOMMENDATIONS

I would like to recommend that we try to relate taxation to the policies of the Alliance for Progress as expressed in the charter of Punta del Este, making more direct contact with the people and encouraging self-help measures. It is important to note that the reaction of taxpayers in Latin America is directly related to the benefits which result from the sacrifices which they are expected to make.

Local community development potential can be achieved on a small scale, in places, for example, like Puno, Peru, where they have had such great success with the school lunch program. Self-help may involve calling upon the local citizenry to contribute through local taxation to local projects which they can see being built and going forward. This means that local tax autonomy may be a means of achieving local capital formation, and technical assistance in taxation may respond to the grassroots aspirations of the people of Latin America.

I propose that we study the tax measures which could be introduced to develop local autonomy in selected towns or municipios throughout Latin America as a first step in introducing new concepts of taxation in Latin America. There seems to be too much emphasis on national development programs, to the detriment of community initiative and the destruction of taxpayer morale.

Thank you.

BIBLIOGRAPHICAL NOTE.—In addition to the volumes of World Tax Series: "Taxation in Brazil" (1957) and "Taxation in Mexico" (1958) and supplements, the international program in taxation of the Harvard Law School is publishing a bibliography of taxation in underdeveloped countries which includes Latin American material, as part of the cooperation with the joint tax program sponsored by the Organization of American States, the Economic Commission for Latin America and the Inter-American Development Bank. Another volume of the World Tax Series, "Taxation in Colombia" will be published later this year.

Senator SPARKMAN. It is my thought that we will save the questioning until all of the panelists have presented their initial statements, but at this point I just wanted to check on one thing.

I was interested in your figures on tax sources. As I get it, in the United States we get $80 billion from income taxes at all three levels, $20 billion from sales and excise taxes, $20 billion from ad valorem taxes. You gave the figures for South America but I failed to get them. Would you repeat those, please? I realize you say it is merely an approximation.

Mr. BARNES. It is merely a guess. Approximately 20 to 25 for income taxes.

Senator SPARKMAN. Is that $20 to $25 billion? Or percent?

Mr. BARNES. I see. I am sorry. Yes; there is a percentage, of course. This is a percentage, assuming 100.

Senator SPARKMAN. I wanted to get that clear. What are the percentages for the other two.

Mr. BARNES. Seventy to seventy-five percent indirect taxes, including customs and excise.

Senator SPARKMAN. Seventy to seventy-five percent for indirect. And the ad valorem, then?

Mr. BARNES. Approximately 5 percent.

In order to make the record an up-to-date official report on tax reform in South America I suggest inclusion of the relevant sections from the Social Progress Trust Fund Report for 1961.

Senator SPARKMAN. Thank you. The material referred to will be printed in the hearings as appendix B.

Prof. Raymond J. Penn, of the University of Wisconsin.

Mr. Penn, we are glad to have you here. Will you proceed, sir?

STATEMENT OF RAYMOND J. PENN, UNIVERSITY OF WISCONSIN, MADISON, WIS.

Mr. PENN. Thank you, Mr. Chairman. I appreciate the opportunity to be here and participate in this hearing. I feel very much ill at ease, however, traveling as a Latin American expert. I think I should caution you that I really do not consider myself a Latin American expert. However, I do know something about land economics, and I have learned much from many Latin American students and from short visits to 10 of the Latin American countries.

I have submitted, Mr. Chairman, a longer statement that covers in more detail the points that I propose to make, entitled "Understanding the Pressures for Land Reform." It is available for inclusion in the record, if that may be.

Senator SPARKMAN. Without objection, it will be included in the record following your oral presentation.

Mr. PENN. Thank you, Mr. Chairman.

Let me confine my remarks here, then, to three points, and even these points will have to be rather arbitrary, in view of the opening time limits.

The first point deals with the structure of Latin American economies. It is mostly a rural structure; and this is changing.

The issue is not whether this change will take place. The issue is how. Will it be by peaceful, orderly, democratic means, or will it be by violent action?

The second point that I would like to comment on: Landownership in Latin America is more than just the control and ownership of the land resource. It is the web on which the existing economic, social, and political structure rests.

The third point: Local organization is a necessary and important factor in economic development. This hypothesis I have been trying to test.

The first point, then: The structure of Latin American economies is changing. The need for a change has been well documented by many reports, and particularly by the report of your Subcommittee on Economic Policies and Programs for South America.

Half of the people or more in many of the countries are truly at the subsistence level. They buy nothing or practically nothing, produce nothing to sell, or practically nothing to sell. They do not have schools to go to, or medical care. Most of these people are beginning to know it is possible to live better. But this takes division of labor, which in turn requires a market economy.

The development of all of the ramifications of a market economy from a primarily subsistence economy requires very substantial changes. Some of the intelligent people in Latin America, people who have real friendship ties with the United States, are beginning to question whether the existing structure of the economy can adjust to the needs by peaceful means.

This is a terrific dilemma, because the necessary changes that would have to occur in the creation of a broad market economy can only be built on reasonable security of expectations. This requires reasonable order, and any violent changes make order increasingly difficult to accomplish.

The second point: Landownership in Latin America. We in the United States generally and quite naturally think of landownership as the ownership and control of land resources. That is what it is in the United States. Our development policy was to encourage the farmer to own his own land. He then would do a better job of farming, applying new techniques, because he would receive the benefit from his efforts and investment.

Landownership in Latin America, however, is not the same as it is in the United States, and if we consider it the same, we may miss the issue altogether. Although the situation differs in each of the countries, most of them are in the process of breaking out of feudalism. Under the fedual system, landownership carries with it more than the right to manage land and the income from it. In a sense, ownership of land carries with it ownership of government, the right to tax, the right to enact and enforce police regulations, and the right to judge. In addition, decisions on investment in social capital—education, transportation, hospitals, power projects—appear to be the prerogatives of landownership.

So the campesino, the small farmer without much in the way of ties to the land, feels that landownership is symbolic of a new kind of life. He believes that it can give him the food to stay alive, but also the right to build his own house, in which to raise his own family. He believes it will give him the right to tax himself and to build a school.

Unfortunately, all of these things do not come into existence automatically when one becomes an owner of a small piece of land. Credit is needed, and knowledge about production techniques. A market is needed for the products produced. Educational and health facilities are needed.

Land reform, then, understandably has a dominant place in the policies of Latin American countries. It must be viewed, however, as more than just acquiring landownership by the landless. It is an effort to break the feudalistic characteristics of the economy, an effort to change the structure of the economy.

Three, local organization is needed. Actually, in a feudalistic type of society, the landowner is the local unit of government. He decides the local issues; so there is no place for local government. Often the landowners live in the central city and have a major voice in the central government, too.

Such things as schools, including hiring the teachers, roads, health, and sanitation facilities, are the responsibility of the central government. Local people are thus encouraged to wait until the service is given by the central government.

Too often, the community that has the power to cause the administration embarrassment gets the attention.

It is my hypothesis that responsible local organization is an important ingredient in economic development. We have not fully appraised, I think, the real power of group will and group desire. It takes some kind of local organization to harness the desire and the will of groups of people, and in general this is not available in Latin America.

In addition, the very stability of the economy depends upon whether or not there is a well developed local organization of some kind. And this is what I have looked for when I have gone to Latin America. I have found several places where actually the local government has been in operation, and there has been stability, and they have harnessed the will of the people in their development programs.

One other point I would like to make. The program, the contracts, the partnership, that is being developed between Latin American countries and the United States, calls for some action by the Latin American countries, to make progress in taxation and land reform. It is my strong belief that we should not just expect this to happen, either. We should, I think—and here I guess I am expressing my feeling as a university person—help the people in Latin America with techniques for research, for finding out problems, training people, and actually participate in research.

I think we have a responsibility to help the people in these countries with the best techniques, the best training, the best devices for planning, and focusing on problems. It is their decision, of course, to take the action, but I think we should help if we can and if they want us to help.

Thank you very much.

Senator SPARKMAN. Thank you, Mr. Penn.

(Mr. Penn's full statement follows:)

UNDERSTANDING THE PRESSURES FOR LAND REFORM

By Raymond J. Penn[1]

Every serious plan for economic development in Latin America today includes some kind of land reform. No magic formula for Latin America's economic ills is so widely accepted—and none is so little understood.

On the surface, the landless of South America look to land reform to assure them of food and shelter. Actually they seek something much broader and quite

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[1] Mr. Penn is professor of agricultural economics at the University of Wisconsin, specializing in land tenure and land policies. He has worked with Latin American students and scholars and has 3 times visited Central and South American countries as a consultant on land use programs.

different. They want relief from a feudalism which we North Americans find hard to comprehend.

What we must understand is that in much of the world today the ownership of land carries with it ownership of government—the right to tax, the right to judge, the power to enact and enforce police regulations. It dominates every crucial decision about investments in social capital—education, transportation, hospitals, power projects.

To the campesino, ownership of land is more than a source of wealth. It is the source of prestige and political power and social justice. It gives him the right to build his own house in which to raise his family. It gives him, too, the right to tax himself to build a school. It lets him share in the bundle of rights which have so long been a prerogative of the large landholder and denied to the landless.

The pressure for land reform, then, must be seen for what it is—pressure for a major reform in the Government, the society, and the economy. Peaceful or violent, it is nothing more or less than a revolutionary movement.

We might well ask ourselves what specific expectations the landless of Latin American have from land reform.

1. *Economic security.*—Of course, the landless see in the ownership of a piece of land a kind of job protection and assurance that whatever happens they will at least have food and shelter.

2. *Political and social justice.*—Through landownership the landless hope for status in their communities, freedom to act and speak freely, the opportunity to see their children given an education, and the right to share in control over their government.

3. *Use of resources in the broad public interest.*—Latin Americans are increasingly aware that the way they live depends not simply on their own efforts, but also on the total national production. Too much of Latin American's wealth—land as well as other resources—is not fully used. Large estates often do not produce the harvests they could with more intensive management. Virgin land has not yet been cleared for agricultural use. Without roads and markets, it can add nothing to national production and wealth. Thus national land policies can directly affect the health and well-being of the individual and his family.

These, then, are the expectations from land reform.

It should be obvious that breaking up large estates will not, by itself, fulfill such hopes. Much more is involved. But it is quite natural that we in the United States tend to see land reform as a rather simple matter. Our Constitution was established on the liberal ideas of those who knew what European feudalism had been and why it must be abandoned.

This is why landownership in the United States is not an absolute right, and why it does not carry other political and social rights with it. It is also one of the reasons that we in the United States have devised ways to give the landless some very substantial protections.

In the courts, landed or landless can, in general, expect fair and equal treatment.

People without property can vote, and can put pressure on their legislatures for social security, minimum wages, job safety standards, and unemployment protection.

Credit sources make land purchase feasible, and the landless can also obtain property rights in the industry or, through their unions, acquire legal security in their jobs.

These facts are perhaps the major reason capitalism has not blown apart as Marx and Engels said it would. The power accompanying ownership of productive resources has not become as concentrated as they predicted. Even where concentrations of ownership have occurred, a farsighted governmental structure has provided ways to give the man without property some other resources to use to protect his own and the larger public interest.

In this country, one major step in land reform was the opening up of western lands. For many years homesteads were available to anyone with the courage to move and the minimum resources to get established on new free land.

More than courage is needed for the settlement projects in the llanos of Colombia and Venezuela and along the Pacific fringe of Guatemala. New settlers need roads, schools, and markets. They need equipment in this modern day, and they may also need credit and technical help.

Supervised credit programs are an element of land reform in a number of Latin American countries. Farming cannot survive the 25- to 35-percent interest rates which are common in many countries.

Property taxation is not common in Latin America, and it is another most urgent measure of land reform. Property taxes can discourage an owner from leaving his land idle or unproductive. They can raise money to build and maintain schools and roads and other public services. They can also reclaim some of the special benefits that are added to land values as a result of these social investments.

Legal procedures may be another vital element of land reform. In the Philippine Islands special courts have been developed to give tenants more protection and both owner and tenant more responsibility in conflicts about land ownership and use.

Land reform is not, then, a simple matter. Why does it come to its bitterest focus in the issue of breaking up large estates? Because these holdings dramatize the economic and political and social inequalities which stir the spirit of human justice.

Often large estates are on the best agricultural land—the irrigated valleys in Peru, the pampas in Argentina, the savannahs around Bogotá and Cali in Colombia. Here the landless live in hunger and poverty and squalor, with the large landowner an obvious explanation of their plight and target for their discontent.

This is a situation on which the politically cynical will capitalize. It is a situation the politically naive will misinterpret in their eager hope for speedy results from land distribution. Only the political realist will accept all the complexity of a true land reform program.

The political realist will demand a kind of land reform that guarantees regular and continuing machinery for expressing the public interest through rules about landownership and use. And the political realist will find that these are not legal questions of land title, but questions of practical democracy.

Public interest cannot be determined by government edict—as we too often think even in this country. It can only be determined by people who have the right to get together in groups and arrive at decisions and the bargaining power to put those group decisions into effect.

Procedures are important. True land reform must set up procedures to help in arriving at group decisions (planning or policy formation). It must provide procedures to put these decisions into operation. And, of course, it must include procedures to protect minority views and rights.

The force of public interest thus defined can be brought to bear not alone on the recalcitrant individual but also on a governmental agency that is failing to do a job that is needed. At its best, it may even be brought to bear on the government itself.

Thus the most important ingredient in economic development becomes the ability of the public to express its interest. This interest is far too seldom given voice in Latin America today, and our U.S. programs do not always help in its expression.

To return to our initial argument, most current talk about land reform assumes that widespread ownership of land is an adequate channel for expressing the public interest. It can be, of course, but the U.S. experience suggests that additional channels must also be devised.

Let me very briefly review some of the other procedures we employ in the United States to make private property serve the public interest.

1. *Police power.*—Through their government, people can limit the individual's property rights to protect health, safety, security, and national welfare. This is the power under which laws are made that require us to stop at stop signs, prevent us from opening a store in a residential area, or keep us from plowing up the prairie sod to create wheatland in some soil conservation districts in the Great Plains. This is strong authority, so it is limited. It cannot be arbitrary. It cannot confiscate property. In addition, when it affects the use of property the owner must be notified, have an opportunity to be heard, and have access to the court if he feels he has been damaged.

2. *Taxation.*—People can levy taxes on land and income to support their government. These taxes must be uniform; similar pieces of land must pay the same tax. They must be used for public purposes. Technically they must

not be used for regulation, though in fact they sometimes are. History gives ample evidence that taxation can do much to make private ownership more sensitive and responsive. Particularly, it can force a reluctant owner to put land to its highest economic use if the plan of taxation is devised with that purpose in mind.

3. *Eminent domain.*—When the public needs a piece of private land, it can take it. This, too, is a power so strong that rigid limits have been placed on it. Land taken by the government must be used for a public purpose—highways, railroads and public utilities, and schools. In general, we could not use this authority to take land from one private person and give it to another for private use, as would be done in a land distribution program. Urban redevelopment (slum clearance), however, has used this authority to take private land, change its use, and return it to private use. The owner is compensated for the land taken, but his only basis for contesting the action is the adequacy of the compensation and the validity of the public interest.

4. *Spending power.*—Governments can have major effects on land use by their decisions about spending. Roads, schools, power projects, airports, defense, and other government purchases all can influence the value and use of land. Subsidies as well as taxes can guide the nature of private land use.

The United States has gone through, but not stopped with, its own land reform program. This continent was settled with large landed estates, but these were soon broken up. There was even more significance in the Homestead Acts, which created numerous family farm units from the large reserves of unused land.

Those were strong democratizing measures, and to them we added an arsenal of other basic tools by which the people could express their public interest in private property. Changes in ownership have not been as important when we have so many other good ways of influencing the use of private property in the public interest.

The United States has, of course, developed its own particular peculiar combination of land tenure rules, growing out of its own history and culture. Other cultures may find quite different ways in which people can give form and force to their interest.

There is no question that large landholdings must and will be broken up as Latin America's economic and social revolution progresses. Mechanisms to make such changes without violence are the great strength and the vital need of democracy.

But none of the three goals of land reform which were stated earlier will be achieved by a land distribution program conceived in haste and directed by slogans.

Latin America needs to be thinking. and we with her, of two other vital steps. First, she must make sure that the new landowners have the help they will need to farm well and market their produce. Second, she must develop continuing and durable ways to enforce the public concern about private land no matter who holds title to it.

For the urban landless and jobless, land reform is not the solution the idealist will hope or the demagog pretend. Making agricultural pioneers out of urban unemployed is not a realistic way of handling these major population groups.

For the campesino a piece of land is only part of an answer without the sources of credit, technical advice, transportation, and market facilities to make ownership meaningful.

For both groups, and for every other citizen, land reform does not relieve us of the need to seek other lasting ways to make private property serve the public interest. This is the issue in Latin America today. It may well be the supreme test for both the political and the economic systems we cherish and defend.

Perhaps the worst thing any of us can do is to hope for too much from the first stages of land reform. They are a necessary but by no means a sufficient condition for the liberal democracy we hope to encourage throughout this troubled world.

Senator SPARKMAN. Next we have Mr. Seymour Brandwein, Research Department, AFL–CIO, here in Washington.

We are glad to have you with us.

STATEMENT OF SEYMOUR BRANDWEIN, ECONOMIST, DEPARTMENT OF RESEARCH, AFL-CIO, WASHINGTON, D.C.

Mr. BRANDWEIN. Mr. Chairman, I welcome this opportunity to join with you. My comments focus on some aspects of the current progress of the Alliance for Progress, and then consider more specifically one of the announced objectives of the Alliance, the encouragement and strengthening of free trade unions.

Let me note first that the AFL-CIO, the organized labor movement in the United States, has long pressed for accelerated Latin American development, and our interest has been reflected not alone in efforts to stimulate needed U.S. Government action, but in active work with free labor movements throughout South America.

For the record, I am furnishing a copy of a recent statement by the AFL-CIO's Executive Council on the Alliance for Progress. The statement, made in February, emphasizes the importance of having the Alliance program provide "early and visible material benefits" and of assuring that benefits of development are "distributed to the needier parts of the population, and not to those already in the upper income levels."

(The statement referred to follows:)

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON THE ALLIANCE FOR PROGRESS

The American labor movement has continually pressed for accelerated social and economic development in Latin America. We believe that human dignity and concern for freedom in the hemisphere require great forward strides in the living standards of the masses of the Latin American people. This underlies our hopeful endorsement and support of the Alliance for Progress plans enunciated by President John F. Kennedy in March 1961 and drafted by the American Republics last August at the special meeting of the Social and Economic Council of the OAS, held in Punta del Este, Uruguay.

The objectives of the Alliance for Progress were also endorsed at the recent meeting of American Foreign Ministers, also held in Punta del Este, where it was emphasized in a special resolution that foreign aid, liberalization of trade in raw materials, social reforms, and self-help are essential to the security of the hemisphere.

The Alliance for Progress recognizes the magnitude and crucial importance of the task. Most vitally, it recognizes that social and economic progress are intertwined, that social advance is necessary to provide a sound base for sustainable economic advance. It also stresses the need, not only for international cooperation, but for dedicated national efforts for social and economic advance.

The Alliance for Progress areas requiring particular attention are those of agrarian reform (to develop equitable systems of land tenure and use and elevate living standards for those who work the land), tax reform (to achieve more equitable distribution of income and to "demand more from those who have the most"), low-cost housing to meet needs of low-income families, health and sanitation programs to combat ill health, and educational advances to eliminate illiteracy and provide training needed for effective national development.

At the initial stages of this movement for progress, emphasis is being put overwhelmingly on development of comprehensive longrun national plans. Although such planning is necessary, it must be accompanied by vigorous shortrun measures as well. The need for comprehensive planning should not be permitted to blunt needed immediate and shortrun progress.

To make the Alliance for Progress a meaningful current reality and to demonstrate that it yields results valuably different from erratic and inadequate development activities of the past, the AFL-CIO urges:

(1) A series of immediate and shortrun projects should be stimulated and financed to provide early and visible material benefits, while the longer run broader plans are still in the planning phase.

(2) Such initial steps should be selected, designed, and operated to demonstrate concretely that benefits of the Alliance programs are distributed to the needier parts of the population and not to those already in the upper income levels.

(3) Full and meaningful participation of free trade union movements and worker cooperatives should be sought and enlisted in each participating country both in the immediate programs and preparation of longer term plans.

These are essential measures for getting the movement off to an effective start. Undue delay or excessive concern with the longer run plans, failure to demonstrate tangible and substantial results, or failure to draw heavily on worker organizations will permit creation of dangerous popular disenchantment and would thereby seriously hamper future progress.

We particularly stress the need for efforts to encourage and strengthen free trade union movements and to provide them with an active role in development activities at both the international level and within each nation. This is necessary for social and economic development to proceed with democratic participation of broadly based private organizations rather than through control by limited groups of commercial interests, landholders, or other minor segments of the population. It is a necessary means of assuring that benefits of progress are distributed widely among persons at all economic levels.

Free and strong organized labor movements and associated worker cooperative organizations representing large groups of workers are the most fundamental channel for gaining a direct, active, and constructive voice for the working population in the development process. Unless strong trade union movements are developed and drawn into active participation, labor understanding, and cooperation may be lacking and worker expression may take negative forms through other channels.

Meanwhile, we commend and cite as a constructive example the appointment last month by the U.S. Government of a 10-man Labor Advisory Committee on Alliance for Progress activities. This committee will function to provide the advice and cooperation of this country's trade union movement in the drive for social and economic betterment of the Latin American peoples.

Mr. Brandwein. The last few years have produced a keener and wider awareness of needs and obstacles in Latin American economic development. This subcommittee's report sketches some of the problems quite well.

Particularly vital, in our judgment, is a growing recognition that desirable economic development is inseparable from social progress. Social reforms in Latin America are, of course, needed to affirm human dignity and to strengthen democratic institutions, but they are required also as a basis for sustainable widespread economic advance.

Land reform and tax reform are principal areas where social and economic needs combine. The present systems of land tenure and use have hampered development of increased agricultural productivity. They have limited the contribution the agricultural sector can make to national growth, a matter of considerable importance in countries still primarily agricultural. The prevailing agricultural systems have also prevented improvement in well-being for agricultural workers and have thereby driven rural peoples to urban centers, creating an unhealthy urban-rural imbalance and creating horrifying city slum conditions.

As for taxes, current policies typically require little from the wealthiest groups. The absence of progressive income taxes and lax collection of taxes from the well-to-do limit Government resources, with resulting shortchanging on housing, health, and educational programs, each sorely needed, among other reasons, to upgrade the abilities and attitudes of the labor force.

The Alliance for Progress Charter agreed to by the Latin American and United States Governments at Punta del Este last year spells out forthrightly the need for reforms in these and other social areas. The Latin American countries pledged action on these needs.

Unfortunately, identification and increased awareness of the problem do not suffice, and thus far the Latin American governments have not placed sufficient importance on fulfilling their pledges.

In reviewing the first year of these Alliance pledges, I have the strong impression that there has been excessive sluggishness by most South American countries in applying the principles of social reform they have promised.

I am aware that longstanding social structures cannot be overhauled in a brief period and that there are inherent problems of startup time. My criticism is rooted, however, not merely in lack of accomplishment, but in the pace, in the degree of interest, in the too-limited sense of urgency and dedication.

Let us narrow this down more specifically to one matter of special concern; the need for free and strong trade unions in Latin America, and their participation in development programs to provide a broad-based democratic force for assuring that development proceeds equitably.

The U.S. Congress has clearly stated a desire that U.S. foreign assistance funds be used in part to stimulate the development of free and strong unions. The September 1960 authorizing legislation stated this will of Congress on funds for Latin America. More broadly, the Foreign Assistance Act of 1961, in its section 601, similarly declares it is "the policy of the United States * * * to strengthen free labor unions."

The Alliance for Progress Charter, too, calls for "consultation and cooperation" with trade unions and expressly recognizes that labor organizations must be "strengthened." Existing Latin American free labor movements have been eager to participate in Alliance activities.

But thus far, not a single South American government, to our knowledge, has yet enlisted the meaningful participation of free trade union movements in its development planning. And no funds whatever have been made available to even a single South American free trade union by the United States or by the international lending agencies, despite efforts taken by various unions to get financial assistance for specific social development projects.

One loan was authorized by the Inter-American Bank, but has not been consummated, at least as of last week, because approval has not been forthcoming from the government of the country involved. Another application, for a labor housing development, has been referred to a national bank to which funds had been supplied, but that bank then imposed impractical conditions which effectively stifled action.

In other cases, unions have been stymied by complex procedures in applying for a loan. It is discouraging, to say the least, to see lack of union sophistication in filing of applications used as a basis for dousing expectations and hopes kindled by publicity for the Alliance for Progress.

Let me conclude by calling the subcommittee's attention to one hopeful development in this area.

Aware that governments alone will not fill the need, the AFL–CIO has sponsored the establishment of a new private organization to supplement Government activities and to overcome some of the obstacles in formal Government procedures.

The new organization, called the American Institute for Free Labor Development, is guided by a policy board including, not U.S. labor representatives alone, but prominent business representatives and Latin American intellectual and labor leaders as well.

The institute is undertaking two broad functions. One is the training of democratic labor leaders, both through training in the United States and through training projects and establishment of area labor centers in Latin America. The financial support for these educational activities is to come from private foundations and the Agency for International Development.

The other function is to aid free unions in Latin America in setting up low-cost housing, credit unions, cooperatives, worker clinics, educational facilities, and similar institutions; that is, the types of social projects the U.S. Government has said it will aid. The institute will rely on the U.S. Agency for International Development for the major part of the funds needed for these social development projects.

Thank you.

Senator SPARKMAN. Thank you very much. We now have a husband and wife team. I understand Mrs. Kybal is going to present the paper, but both will participate in the panel.

We are glad to have both of you with us, and we will be glad to hear from you now, Mrs. Kybal.

STATEMENT OF MRS. ELBA GOMEZ DEL REY DE KYBAL AND MILIC KYBAL, WASHINGTON, D.C.

Mrs. KYBAL. Thank you, Mr. Chairman.

In the first place, I wish to thank Senator Sparkman for his invitation to take part in this panel of distinguished experts on Latin American economic problems. Our task to comment on the report on "Economic Policies and Programs in South America," recently issued by the Subcommittee on Inter-American Economic Relationships, is a difficult one, since this is a very perceptive and balanced study.

As a Latin American economist, I have read with great interest and profit this and several earlier congressional reports dealing with my area, in which I have been working professionally for the past 15 years. Aside from their technical value, they give an insight into the workings of a mature democracy with worldwide responsibilities.

The comments I shall now make are on a strictly personal basis. They do not represent the views of the Pan American Union—the Secretariat of the Organization of American States—where I am employed as a senior economist. Neither do I pretend to speak on behalf of the Latin Americans. We Latins are very individualistic, and a great variety of opinions can be heard on almost any subject.

The Alliance for Progress is now at the root of U.S. economic policies vis-a-vis Latin America, and therefore my comments on the report will refer mainly to the Alliance and to the many problems it envisages. On the whole, they will be a matter of emphasis only.

My first point is that this vast, historically unprecedented venture cannot be limited to a period of 10 years. Even if we assume that by 1971 several Latin American countries will have reached the so-called takeoff stage of economic development, it is very probable that a substantial part of the area will not be able to attain or maintain unaided a steady rate of economic growth.

The problem might have another dimension if it is expected that the gap between Latin America as a whole and the industrialized countries of the world is to be narrowed, as the Charter of Punta del Este envisages. The performance of Western Europe during the last decade may introduce some doubts in this respect.

Furthermore, the institutional reforms which the Alliance for Progress advocates are so far reaching—for instance in land reform and taxation—that if they are to be adequately implemented and not remain mainly on paper, several decades might be necessary. In other words, it is not realistic to expect that basic aspects of national life which have been neglected during 300 years of colonial rule and 150 years of independence will all be fully remedied in a single decade.

My own belief is that in some countries and in some fields an Alliance for Progress will be needed for a whole generation, and even longer. The Alliance, if it is to achieve its goals, is likely to turn out to be an enterprise of a greater magnitude than is generally envisaged. For this reason, the long-term economic targets of the Alliance should be taken into account when judging its performance with short-term political goals in mind.

I envisage the Alliance for Progress as a movement which, despite occasional setbacks, will increasingly gather speed and scope. None of its aspects can be expected to come fully into being and be truly effective from the beginning. This, I believe, will also be the case of economic planning. The first consideration to be taken into account in this connection is the fact that few Latin American countries have a true civil service. It is not feasible to carry out an economic plan at a national level without a sufficient number of qualified technicians, adequately organized and secure in their tenure.

In the best of cases it will take years to create a responsible and efficient public administration, but this aim should be close to the very top on the agenda of the Alliance. Until it is reached, it seems to me that planning should concentrate on the public sector, which is quite significant, since it accounts for about 40 percent of gross investments in Latin America, and on sectorial planning, such as transport and energy.

My second thought in connection with national planning is that there is still a wide gap between overall programs and specific investment projects. No financing can be undertaken unless specific projects, soundly prepared, can be submitted.

The third point to bear in mind in this matter is the need for a very substantial improvement in statistical sources in many countries in Latin America. This will take years, but without them, planning will rest in many cases on an inadequate basis.

Economic planning must be regarded as only one tool to stimulate economic growth. It would be difficult to underestimate the importance of another instrument; namely, monetary policy. By now there is enough evidence to believe that runaway inflation distorts and, in the long run, hampers economic growth; also, it can be a major source of social unrest.

On the other hand, the institutional framework in most Latin American countries is such that if a stabilization program is introduced too suddenly, wage earners usually suffer a reduction in their real income, unless the program is accompanied by substantial foreign credits to sustain internal demand. In any case, economic planning must rest on a reasonably stable price level which, as Europe's experience shows, is also a necessary condition for the successful operation of an economic integration process.

A marshaling of external resources for Latin American development is in itself only part of the picture. Actually, if capital movements to and from that region could be statistically measured in a reliable manner, we would probably come to the conclusion that the increase in public funds moving into Latin America as a result of the Alliance for Progress has not offset the decline in the inflow of foreign private capital.

What is worse, the investment climate in several Latin American countries, as seen by local enterpreneurs, has deteriorated in recent years, partly due to events in Cuba, as a result of which they have been postponing investment decisions.

This has been accompanied by a significant increase in the flight of Latin American private capital to Switzerland and to the United States. Even though it is not feasible to quantify such movements, I might point out that short-term assets of Latin American individuals and corporations in banks in the United States amount to $1.1 billion. Of course, total Latin American private holdings in this country are much larger. It will be a challenging task to devise ways and means to stimulate the voluntary repatriation of at least part of such assets.

In the broader picture of foreign exchange availabilities, capital movements are of lesser significance than export earnings. The subcommittee's report touches on all the relevant aspects of this problem on which Latin America's ability to grow essentially rests. While diversification of production and exports will be the main solution in the long run, two approaches are currently under consideration for the more immediate future.

One of them consists in international commodity stabilzation schemes, and the other in arrangements for the stabilization of export receipts of the Latin American countries. Both are under study by experts, and their recommendations will be much better grounded than anything I might advance at this stage. One point should be made clear, however: the slogan "Trade, not aid" is not entirely valid. Trade is not an alternative for aid; both are part of the same picture and complement each other.

The magnitude of the Alliance for Progress is such that eventually it will have to involve all classes and groupings within the Latin American countries. It cannot be a predominantly government-to-government scheme because governments alone will not bring forth the active participation of the population. In many countries their prestige has been eroded by a long series of unfulfilled promises and thwarted expectations. Consequently, other groupings must also be brought in: the provinces and the municipalities, the entrepreneurs, organized labor, civic and professional bodies, the universities, and the information media.

The Alliance could do much to offset the long trend toward excessive centralization in Latin America. As the subcommittee's report points out, local government is weak because it does not possess adequate tax authority, as a result of which it is too dependent on grants from the central government. Unless this is remedied, the Alliance will not have the grassroots support it needs.

The entrepreneurial class in each country has a key role in the Alliance for the single reason that at least 60 percent of gross investment in the area is in the private sector. It is only to the extent that governments can induce private investment decisions to be made in the framework of their development plans that these will be carried out. At the same time, there is a pressing need in Latin America to bring about a substantial improvement in the productivity of the manufacuring industry. The proof of the fact is that with minor exceptions it cannot compete in world markets, and until it will be able to do so on a much wider scale, the Latin American countries will be limited to their international role of suppliers of foods and raw materials.

Another broad sector which the Alliance for Progress must mobilize are trade unions. The emphasis the Alliance has placed on social development as being parallel to economic development and not as an automatic consequence of the latter, should make it possible to gain the active support of organized labor.

I must also mention the very significant role which universities and information media have to play on both sides of our partnership. The success of failure of the Alliance will be decided, I believe, in the psychological field, rather than in the strictly economic one. As an economist, I am not, of course, minimizing the latter, but the emphasis for giving priority to such high-impact investments as schools, water supplies, public health projects, low-cost housing and electricity, is certainly influenced by psychological considerations. The information media must tread a narrow path: On the one side, they must gain popular support for the Alliance, and the active cooperation of all social groups; on the other, they must not arouse unrealistic expectations, since disappointment might lead to hostility.

In Latin America, as elsewhere in the world, the goal cannot simply be a greater volume of goods and services per inhabitant. Should this be so, our battle would have been already lost. We must also be aware of the fact that the Alliance, by accelerating industrialization and economic development in general, will almost inevitably destabilize the social order in Latin America for several decades. We have to find cushions to alleviate the impact of modernization on these societies. For a peaceful revolution to be successful, the peoples in Latin America must rely on their deep-rooted moral values to carry it through. Otherwise, only totalitarian groups will benefit in the end.

Because the Alliance is of such great magnitude, it must bring in as much external participation, outside the U.S. Government, as is possible. In the future, even more than in the past, the contribution of foreign private investment preferably in association with local capital, will be of the utmost importance.

Besides its financial aspect, it is the main channel for the transmission of the enormous effort in research and development which is being carried out in the industrialized countries. An even greater emphasis must be placed on the potential contribution of Western Europe to the growth of Latin America. The nations in the southern part of South America are very conscious of this.

In addition to its role as a capital-exporting area, Europe has accumulated experience in at least three fields that are relevant for the Alliance for Progress and in which there is a shortage of exports in the United States; namely, land reform, economic integration, and national economic planning.

Considering its manifold aspects, the Alliance for Progress is likely to be an enterprise that will be of longer duration and deeper implications than might have appeared at the very start. Both on the part of the United States and of Latin America, and eventually also on the part of Western Europe, it will require a great deal of vision, patience, and perseverance to carry it out. Regardless of the aid received, the aims of the Alliance are those of the Latin Americans themselves, and they will bear the brunt of the burden.

It is for this reason that I wish to conclude on a note of moderate optimism. We Latin Americans do not constitute a stagnant society. We are moving ahead on all fronts. Perhaps even our frequent upheavals are in part a manifestation of our vitality, undisciplined as it may be. The Alliance for Progress, with its tangible and humane goals, is the one binding element that can unite the greatest number of us, throughout this hemisphere.

Thank you very much, Mr. Chairman.

Senator SPARKMAN. Thank you very much, Mrs. Kybal.

It is good to have Congresswoman Griffiths and Congressman Curtis with us in these hearings. Both of them made the trip with the subcommittee to South America, and both have taken a great deal of interest in this subject. It was largely at the suggestion and urging of Congressman Curtis that we decided to have these followup hearings. We thought they would be a worthwhile adjunct to the study we made on the ground.

These have been very fine contributions by all of you.

I may say, before we start the questioning, that I am going to have to leave the hearing soon. The Foreign Relations Committee is considering right now the new aid bill, of which, of course, the Alliance for Progress is a part. Chairman Fulbright has to leave, and I promised him that I would come over and relieve him at about this time. I wish I could be here throughout the questioning, but that is just one of the difficulties of congressional operations.

May I say also that Congressman Curtis and Congresswoman Griffiths are both members of the House Ways and Means Committee, and they have under consideration today another program that Latin America is greatly interested in, in fact that the whole world is interested in; that is the trade program. They have conflicting obligations just as I do.

They worked in that committee until they were able to be excused, and now they have come over here. I am very glad that they were able to do so.

I will ask Mrs. Griffiths to take my place as the presiding officer, and at this time I will ask Congressman Curtis to propound such questions as he wishes.

May I explain that the papers have been presented individually, but the questioning is to the panel as a whole.

While some of you have touched on it in your papers, I hope, as we proceed, that there will be a greater and more detailed discussion on this problem of the flight of capital from Latin American countries.

Representative CURTIS. Mr. Chairman, may I make this suggestion? And let me apologize to this panel for not being here when you started. Senator Sparkman pointed out our program. We have the reciprocal trade bill over in the Ways and Means Committee executive session now. We are actually voting and marking up the bill, and it was unanticipated that that would happen at this time, and it is the reason I was delayed.

Now may I make this suggestion: Inasmuch as I have not been here, and you have to leave, and I see Mr. Moore and Mr. Lehman, who are our staff people were both here: In order to make the record, which is the important thing here, and which we will go over, and other students—I hope we are students—will be going over, perhaps we could have Mr. Moore and Mr. Lehman start the questioning, and I will catch up and catch the theme.

Senator SPARKMAN. I think that is a very good suggestion. Suppose we let Mr. Moore start the questioning, because Mr. Lehman is going to walk away with me briefly to have a slight consultation as we leave the committee.

Mr. Moore, you may go right ahead.

Mr. MOORE. Mr. Davis, you made the point that the low rate of return on corporate investment is, in itself, a sufficient explanation for the low participation of private investment in South America. I wonder if you would explain a little more fully than your very brief paper does just why the rate of return in an underdeveloped country should be so low. You referred to the apparent rate of return as relatively low and I would like to see the explanation developed.

Mr. DAVIS. I think the points that need emphasis, perhaps, are: (1) That we are referring now to a very specific type of capital, manufacturing plant and equipment in the corporate section; and (2) that we are referring to the private return to the suppliers of that capital. If these two points are kept in mind, I think perhaps the explanation is not quite so difficult to comprehend.

The first point is that we are referring to corporate capital; and the explanation is essentially that in many industries, in Chile and in Latin American countries, corporations, large firms in general, pay substantially higher rates for their labor than do their smaller competitors; and there are many competitive industries in the Latin American economy. The food processing industry is generally competitive. Textiles are generally competitive. Leather is generally competitive. Shoe manufacture is generally competitive; and so forth, depending on the country to which you are referring. But these are industries that are common to almost all of the Latin American countries.

Now the large corporation paying these higher wages apparently has not been able to offset them with the advantages of its superior capitalization. I think this is due in part to the fact that this physical capital is not used as productively as it might, and I think that the deficiencies here probably rest equally with the quality of manual labor, the quality and quantity of technical supervision, and also probably with the quality of managerial personnel as well.

Now as far as the total return or the social return to capital is concerned, here we must include not only the return to the corporations in the form of profits, but also the wage differentials that the workers employed in these firms are in fact earning. Those wage differentials would not be possible if it were not for the fact that these larger firms in general have greater capital per worker.

The point to be noted very distinctly is that the total return or the return to the society as a whole does not get channeled back to the owners of the capital simply because a good portion of it gets taken away in the form of wage differentials that are paid to the employees of these firms. And I hope with these few words of explanation, this phenomenon of a low, private rate of return to corporate capital in a frontier, or near-frontier, economy is made somewhat more comprehensible.

Mr. Moore. I gathered that the tradition and expected continuation of inflation as a way of life has something to do with distorting the rate and type of investment. I believe Mrs. Kybal mentioned that also. I wonder if one of you would trace just what is the effect of a tradition of inflation on investment.

Mr. Davis. My comment to Mrs. Kybal would be that anti-inflationary programs adversely affect wage earners, and owners of capital, in these larger, generally corporate, firms; the reason for this being that these firms, during the course of an anti-inflationary program, experience a drastic decline in the implicit subsidy that they have been receiving, as a result of the fact that they have been borrowing money at, say, 10 percent in money terms, with rates of inflation of 20, 30, and 40 percent. As the rate of inflation declines, the money rates of interest remain the same. This implies that the real cost of borrowing on the part of these firms increases substantially.

Now our unemployment figures in most Latin American countries are really unemployment figures for the larger firms; and it is undoubtedly correct that these firms suffer during periods of relative monetary restraint.

I think it is well to emphasize, however, that the smaller firms very often get access to bank credit, during these periods of lower rates of inflation, that they do not obtain when the inflation is proceeding more rapidly. The banks, in general, channel their funds in rapidly inflationary periods characterized by controlled interest rates to the large corporations; many times, the banks in fact own some of these corporations; many times, the owners of these corporations are in turn owners of the bank—a frequent occurrence in Chile.

Now this means that in terms of evaluating the impact of anti-inflationary programs on labor in general, we have to make this very definite separation between the effect that it has on employment and wages in the smaller firms in the economy and the effect that it has on employment and wages in the larger firms in the economy, and on the public sector.

I would assert that if we make this distinction, we cannot come up with the proposition that anti-inflationary programs are uniformly detrimental to the interests of labor, nor to the interests of capital; granted that larger firms, again, are adversely affected, the smaller firms in many cases are favorably affected.

It just so happens that, in terms of their impact on policy, both the management and the labor in the larger firms in the Latin American economies, are extremely influential. They have the means and the ability to influence the political decisionmaking process that very often is not available to unorganized labor and small capitalists.

This is why we see, I think, in many instances organized labor and representatives of large corporations propagandizing very actively and effectively in opposition to the anti-inflationary programs that we have encouraged Latin American governments to espouse.

Thank you.

Mr. MOORE. Mrs. Kybal, you indicated that inflation hampers economic growth and may be a major source of social unrest. Would you comment further?

Mrs. KYBAL. I have the impression that Mr. Davis, referring to Chile, has a special case in mind, or perhaps a country in a special situation. The results of his study seem to be somewhat different from what one might conclude about other Latin American countries.

In Chile there are large, American-owned mining corporations where employees receive numerous benefits and higher salaries than in similar employment in the country. It is possible that a stabilization program will hurt the employees of the big companies in a different way than labor as a whole. In any case, stabilization programs have usually placed a greater burden on manual workers and the lower middle class than on entrepreneurs because these can usually shift it on to the public.

Mr. MOORE. Maybe I should turn the questioning over to the acting chairman, in case she is called away again any minute. There are some questions she has in mind, I am sure.

Representative GRIFFITHS (presiding). Under the circumstances, I would like you to start with: If American firms actually treat their employees better, why is there so much propaganda not only put out but believed by Latin Americans? And we have quoted in this country that American firms mistreat their employees.

Mrs. KYBAL. That is for political purposes.

Representative GRIFFITHS. I am sure of that; but we hear this oftentimes.

I would particularly like to congratulate you on your statement. I thought it was excellent. I thought you brought it down from the realm of theory into the realm of reality. It was very interesting for us to hear.

May I ask you: Now, we are gong to spend the money. America is going to give the money. May I ask you to make a suggestion on where you think it could be best placed? At what level, with what group, or in what activity, would it be best for us to spend the money?

Mrs. KYBAL. First priority—education, second priority—education, third priority—education.

Representative GRIFFITHS. Priority of education?

Mrs. KYBAL. Yes, on educational programs which prepare for leadership, particularly in government and in business, and which are geared to the needs of countries in the process of economic development.

Representative GRIFFITHS. Do any of the others of you have any comment?

Mr. PENN. Madam Chairman, when the U.S. corporation operates in a Latin American country, it owns and develops property and has a labor policy. These, however, must conform to the rules of the country. The corporation is a landowner and where the feudal system exists it must operate as a feudal landlord. So when the people of a country are trying to break with feudalism, the U.S. corporation becomes a convenient target to attack, even though its policies, particularly its labor policies, may be much better than the average in the country.

Representative GRIFFITHS. You are an agricultural economist; is that correct?

Mr. PENN. Yes.

Representative GRIFFITHS. May I ask you, on the level of agriculture, what thing do you think we could do that would be most helpful for agriculture?

Mr. PENN. I of course support very much the investments in education.

In addition, I think we should make available funds for agricultural credit, for individual farmers to produce better and to market their products better; but there has to be a development of people at the same time, and a thinking about credit as a device for production.

In some Latin American countries, credit is often considered a kind of a grant from the central government, rather than a tool for a farmer to increase production. And so, along with any credit program would have to go some kind of a program to change the attitudes toward credit.

I think we should help people in these countries that are trying to make credit available, but also to change the thinking on what credit is.

In 1961 I made a brief analysis of Venezuelan agriculture for AID. It gives, for one country, what I believe to be the best ways of developing agriculture. Investments in credit, research, extension, and community development are high on the list. It is available for the record. (See appendix D, p. 142.)

Representative GRIFFITHS. It seemed to me, throughout South America and throughout the Caribbean, that one of the things you need to do the most for agriculture is to develop a marketing system. They need a seal of quality and a marketing system. And if the marketing system includes farm-to-market roads, they need it very badly.

Just as a tourist, it is always interesting to me that it is terribly difficult to buy their most ordinary fruits, because they themselves set little value upon them, and they don't have a steady flow into the market; so that they need to understand, I assume, something of how to market.

Mr. PENN. I would agree with this: Very often at least the agricultural programs have been aimed at new settlement projects, without any reference to how this product is going to be graded, who is going to want the product.

For example, a settlement project in northern Venezuela, based upon forestry, could supply in 1 or 2 years all the wood products needed in the country.

Representative GRIFFITHS. Now, in the matter of statistics, which you mentioned, may I ask outside of Chile what steps are being taken to supply statisticians and to make an actual count available?

Mrs. KYBAL. Yes, the Pan American Union has a Department of Statistics, and one of the specialized agencies of the OAS is the Inter-American Statistical Institute. Together with the Inter-American Statistical Training Center, located in Chile, they train statisticians from all over Latin America and furnish technical assistance for the improvement of statistics in member countries.

Representative GRIFFITHS. Did you have questions, Mr. Curtis?

Representative CURTIS. Yes, I have one.

I was very much interested in your statement, Mrs. Kybal, that this has been an increasing factor in the flight of private capital to Switzerland. I just read something emphasizing that point.

Capital flight in L.A.

When we were in Venezuela, there were statements made—I do now know their accuracy—that when the previous Government had fallen, a lot of capital was taken right on out. And I raised the question, if it was located somewhere, why something might not be done to regain it.

Professor Barnes, I understand that you have made some comments that the new tax plan in Colombia was being developed or is being developed to discourage the flight of capital overseas. And I wondered if you would develop that a bit, and anyone else who would like to comment on this problem, because it does seem that that would be the most likely place to at least start to hold what capital there is.

Mr. KYBAL. Sir, I would like to make a few comments on this general problem Senator Sparkman asked us to consider at this hearing; namely, the flight of capital.

I have examined the problem on previous occasions, but I should point out that whatever I might say here is strictly in a personal capacity and does not reflect the thinking of the Inter-American Development Bank.

The question of the flight of Latin American capital abroad is a complex one, and I might summarize my thoughts along the following lines.

In the first place, it is statistically impossible to obtain an accurate picture of Latin American private holdings abroad, or even of year-to-year movements. The International Monetary Fund publishes yearly balance-of-payments statements for all member countries, but it does not provide an accurate answer to the question of how much Latin American private capital is moving abroad. The residual item called errors and omissions is usually very large and certainly includes part of such flows.

Few capital recipient countries publish anything resembling complete statistics on this point. One figure was mentioned here earlier; namely, the holdings of Latin American individuals and corporations in U.S. banks, as amounting to $1.1 billion. But everybody realizes that this is only a fraction of Latin American assets in this country. There are no figures on foreign assets in Switzerland, and it is impossible to know what share might be constituted by Latin American holdings.

My guess, and it would be no more than a guess, is that Latin American private holdings in the free world might be perhaps in the nature of $5 billion. This is, I should emphasize and underscore, a guess.

Now, we should not consider the Latin American private assets abroad as constituting a homogeneous mass. They move abroad for a number of reasons.

You, sir, mentioned one of them, namely, assets that have been obtained illegally. And of course this is the case of Perez Jimenez of Venezuela and his associates; this is also the notorious case of Peron and his associates.

I am convinced that the great part of the assets held abroad are of a different origin, and that the motivation also is different. Perhaps the main motive rests in the fear of inflation, which, as you will recall, has had, and in some countries still has, a very violent form in Latin America. Transfer abroad is one way of preserving the purchasing power of certain assets.

The third motive is diversification, due to the fear for the political and social stability of their own countries.

Another motive also, in some instances, is the semilegal, or let us call it illegal, origin of some of those funds resulting from foreign trade. When exchange controls are applied rigidly, as they were at one time in Argentina, it was profitable for exporters to underinvoice their exports and hold the resulting balances abroad, particularly if the equivalent of such balances in local currencies was to be taken into account.

Consequently, we face here this important problem, which I hope will attract greater attention in the future: How to brake, how to diminish, this tendency of private capital to move out of Latin America. And perhaps, taking a positive attitude, how to encourage the repatriation of at least part of such assets back to Latin America.

The basic solution, I am sure, will be a longrun solution only, and will result from a general program of monetary stabilization in Latin America. It is the lack of confidence in the stability of local currency which I believe is the main cause of such flight.

Also, the growth of private enterprise in all of those countries would provoke, by itself, the repatriation of certain assets.

Senator JAVITS. I came here late, and I am a little late to question the panel about this particular matter. But I would like to ask you, with Congressman Curtis' indulgence, one question: Could anything materially be done, in the opinion of the panel, on this question of flight capital, which my estimates show to be from $9 to $15 billion, not $5 billion—a tremendous amount of money.

CAPITAL FLIGHT OF IN L.A.

Representative CURTIS. Dr. Barnes had some thoughts on that.

Mr. BARNES. Congressman Curtis, I do not recommend this approach, but I do think it is worth putting on the table.

Perhaps by way of introduction, I should say that most of the Latin American countries have adopted a principle of taxation that only income which arises from sources within the country should be subjected to taxation; therefore, an individual who is investing outside the country is not subjected to taxation, even though he is a citizen and resident of the country.

This is the first place in which a significant breakthrough can be made, and has been made in Colombia. The Colombians do tax their residents on all income, from whatever sources, so that they are theoretically subject to tax on the income from investments made abroad.

Representative CURTIS. Might I interject: That also, of course, gives some knowledge of what actually is abroad.

Mr. BARNES. Yes, Mr. Curtis, except for the fact that taxpayers do not declare this income freely. It is extremely difficult in any country to administer—as we know from our own experience in this country—an extraterritorial tax on our citizens or residents who have money abroad.

But we have a device which has been useful, which is recommended in this situation, and that is a foreign tax credit. For example, Colombians who are investing their capital in Switzerland should be allowed a credit for the taxes paid in Switzerland against the Colombian tax payable. This might result, as it has in our own country, in free declaration of the income from foreign investments in order to claim the credit.

There is one other aspect that goes with it, which was introduced in the recent Colombian reform, and that is an approach to the problem of the "tax haven," which, as you know, is a current problem in tax legislation pending in this country.

In Colombia, there was a practice for Colombians to organize Panamanian corporations to do business throughout the hemisphere, but especially in Colombia. I served as a consultant at that time to the Government of Colombia and and we devised a method whereby there would be a penalty tax for residents who organized outside corporations to avoid Colombian taxation. Any effort to tax global income of residents of a country at least establishes the principle that they are responsible to pay taxes in their own country, regardless of the source of the income taxed.

Representative GRIFFITHS. I would like to congratulate you on making that statement, because there are quite a few who would like to have that system introduced in the United States, where money earned abroad is not taxed in America; and I think it is well to point out that this has been one of the causes of real trouble in South America.

Senator JAVITS. Would the Congressman yield?

I was kind of interrupted in the middle, because you thought I had finished my questioning, and I had not.

What you say is fine, as to the stick. I would like to ask about the carrot.

Capital invest in L.A.

Now, what would you think, as experts, about trying to win capital back to Latin America through guarantees that, if repatriated, it could always be redeemed, even in dollars? That is point 1. And point 2, to win it back with the additional inducement of going into partnership with American and European capital?

In other words, the idea being to raise the whole level of investment by giving them successful and rich partners—which would be

Americans and Europeans—and to assure them that they are not going to lose.

You know, in many countries the idea of amnesty has produced a lot of money. In France it got a lot of gold out of the mattresses and from under the floorboards. This is a very important technique. I do not know what you are going to get back through a punitive requirement that they have got to declare income for taxation. I am not saying that is wrong. It certainly is morally right. No question about INVESTMENT
that. It is a useful technique and an important one. CAPITAL

I do know, however, that you can win a lot of money back if it be- INFLUX OF
comes profitable to bring it back, and if there is some kind of amnesty about it. And the capital requirements of Latin America are so great, in part because of this flight capital.

The other thing is, of course, that the able people often go with this capital, which is, as you know, again a very important inducing cause.

I would appreciate your observation, then—now that we have the stick part of it, which I agree with, and which is very valid—I would wonder what you would think about the possibility of winning some of this capital back by making it attractive for it to come back.

Mr. Barnes. Senator Javits, may I just add one word? Amnesty from what? The notion of the stick is that you have to have some sort of a deadline, for example a tax which is to be paid, but from which an amnesty could be given prior to that deadline.

Senator Javits. I do not think you got my point. When I say "amnesty," I mean no questions asked about where the money came from. In fact, after all, in many of these countries it was a crime to take it out, you see, so you start behind the eight ball right away.

Mr. Barnes. I was only suggesting that there should obviously be a period in which it could be brought back without it being so subjected; in other words, not retroactive.

Mr. Davis. I would like to recount the Chilean experience on this very point.

The Alessandri government wanted very much to repatriate dollars when it assumed power in 1959. They did this by selling dollar bonds at that time that yielded 8 percent interest and guaranteed repayment in dollars, and that also were utilized for import deposit requirements, which added interest receipts frequently as high as 24 percent per annum in terms of pesos, to their 8-percent yield in dollars. This succeeded in attracting substantial quantities of dollars. I believe the funds here were in the order of magnitude of $50 to $100 million in a relatively short space of time. No questions were asked about the source of these funds.

I think the point is this: Political risk is not new in Latin America. Latin America has lived with political risk for a long time. There are obviously rates of return that compensate for political risk. The key point, and the point to which I referred in my opening statement, is essentially that relatively low rates of return on capital in Latin America alone can "explain" the existence of capital flights.

And I do not think this low rate of return on capital is just a Chilean phenomenon. The data on wage differentials that I mentioned did not refer to the copper industry. I listed some of the industries that were involved and are common to all Latin American countries. Similarly, the data on investment yields referred to all

307 Chilean corporations actively traded on the stock exchange. (The copper companies are neither Chilean corporations nor actively traded on the Santiago Stock Exchange.)

So this would be my point, then: not to dismiss political risk as a factor, but to remember that political risk has been characteristic of Latin American for a long period of time; and to bear in mind that, if rates of return are sufficiently attractive, capital will return to Latin America, despite political risk. Finally, if rates of return are high, there will be enough capital generated with existing enterprises to provide a potential for substantial reinvestment and growth.

Representative CURTIS. This is a good record. I was not here when all these statements were given, but I have now glanced through them.

May I pursue one more line?

Representative GRIFFITHS. You may proceed.

Property tax in L. A.

Tax: Representative CURTIS. This again gets to the question of property tax, and I have glanced through these papers on that subject—particularly Mr. Penn's paper—on understanding the pressures for land reform.

The thing that impresses me about the property tax is that I think we have been downgrading it in our country, and I have been very pleased to see some recent papers by students pointing out that we have been downgrading the property tax.

We have treated it as if it were a regressive tax, when I think a proper analysis shows that it is quite progressive. Certainly since World War II, in our society, it is the tax that really has responded to needs, in schools and facilities and so forth. It is the Federal income tax that we are having difficulty with.

But the thing that I wanted to relate this to was, and this has been emphasized, that good real estate taxing does provide efficient land utilization. I think we all agree that if there is a good, efficient, property tax, it brings that about.

And the other big emphasis, it seems to me, and it is mentioned in Mrs. Kybal's paper, is the source of local governmental financing, so that you can have the grassroots development.

Now, I bring in this other thing, because this ties in with land reform: I have been impressed with the fact that in most of the Latin American countries there is underpopulation, and there are vast areas of, I guess, public lands. I am not just sure how ownership is held; and there is very little relation to homesteading, whether it is applicable in modern times, as your paper raises the question whether it is exactly. Certainly we have experience in our country of developing through that method.

It is brought to mind if one takes a visit out to New Salem, Ill., which was a typical, I now find out, town or village in our frontier in the days when Abraham Lincoln had just started out, around 1820—and I had never realized until going through there just what one of those frontier towns was. The farmers apparently had already gotten out into the area, and the artisans followed and found it was convenient to locate in a center to serve a population already there.

But may I ask why this technique cannot be developed? You do not need to take an efficient operation—even though it is controlled by an estate or an irrigated piece, in Peru, where although the ownership is concentrated, there is an efficient utilization of land—and break that up into an inefficient utilization, which I think it would be if we made subsistence farmers out of a lot of people. And yet in Peru they did move ahead to open up that East Andean area, and they cannot get anybody to go out there. Property Tax

Have you thought about that, Mr. Penn?

Mr. PENN. There are, of course, large areas of unusual land in Latin American, some of them publicly owned. The governments are attempting to settle these areas.

I think we should recognize at the beginning, however, that as we move into a modern market economy in agriculture, you just do not go out and settle these lands as we once did, without some kind of means to get the product to market.

For instance, our efforts in Guatemala to develop public lands for settlers, I mean, helping Guatemalans do this. This was good. People got out there. But there was no way to sell their products.

Representative CURTIS. What Mrs. Griffiths was talking about, yes.

Mr. PENN. Yes; there was a road there. A trucker came by and picked up the produce. But what was the price?

The person who was selling got what he was offered. He had no bargaining power.

Part of Colombia's land reform program is the settlement of people in the llanos, an area much like the llanos in Peru. To get there, we went over the mountain in an airplane, and then took a jeep for 4 or 5 hours, and then a dugout canoe, and then mules for quite a long ways, before we found the first settlement area.

I think that these kinds of areas—the llanos in Venezuela and in Colombia and in Peru—ought to be settled, ought to be operated, in large livestock units, rather than with families on small subsistence units.

I would encourage the person who owns the land that can be used intensively for fruits and vegetables to get his money out of that and put it into the livestock industry, that can be developed as our livestock industry was developed in the past.

One other thing, here. The idea of homesteading is coming into many areas in Latin America. I drove for nearly 300 kilometers down the Pan American Highway in Venezuela, along the south edge of Lake Maracaibo, last summer, and this is a road that was opened up, I think, in 1956 or 1957 for the first time,

Representative CURTIS. Yes; we went over that.

Mr. PENN. You went over this road. And the whole area was free of malaria in the 1940's. With the highway, and with the Government helping a little bit with land, and some housing, self-help housing, the area had been rapidly settled. We were almost never out of sight of a person walking on the road, or out of sight of a truckload of plantain coming down the road, or out of sight of a person living there in a little house.

This I think is the type of thing that more and more countries are going to develop. The Venezuelan Government wants to develop facilities and make the land available for volunteer settlement much like our homesteading program.

On another point I certainly agree with you, Congressman—I think Mr. Barnes said the same thing—that property tax should not be used for a land reform device to break up large estates.

It seems to me that the real heart of the property tax in the United States was that it forced us to have a school board and other units of local government. The property tax was collected, but a school board had to decide on the amount and had to plan what they were going to spend the moneys for. One of the important features of a real-estate tax, then, can be that it encourages local organization that does not generally exist in Latin America.

Representative CURTIS. Mr. Barnes?

Mr. BARNES. I did want to develop one problem. That is that we are really asking two questions: Can the property tax be a significant source of revenue? And the second question: Can local government be strengthened?

It is not necessary for the property tax to be the source of local revenue, but I would like to point out why it should be:

(1) To encourage the expansion of a new level of government—the municipio within the concept of a locally autonomous governmental unit providing school buildings and public welfare would in fact be something new in Latin American countries generally—this would need a new source of revenue. And the only as yet relatively untapped source of revenue is the tax on property values.

(2) The invest money in the development of worthwhile activities and projects in Latin America, we may find, in fact, that the best possibilities are at the local level. Then we must help these localities to be able to accept loans and guarantee repayment; which they cannot do without adequate local revenue sources.

(3) I have encountered again and again in my own experience in working with tax people in Latin America, an attitude toward paying taxes making a sacrifice without seeing the benefit, the notion that the national government swallows it up. This attitude would be changed by having a local source of revenue as the basis for local improvements.

Representative CURTIS. Of course, then, they have no municipal bonds, if they have not got the source. If they had the source, they could immediately move to the municipal bonds, which is what we do.

Mr. BRANDWEIN. I want to shift for a moment back to the question of flight of capital because, while I am a little concerned with that too, I am a little worried about one uncovered aspect.

I think the problem is not merely one of return of capital, but how that capital is used. The availability of domestic private capital is not synonymous with investment for national needs. In any event, the repatriation of such capital clearly would not substitute for other capital needs, particularly in the social capital field.

I have the strong impression that ultimately the repatriation of such capital depends a good deal upon the initial success of the Alliance for Progress. If the program is in fact successful in building social improvements and developing the early stages of economic growth at an accelerated rate, you will find that capital will be returning, because there will be an easing of the threat of upheaval, of totalitarianism. And it will be returning because in an expanding economy there will be new areas in which investment will be profitable.

And I would hope that at the time of return it would be a useful force for maintaining momentum initially built up by infusions of social capital, so to speak, in the Alliance for Progress.

Representative GRIFFITHS. Is it one of the biggest problems with their use of their own capital that they want such a heavy return for the use of that money?

Mr. BRANDWEIN. I am not familiar enough with the Chilean experience. I think with Mrs. Kybal that it is somewhat unrepresentative. I have the impression that those with large accumulations of capital place a heavy emphasis either on security or on the type of high rate of return which cannot be gotten through corporate forms of organization. I do not know that return to the corporate sector, even if it is measured properly, is a guide to the return generally available to resourceful private capital.

Part of the problem, and it is true particularly in the agricultural sphere, is that resources applied only to the point needed to maintain the traditional style of life of the owner. There is often little incentive for large landowners to get a greater return on their land and on the manpower available there: Capital which has fled Latin America usually has done so for security rather than to seek higher returns abroad.

The high rates of inflation which have characterized some years in some Latin American countries also complicate very seriously the problems of measuring real return on capital. I think we have a statistical problem that cannot easily be surmounted. And sharp inflation, of course, also intensifies the emphasis on security.

Representative GRIFFITHS. That is, you are saying that the landowner or whoever owns the capital is not interested in investing, because he cannot consume the income that he has now, and what he is interested in is consumption.

Then if this were true, and all he seeks is security, what kind of estate taxes do they have? A good whopping estate tax ought to take care of it.

Mr. BRANDWEIN. Dr. Barnes has been pointing to the lack of taxation in certain areas.

Mr. BARNES. Congresswoman Griffiths, the fact is that the most recent reform in Mexico included the abolition of the inheritance tax, because it was difficult to administer and brought in so little revenue. It did, in fact, bring in three-tenths of 1 percent of the total revenue of the National Government of Mexico, and therefore was insignificant, revenuewise.

But it points up the confusion, which exists in the minds of Latin American leaders concerning our notions of tax reform; they would feel that a tax which produces little revenue can be dispensed with, since it creates problems without providing much revenue, regardless of its social consquences.

Representative CURTIS. Mr. Kybal wanted to comment.

Mr. KYBAL. Coming back to the question of private foreign assets held abroad, which seems to be a major consideration on this occasion, we must remember that these assets are not always invested in the same manner. A large part of them is in accounts paying little or no interest. Part of them is in bonds; others are less liquid.

When I was in Argentina in 1956 as a member of a United Nations mission headed by Raul Prebisch, I prepared a paper which was well received, on the desirability of attracting private Argentine capital held abroad, at least some of it, by issuing bonds denominated in dollars. This proposal was not accepted in Argentina at that time, but, without claiming to include an original idea, the principle was adopted later on in Chile and in a minor form, I understand, also in Peru and Colombia.

I believe that the issuance of bonds denominated in dollars by governmental authorities in Latin America would attract some of the private assets of their citizens held abroad and that it would help to stem the outflow of such funds moving abroad. If used moderately, it would eventually bring about a revival of the local bond markets, which, in some countries in Latin America, such as Argentina, flourished at one time when inflation was not rampant.

This might be an opening wedge for the revival, for the restoration, of such markets, which have been completely ruined by inflation.

Representative CURTIS. I was wondering if the panel wanted to ask any questions of each other.

I thought maybe they might want to question each other on a couple of things. That would be quite interesting.

Mr. DAVIS. I have one further comment, and it comes up with respect to Mr. Brandwein's observation, and it is one frequently made with respect to Latin American countries: that upper income groups in general have a tendency to be indifferent to higher income. It has not been my personal experience to have found Latin Americans that I felt were any more indifferent toward higher incomes than their counterparts in the United States.

One phenomenon that is frequently pointed out as evidence to support this proposition, which I think is really not evidence at all on closer observation, is the "investment" in expensive automobiles in countries like Chile and Argentina, where a Chevrolet, for example, can have a market value of $10,000 to $12,000. These cars are in some instances owned by individuals whose current income does not seem to be much beyond $6,000 to $7,000 annually. If the rate of return on capital is high, then the investment that this man has in this automobile represents foregone income that bulks relatively large in terms of his received income.

But let us look at this in a slightly different way. Let us remember that in the United States a person who buys a car on credit will be paying about 13 percent on the unpaid balance. And let us take my figure of 2 percent as being the return on corporate capital in Chile, and as being the alternative of this individual if he chooses to invest his money. Then, while it be true that he has invested three or four times as much in his automobile than his counterpart in the United States would have invested, his effective interest rates are only 25 percent as great, so that the total cost to him, the foregone cost, is no different than for his counterpart in the United States. This would explain why people with roughly the same levels of current income might be spending their money, or investing it, if you choose to use those words, in much the same pattern. The automobile is not necessarily evidence of "conspicuous consumption" nor "indifference to higher levels of income" in either country.

I cite this as only one example, which for me leads to a more general proposition, that I think has some implications for taxation.

Wealth in Latin America is very unequally distributed. One of the reasons for this is that the current income stream generated by assets is capitalized very highly, as is implicit in rates of return on capital in the area of 2 to 5 percent. Consequently individuals with high wealth positions, who are wealthy in terms of assets, are not always enjoying a high-stream of income.

I would not want to deny for a moment the existence of extremes of current consumption on the part of the Perez Jimenezes, et cetera, who have acquired simply fantastic collections of assets. Fortunately, this is not the sort of thing that can be reproduced on any wide scale; no one country can have more than one of these predatory individuals amassing assets in this fashion at any one time.

More generally, what one does observe in Latin America is that businessmen, capitalists, who depend upon earned income stemming from productive investments, do not have in many cases the manifestations of high current incomes (in comparison to wealth) that are characteristics of many of their counterparts in this country.

To me this represents a kind of indirect evidence that questions the proposition (*a*) that the distribution of current income, as opposed to wealth, is vastly more unequal than in the United States, and (*b*) that there really is a substantial quantity of current income that can be effectively taxed.

I do not mean to suggest for a moment that measures to enforce the taxation which is already on the books in many Latin American countries, should not be undertaken. But I think we may be surprised at the meager increase in tax yields, in the amount of taxes collected, that results from tax enforcement, or even modifications in tax structures, at current levels of income.

With respect to property taxation, it seems to me we have quite a different kind of situation, because by my same argument it stands to reason that there is considerable inequality in the distribution of wealth that can be effectively taxed by property taxation and also by inheritance taxation.

Representative CURTIS. I do not think you can have an income tax until you have a basic property tax. I was talking to a number of people, not only where inflation existed, in Brazil and Chile and Argentina, but in fact all of them. Of course, if there is no property tax, you put your assets in real assets. Put it in land, particularly, because there is no incentive to have that physical asset producing.

If you have to pay a tax on the land you have, you are going to figure out how you can at least get that land earning enough to bring it back.

And so I would say that I never thought of it the way you have put it, but I certainly can see it immediately, that if you do not have a basic tax on what would be wealth—and land is the essential wealth, here—because if it is bonds or stocks, that by its very nature is an investment on which there is a return.

Property Tax

So when we get down to unused wealth, we are almost talking about land. And if you do not have a basic property tax, I can see how everything else you cannot build on. I have never thought of it that way, but I think it is true.

Representative GRIFFITHS. I think we have a dissent right over here.

Mrs. KYBAL. I must say that purchases of high-priced automobiles are probably not the best example of motivation in Latin America, as I know by experience. Very frequently such decisions are made for status reasons and then an automobile is not an alternative to a $10,000 investment.

Representative GRIFFITHS. I am for selling more automobiles.

Mr. BARNES. Before closing, I did want to try to answer the questions you have asked, of what policy we should follow in making loans and grants to Latin American countries. We are in a position to emphasize the necessity for seeking out potential development in local communities, getting from people to people, taxpayer to taxpayer, so to speak.

Secondly, that among those communities we should choose to help those that are proving that they are able to put their talents to use. There are some that are. There are some that are not.

And finally, we should ask universities or other groups to help local communities to solve the myriad problems involved in achieving autonomy and stability as local communities.

I should point out that there are constitutional problems. There are problems of education, of allocation of resources. There is the need for the development of leadership in labor, in management, in teaching techniques, in building trades. There are sociological problems involved in a change to a thriving community development, which, where we ought to be helping them, technically helping them, so to speak, to establish and develop these communities.

Representative GRIFFITHS. I want to thank all of you for giving the committee the benefit of your views. I am sure that I speak for the whole committee in doing that.

And I would like to say, too, that at least for my part, in the trip to South America, the thing that impressed me the most was that all of us as Americans, South Americans or North Americans, have looked too long to Europe for the pattern to solve our own problems. And I think it is a very healthy beginning that we now begin to look toward each other.

I hope that we in this world, which is still a very new world, finally come to have a better solving of the problems of men than has ever existed before in the world. And I am sure that the information that you have brought to bear on this subject will be helpful.

Thank you very much.

Representative CURTIS. Could I have just one thing for a housekeeping item?

Mr. Lehman, how long will the record be open? Because I am very much interested in the record which we will print, and of course all of you will be given copies for correction, but we also have permission for you to add any material or expand on your statements, which would be very important.

Mr. LEHMAN. Mr. Curtis, tomorrow morning we will send a copy of their individual transcript to each member of this panel. We would like to have them back to us by, say, Wednesday night of next week. If there is an emergency, where someone has a special piece that they would like to get in a little bit later, we can put it in the proof. We would prefer to have all the materials at the same time, of course.

Representative CURTIS. You have the same privilege we have with the Congressional Record. It is not what you said; it is what you wished you had said along with everything else.

Representative GRIFFITHS. Without objection, the article entitled "Economic Development in Latin America," by Mr. and Mrs. Kybal, in the Iowa Business Digest, fall 1961 report on Latin America, which has been referred to in the committee press release will be printed in the record of the hearings as appendix C.

Thank all of you again.

And this committee adjourns until 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Friday, May 11, 1962.)

ECONOMIC DEVELOPMENTS IN SOUTH AMERICA

FRIDAY, MAY 11, 1962

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC
RELATIONSHIPS OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 4200, New Senate Office Building, Hon. Martha W. Griffiths presiding.

Present: Representatives Griffiths and Curtis.

Present also: John W. Lehman, Deputy Executive Director, and William H. Moore, economist.

Representative GRIFFITHS. The subcommittee will come to order.

Today we are to hear from representatives of business with interests in South America.

I regret that two of the members of the Panel have had emergencies arise which prevent their appearance today.

We have received the following telegrams from Mr. Kamsky and Mr. Gallagher, which will be inserted in the record.

(Telegrams referred to follow:)

NEW YORK, N.Y., *May 10, 1962.*

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.:

I very much regret unforeseen urgent business prevents participation in joint committee discussion May 11. Have forwarded statement for inclusion in record and distribution to press.

W. R. GRACE & Co.,
L. KAMSKY.

CHICAGO, ILL., *May 10, 1962.*

Senator JOHN SPARKMAN,
Chairman, Subcommittee on Inter-American Economic Relationships,
Joint Economic Committee, care of John W. Lehman,
New Senate Office Building, Washington, D.C.

DEAR SENATOR SPARKMAN: Due to a business emergency which has arisen I very much regret that I am unable to participate tomorrow in your subcommittee's Panel on Economic Development in Latin America. Because of Sears pleasant relationships in South America, we have a deep interest in this subject and we are honored to be asked to participate. Therefore if I can be of service to you or any other member of your subcommittee at a later date please advise. We wish you and the other members of your subcommittee success in these various important hearings today and tomorrow.

SEARS ROEBUCK,
J. F. GALLAGHER.

(Mr. Gallagher subsequently provided a statement which is included, with the statement supplied by Mr. Kamsky, following the witnesses who appeared in person.)

Representative GRIFFITHS. We are very grateful for the cooperation of the gentlemen before us, and we will hear the opening statements without interruption and then proceed with the questions.

Mr. Butler, will you lead off?

STATEMENT OF WILLIAM F. BUTLER, VICE PRESIDENT, THE CHASE MANHATTAN BANK

Mr. BUTLER. I propose to devote the brief space of time allotted to me to one subject, the crucial need to encourage private investment in Latin America.

If we are to achieve our broad objective of providing expanding horizons of opportunity for individuals throughout the hemisphere, we must increase the emphasis on private investment.

Capital investment in Latin America is now running at a rate of about $10 billion a year, or 17 percent of the total production of goods and services in the area.

The goal of the Alliance for Progress is to lift total production some 5 percent per annum, to cover a population increase of 2.4 percent per annum and thus raise production per person 2½ percent annually.

Experience around the world suggests that an investment ratio of 17 percent of gross national product can be consistent with an economic growth rate of 5 percent per annum, if the capital is used with a high degree of efficiency; and this, it seems to me, is the heart of the problem. More effective use must be made of capital if rapid growth is to be achieved.

For this reason, I would argue that greater emphasis must be placed on private investment. Present plans under the Alliance for Progress call for private sources to provide 60 percent, and Government 40 percent, of the investment projected for the decade of the 1960's.

I believe the optimal mix should be more like 80 to 20.

In working toward such an optimal mix, I would not cut down the aggregate flow of outside public capital, nor would I suggest any general reduction in domestic government expenditures for such vital functions as education, health, roads, and the like. However, I believe these efforts should be oriented towards encouraging a significantly greater increase in private investment from both local and foreign sources than now seems to be contemplated.

In effect, I am proposing that we try to balance up to the 80–20 mix between private and public investment by continuing to support the general magnitude of public effort now being contemplated and by using such funds imaginatively to call forth a much larger private effort than now seems in the cards.

FUNCTION OF PRIVATE INVESTMENT

I set forth these views, not because of any doctrinaire feeling, but out of a sincere desire to see the development process really work effectively in Latin America. And I believe the development process can proceed only if a maximum effort is made to encourage private investment.

The process of business saving and investment is little understood, despite its vital contributions to economic progress. A successful private enterprise earns a rate of return on its investment which is sufficient to pay fair dividends to its owners and, in addition, finance the additional investment required to support its growth. Thus, business investment is largely self-financing. The funds to finance investment in new plant and equipment come chiefly from business savings in the form of depreciation and retained earnings. In effect, business savings are generated from the growth in national income which they help support, and thus they impose almost no burden on current consumption.

This process of business saving and investment is extremely important in economic development. It means that, given the necessary propitious conditions, the growth of investment in the business sector is almost entirely self-generating and self-financing. Relatively small equity investments can set the process in motion, and it can continue with only minor injections of savings from other sectors of the economy. Thus, public savings can go into such necessary areas as health, schools, sanitation, and roads. And saving by individuals in the lower and middle income groups can go into investment in housing, farming, and retail trade.

Government investment in enterprises producing goods or services which are sold seldom, if ever, possess the important quality of being self-financing. For various reasons, Government enterprises almost always sell at prices which at best barely cover costs and frequently involve substantial subsidies. This means that such enterprises impose substantial drains on the limited savings available from a given level of national income.

This drain on current savings is particularly large when Government moves into such fields as steel, electric power, communications, airlines, and railway transportation. All such industries are heavy users of capital in relation to annual sales. They require $2 or $3 or even more investment per dollar of annual sales. When such investment has to be financed by tax levies, or by the tortuous method of forced saving via inflation, or even by foreign borrowing, a heavy handicap is imposed on an economy seeking rapid economic development.

I do not gainsay the right of a sovereign government to engage in an enterprise it chooses, or to make any other mistake it elects. I simply point out the fact that economic development could be accelerated substantially if Government did not engage in undertakings which, under the proper conditions, could be financed and operated with a minimum drain on the flow of local savings. This would free Government funds for investment in such fields as education, health, sanitation, and roads, where the social and economic returns could be far higher.

Representative GRIFFITHS. May I interrupt you just a moment? I think it should be made clear that you are talking now about the governments of South America which have already done these things themselves. I mean in general most of them own the railroads and power companies and such other things. The U.S. Government is not contemplating financing these things for these governments.

Mr. BUTLER. Well, we have financed a lot of these things, through various loan programs, including those of the Export-Import Bank.

Representative GRIFFITHS. But it is these governments themselves which created the original problem. Did not Argentina buy England out of their railroads?

Mr. BUTLER. That is right.

Representative GRIFFITHS. And are they not operating those railroads at a loss?

Mr. BUTLER. At a substantial loss.

Representative GRIFFITHS. We are not fostering these programs.

I think it should be made clear that the U.S. Government has not actually fostered such programs in South America.

Mr. BUTLER. Except to the extent that we have loaned money to support the expansion of utilities owned and operated by governments. To that extent, we have.

Representative GRIFFITHS. Actually there was not anybody else to own and operate them, if this were the case. Is that not true? The government already owned them, did it not?

Mr. BUTLER. Well, under the proper conditions, I think private investment could be persuaded to purchase utilities from governments and operate them.

Representative GRIFFITHS. Was there anybody in any of these countries who was actually trying to buy these utilities from the government?

Mr. BUTLER. Not under the conditions as they existed.

Representative GRIFFITHS. No, there was not anybody trying to buy them, so that part of the problem really is—and part of the problem for all of us, because I agree with you—that they need the private investment, and they need some private leadership. But part of the problem that we are facing is that there is no leadership. There is nobody willing to invest, and there is nobody with the money to invest, who is also willing to invest. Is that not really true?

Mr. BUTLER. Well, you can take the example of the American Foreign Power Co., which had utility investments pretty generally throughout Latin America. Given proper rates, American Foreign Power would have been willing to continue to operate, to expand, to meet the demand, with no drain on local capital.

Representative GRIFFITHS. Which would have been great. But they would not let them do it, would they?

Mr. BUTLER. What I am suggesting is that that was a mistake.

Representative GRIFFITHS. It is a tough world.

Mr. BUTLER. That is right.

Representative GRIFFITHS. I just wanted to make it clear, because I felt that from your statement someone might get the mistaken idea that we were running down there fostering these things. These are the problems that we meet. This is the difficulty that we find.

Would you please continue? Because I think it is a most interesting statement.

Mr. BUTLER. Well in this connection, a number of recent studies of the factors responsible for economic growth in the United States assign a much more important weighting to education than had been the case earlier. I am sure that efforts to increase the quantity and quality of education in Latin America would yield returns far higher than can be obtained from steel mills or hydroelectric plants.

ENCOURAGING PRIVATE INVESTMENT

What could be done to change the mix of investment under the Alliance for Progress from the present 60–40 ratio between private and public finance toward an 80–20 ratio? It seems to me that experience shows quite clearly that the preponderant effort must come from within the Latin American nations. In the final analysis, only they can shape their own destiny.

The requirements for encouraging private investment are well established by experience. They include stable government, a climate favorable to private enterprise and profits, general price stability, and freedom from exchange and other controls, and government efforts to improve education and provide the public facilities necessary to support development. Nations moving aggressively in these directions have made substantial progress toward economic development in the past. Those adopting contrary policies have witnessed little growth.

Where local conditions are favorable, private foreign investment can make a sizable contribution to the development process. It is importantly through private investment that the transfer of technology takes place. And private foreign investment can call forth significant amounts of local savings.

Thus, the Sears, Roebuck investments in Mexico and Brazil and the auto companies' investment in Brazil and Argentina have encouraged the development of local suppliers. Other examples could be cited of the manner in which U.S. private investment in Latin America has drawn out local savings and advanced local technology.

The beneficial contributions of foreign private investments are enhanced when they take the form of joint ventures with local investors and when they make a genuine effort to train local people for technical and managerial positions. There is a decided trend in these directions on the part of U.S. private investment in Latin America. The joint venture device offers an important method of mobilizing local savings which might otherwise seek investment abroad. Such funds are relatively large in all Latin American nations. If they could be channeled into local private enterprises, they could make a large contribution in accelerating the growth process.

ACTION BY THE UNITED STATES

What can the United States do to encourage private investment in Latin America, and to stimulate the flow of U.S. private investment into the area? As I indicated, the major problems are found inside Latin American nations. The U.S. Government should use its influence to encourage Latin American governments to develop a favorable climate for private investment, both local and foreign.

U.S. private companies need to do more to emphasize the contribution they are making to local development. We must seek broader understanding of the fact that economic growth in a free society can be achieved only by encouraging private investment. A climate of hostility toward private investment will not produce the sort of rapid economic development sought by the peoples of Latin America.

Beyond that, it seems to me that we in the United States can do three things:

1. Provide tax incentives for private investment in the lesser developed areas. Discussion of such measures has been limited recently under the mistaken idea that our balance-of-payments position precludes action. Actually, the immediate impact on our balance of payments would be very small, while the longer term effects would be favorable. We are being penny wise and pound foolish in terms of our objectives of supporting international development.

2. Furnish effective guarantees to reduce the risks inherent in foreign investment. In my opinion, U.S. Government efforts to provide investment guarantees have been niggardly and unimaginative. However, a system of international investment guarantees may offer greater promise.

3. Use Government loan and aid funds to support U.S. private investment in Latin America and other developing areas. Some of this has been done under the Cooley amendment and other devices. But much more could be done, given the will and the proper policy guidance.

I have ignored, quite deliberately, a number of important problems which must be dealt with if Latin America is to achieve a rapid pace of development and modernization. I have done so because I believe the entire effort can succeed only if it places greater emphasis on private investment and initiative than I take to be the case today. If we are genuinely interested in supporting economic growth in Latin America, then I believe we must provide active support for private investment, both local and foreign. Unless we do so, our efforts in other fields are likely to prove abortive.

Representative GRIFFITHS. Thank you very much.

And if I may change my mind, I would like to ask you a question on these guarantees to reduce the risks inherent in foreign investment.

At the present time, what guarantees are European nations giving their nationals investing in South America that we are not giving?

Mr. BUTLER. So far as I know, the European governments are not providing investment guarantees.

Representative GRIFFITHS. They are providing credit?

Mr. BUTLER. Medium term credit.

Representative GRIFFITHS. Credit guarantees that we are not providing; is that not right?

Mr. BUTLER. Well, we are now providing them through the cooperation of the financial community and the Export-Import Bank.

Representative GRIFFITHS. What about the terms and the size of the guarantees, for instance?

Mr. BUTLER. I think we are now reasonably competitive with the European medium-term credits, and we in our bank are providing such credits, and have been very actively, since about the first of the year, in cooperation with the Export-Import Bank.

I think the terms are generally competitive. I think there are some cases where the Europeans will go to more than 5 years, and we cannot go to more than 5 years.

Representative GRIFFITHS. And for very little downpayment; is that not right? Are they not delivering on 10 percent downpayment when you place the order, and the other 90 percent in the next 4 or 5 years?

Mr. BUTLER. But we are prepared to match those terms now, and actually we are doing business at somewhat lower interest rates than the Europeans are charging.

Representative GRIFFITHS. What do you suggest on the guarantees on investment? What kind of a guarantee would you suggest?

Mr. BUTLER. Well, again, one would have to——

Representative GRIFFITHS. Please speak frankly, because frankly I think it has great merit.

Mr. BUTLER. Again, I am not a lawyer, and I could not go into all of the legal aspects, but in general it seems to me the private investor has to assume some part of the risk; but he should be able to get from some source a guarantee that would protect him against the unusual political risks involved in international investment.

Representative GRIFFITHS. The fact that it may be seized by a hostile government; inflation?

Mr. BUTLER. Yes.

Representative GRIFFITHS. I think it has great merit, because I think that it is essential that you develop leadership within this country.

Their source of power is too singular. They need a diffusion of power, it seems to me. And I think that private investment might contribute to that.

May I ask you how large your own operation is in South America? That is, how many people do you employ? How many banks do you have?

Mr. BUTLER. Well, through South America, we do business largely through correspondent banks.

Representative GRIFFITHS. I see.

Mr. BUTLER. We have representative offices in Venezuela, Brazil, Argentina. But virtually all of the business we do is done through correspondent banks.

Now, we recently acquired interest in a bank in Brazil, which has 17 branches, I think. But that will operate under its own name as an affiliate of Chase Manhattan.

Then we have a subsidiary, Chase International Investment Corp., which has equity investments in a number of Latin American countries, in cooperation with local capital.

Representative GRIFFITHS. Do you have any training programs for the people who work in these banks, even the corporate banks?

Mr. BUTLER. Yes, we do an increasing amount of that. We do have branches in the Caribbean area and Puerto Rico; and there is a special training program for those branches, and they have taken people from correspondent banks, and then we have run training programs in New York. We have one going at the moment for Middle East bankers, as a matter of fact.

Representative GRIFFITHS. Thank you very much.

We shall proceed to Mr. Nehemkis.

Mr. Nehemkis?

STATEMENT OF PETER R. NEHEMKIS, JR., WASHINGTON COUNSEL, WHIRLPOOL CORP.

Mr. NEHEMKIS. Madam Chairman, Mr. Curtis, and my colleagues on the panel, my comments this morning wil focus primarily upon the outlook for private U.S. investment in Latin America. To put it bluntly: the outlook has never seemed so bleak. Yet, paradoxically, the need has never been so great.

Plainly, no one individual can presume to reflect the myriad of judgments and opinions in the U.S. business community which constitute the investment decisionmaking process. However, as nearly as any generalization is permissible, I should say that the prevailing attitude is less that of a "loss of confidence" in Latin America as it is an attitude of "wait and see."

This may be seen in the figures on the flow of U.S. capital in the post-Castro years. From a high in 1957 of over $1 billion, the flow has dropped to a little over $200 million in 1961. In Brazil last year the flow of new capital was a piddling $25 million to $35 million, considerably less than most U.S. companies spend on their domestic advertising budgets.

At this point, it may serve as a useful frame of reference to indicate the stake which U.S. business already has in Latin America. In 1961, it amounted to about $9 billion.

You begin to realize how much U.S. private investment contributes to Latin America's growth when recognition is given to these facts: over one-third of Latin America's industrial and mining production is accounted for by U.S. companies; one-third of all Latin America's exports originate with U.S. companies, about one-fifth of all Latin America's taxes are paid by U.S. companies.

Now, if you total the wage and salary costs, the expenditures on local materials and services, along with the tax bill, U.S. companies contribute annually to Latin America's economy about $6.1 billion.

To put this figure in perspective, keep in mind that, under the Alliance for Progress, the U.S. Government is committed to invest in Latin America some $10 billion over the next decade. U.S. companies from their existing investments are contributing to Latin America over $6 billion annually.

While I have characterized the U.S. investment position as one of "waiting until the dust settles," I believe it is fair to say that the Latin American business attitude is one which can be described as a loss of confidence in their own economic future.

The absence of confidence by Latin America's business elite and ruling groups is vividly demonstrated by their own export of capital, which, over the past decade, has been in excess of $10 billion.

In passing, may I say that this $10 billion represents the amount of flight capital in numbered bank accounts in Switzerland alone. My New York banker friends tell me that the amount of flight capital on deposit in New York, or invested in American securities and bonds, is probably equal to another $10 or $12 billion.

This is roughly about the same amount of money which the United States has pledged to Latin America over the next decade. It is not, therefore, an academic question to ask why the hard-pressed U.S. taxpayer should be expected to fill this void; or why U.S. business should be expected as a matter of course to assume risks which Latin America's own monied class is unwilling to do.

There are two sectors where quite obviously future investments are doubtful or nil. The great mining and international oil companies are feeling the heavy nationalistic pressures.. These pressures will increase rather than diminish. I would, therefore, expect to see continued stagnation for this type of investment. The expropriation bell has also tolled on the public utilities.

A considerable contribution can, however, be made by these American companies in two important ways: Unrepatriated earnings can be invested in urgently needed development projects—as is now being done by some of the utility and oil companies—and by making available their managerial and technical skills on a contract or license basis.

In my judgment, if we are negligent in utilizing these unique resources, the Chinese and the Russians will assuredly not fail to exploit this opportunity.

This leaves us broadly with the manufacturing category.

What is it we look for in arriving at an investment decision in this area? Primarily, countries with a vigorous economic thrust and countries where the political environment will enable a sophisticated engineering technology and consumer distribution system to flourish.

This morning we could play blind man's bluff, put the pin anywhere on the vast continent of the Southern Hemisphere, and be unable to find any country which is not beset by deep political unrest of varying degrees of intensity, or where economic crisis is not the order of the day.

The reasons for Latin America's political turbulence are familiar. Those members of the subcommittee who visited South America last fall saw at firsthand why there can be no stopping of the people's demand for social justice and the rights of citizenship in the 20th century. There is neither time nor is this the forum to enlarge upon Latin America's impending social upheaval. Suffice it to say that throughout Latin America the smell of revolution is in the air.

Latin America is in the throes of a massive economic hemorrhage. This committee's report on "Economic Policies and Programs in South America" has struck the jugular of Latin America's basic economic difficulty: its exclusive dependence on the profitable export of one or two primary commodities for its hard-currency earnings.

As you have pointed out, Latin America's share of world exports for over a quarter of a century—since 1937—has been shrinking steadily. As a raw material-food producer and importer of manufactured goods, Latin America has been obliged to sell cheap and to buy dear. The consequences have been what we are pleased to call balance-of-payments crises of increasing severity.

This means that Latin America is unable to import capital goods and raw materials for its new manufacturing industries. Just to feed the new mouths born each year consumes virtually all of the increment in national product. So there is little or nothing left over for investment in industrial facilities or agriculture.

The result is economic stagnation. And the consequence of this vicious cycle is that each year Latin America is forced to knock frantically at Washington's financial doors for emergency transfusions.

This chronic balance-of-payments crisis—for which no end appears in sight—was brought to a dramatic head at the April meeting of the Board of Governors of the Inter-American Development Bank at Buenos Aires. Speaking in behalf of the visting delegations, Mr. Jorge Mejia Palacio, Governor of the Bank for Colombia, after observing that "Latin America is in the throes of the worst crisis in its entire history," went on to say that, despite the generous assistance received by his country from the Alliance for Progress, "the losses suffered" through declining coffee prices were "two or three times greater than the special aid received."

Dr. Mejia's charge underscores the dilemma of United States-Latin American policy: Do we continue to pump into Latin America a billion dollars annually which is not even sufficient to close the export import gap, or do we commit ourselves to commodity stabilization programs whose costs may be staggering? Put differently, does it make much sense to be applying a band-aid to a patient hemorrhaging from severed arteries?

Crisis-ridden economies plagued with the most acute balance-of-payments difficulties, which, moreover, are structured into their economies, are not the most attractive environments for investment capital. Now fill in the canvas with the colors of a continent wracked by political unrest, with a deep undercurrent of revolutionary ferment, and ask yourselves what your judgment would be were you a corporate director faced with the choice of investing in the uncertain future of Latin America or the expanding horizons of the European Common Market.

May I touch now briefly on certain attitudes, beliefs, or ideologies which prevail in some influential Latin American intellectual, middle class, and political circles—attitudes and beliefs which are reflected in U.S. investment uneasiness?

This state of mind—if I may so characterize it—boils down to the desire to have U.S. technology, but to have it divorced from U.S. control. Another way of putting this is to say that what some of the influential Latin Americans want is the loan of U.S. private capital without the involvement of U.S. foreign subsidiaries. In short, what these ideologists want is to have their cake and eat it, too. It is this ambivalence which causes so many influential Latin Americans to prefer public loans to private investment, and international to bilateral loans. Under government-to-government loans foreign control is watered down to the vanishing point.

Other thoughtful Latin Americans, on the other hand, know that there is not enough governmental money on this planet to meet Latin America's enormous capital requirements. Other thoughtful Latin Americans know that only by marshaling private capital—United States and Latin American, West European, and Japanese—will the Alliance for Progress succeed in furnishing Latin America's vast requirements for capital and to fill the need for technical, managerial, and administrative skills.

Latin America's outstanding democratic political leaders—as for instance, Gov. Luis Muñoz Marín; former President of Costa Rica, José Figueres; Romulo Betancourt, President of Venezuela; Gov. Carlos Lacerda of Brazil; Latin America's most eminent political economist, Dr. Raul Prebisch—are all practical men who comprehend fully the importance of private capital in Latin America's development. They welcome a creative and constructive role by U.S. private capital.

I venture to suggest that in this hour of crisis, Latin America cannot afford to play the role of Hamlet—"Do we or do we not want

U.S. private capital?" Latin America must have U.S. investment capital.

The essence of any successful negotiation is flexibility and the avoidance of digging in on fixed positions. So I say to my Latin American friends, "Bend and give a little." Our Latin American friends can have the benefits of U.S. technology and of U.S. private capital if they will but recognize that some accommodations must be made to allow risk capital to thrive. By the same token, American enterprise cannot impose a doctrinaire capitalism peculiar to the United States, which is neither suitable nor acceptable to the Latin American economies.

Representative GRIFFITHS. May I ask what kind of a revolution you think would be necessary in Latin America to keep Latin American billions in that country and reinvest them? What kind of a political upheaval would you have to have?

Mr. NEHEMKIS. Well, I should say, Mrs. Griffiths, that if you had a violent revolution of the Castro type, there will be no capital left at all. The only hope for keeping local capital in their own respective countries and putting it to work is evolutionary revolution.

Representative GRIFFITHS. Then what hope is there for that?

Mr. NEHEMKIS. Do you want it with the "bark off," or shall I be discreet?

Representative GRIFFITHS. Well, just how do you do it? Is this not the problem? Is this not what we are trying to solve?

Mr. NEHEMKIS. This is what I understand the Alliance for Progress is all about.

I am very pessimistic about the prospects of achieving the kind of social revolution which the United States has agreed to underwrite. The crucial issue in Latin America, the issue on which Latin Americans must make up their minds before the Alliance for Progress has any meaning, was articulated with brutal candor by a feminine representative of Latin America's ruling and governing class. Speaking in Washington a year ago last spring, Madame Prado, the wife of the President of Peru, put the dilemma of her own oligarchic class this way: "Either we give; or they take."

The Latin American oligarchy is unable to resolve this dilemma because it is incapable of accommodating itself to a revolutionary situation. Latin America's oligarchy does not yet grasp the hard fact of life that, either it moves over and shares its power with the democratic parties of the left, or it invites having its collective throat slit from ear to ear by a machete made in Havana.

Unlike the English Tories, who successfully made their accommodation by capturing the Labor Party's "welfare state," Latin America's oligarchy does not yet comprehend that its survival depends upon its willingness to preside over the liquidation of its own economic and social empires.

I am also bound in all candor to say to you that majority of Latin America's business elite (whose true interests are not tied to the preservation of the status quo) have been astonishingly shortsighted. With few, notable exceptions, they have not shown any sense of noblesse oblige; any pronounced willingness to accept public responsibilities; or to furnish progressive leadership; or to exert an enlightened leverage on their governments. Parenthetically, I suspect that much of the mistrust for American business throughout Latin America stems from the mistrust of most Latin Americans for their own rich. Guilt by association thereby attaches to U.S. business.

Representative GRIFFITHS. Well, what is your plan?

Mr. NEHEMKIS. That is a big question, Mrs. Griffiths. First, we should ask ourselves whether the structure of the Alliance for Progress—as now constituted—is geared to dealing with Latin America's impending revolutionary upheaval. What we have by way of organization is an establishment ready to implement the Marshall plan with the techniques so successfully employed in Europe during the late forties and early fifties. But Latin America in 1962, with its feudal land system, its few oases of industrialization surrounded by a vast desert of indigenous poverty, is not the war-shattered industrial plant of Europe whose technicians knew their needs down to the last industrial nut and bolt.

By 1963, when the U.S. managers of the Alliance say they will have completed their organizational retooling, we shall in all probability be confronted with so deep a revolutionary situation as to render the revamped organization inapposite.

Another major difficulty with the Alliance for Progress is the notion that we can erect sophisticated economic superstructures upon jerry-built democratic political foundations. If a social revolution in Latin America is to be accomplished peaceably—and the operative word here is "peaceably"—it requires a literate people. It requires that the representatives of the people be sent to the national parliaments. Throughout Latin America—with a few, notable exceptions—we have only a mass of inchoate illiteracy; and unrepresentative governments. President Ayub of Pakistan once made the wise observation that for democratic planning to prevail in his country, you had to have literacy and communication. Without these essentials, Ayub pointed out, economic planning was sheer hypocrisy.

I venture to suggest that we have invited our own disillusionment by a mistaken belief that Latin America's governments can—and will—speedily produce the economic reforms which were agreed to at Punta del Este.

We merely indulge in self-deception when we assume that the majority of the present Latin American governments have either the technical skills, or the administrative organizations, or that they are going to rid themselves of a paralysis of the will, to accomplish their necessary basic reforms.

We shall continue to deceive ourselves if we mistakenly assume that, when most—not all—Latin American governments submit a beautifully drawn plan replete with charts and statistics for implementing the Alliance for Progress, they have thereby placed themselves on the road to salvation.

I hope my Latin American friends will forgive me if I say that they have two commodities which are in oversupply. These are talk and paper plans.

A beautifully conceived plan is one thing. Making it work is quite another thing. Our Latin American friends are long on plans but woefully short on how to get the plan off the paper.

Increasingly, I am driven to the conclusion that the Latin American "problem" is primarily political and only secondarily economic. We've put the cart before the horse in our preoccupation with the economics of development to the exclusion of the politics of development. Our economists have evolved a masterful strategy of economic development. What we need with compelling urgency is a master strategy for the political development of Latin America, along with the political tactics for its execution.

If you accept my premises, would it not be far wiser for us to concentrate our efforts in building stronger democratically based political movements, solidly supported by democratic traditions? In devising methods of preventing the political arc of the democratic middle from being pulverized by the extremists of the right and left? In strengthening the trade union movements? In encouraging the growth of cooperatives? In short, can we achieve social justice throughout Latin America unless there first exists the political environment which is capable of accommodating democracy?

I suggest that we might profitably refresh our recollection of how economic development took place in Puerto Rico under the leadership of that wise and practical statesman, Luis Muñoz-Marín. It was only as Governor Muñoz succeeded in erecting a strong political base that economic development became a reality in Puerto Rico.

Is it necessary that we look to Puerto Rico for the example? Here in the United States we have under our very eyes the greatest demonstration of economic development powered by education and political democracy which this planet has witnessed. Despite the criticism which is leveled at our educational methods, the fact remains that we have achieved in these United States a degree of political maturity through education which is still the envy of the world.

It is no secret that probably as much as 60 percent of the increase in productivity throughout the North Atlantic community is the result of the development of brain power, the increasing emphasis placed on research and a reasonably intelligent management of our resources. Plainly, without education at all levels these accomplishments would not have been possible.

In our preoccupation with economic development, it seems to me that we are ignoring at our own jeopardy Latin America's intellectual world. Perhaps as much as 50 percent of Latin America's university students are already lost to the democratic ideals of the West. But what of the 50 percent who have not embraced Marxism? If they, too, become disillusioned we will have totally lost the mind, the spirit, and the heart of all that is best in Latin America. At that point of no return, the battle will be finished. The continent can be transferred to Moscow and Peiping without the need of landing one Chinese or Russian soldier.

We propose to spend about $50 billion to land a man on the moon. If one one-hundredth of 1 percent of that sum could be made available to those American universities, where strong ties to Latin America prevail, so that these universities might undertake a massive educational campaign to hold the loyalties of Latin America's uncommitted intellectuals, I would be far less pessimistic of the outcome of the cold war in Latin America than I am.

A critical gap in the Latin American university is the absence of good texts in current economics. What are we doing to make available a steady flow of economic materials?

What are we doing to export cheap paperback editions of the world's finest literature to the university students?

If one thing is clear, it is that we cannot reach the minds of Latin America's university students, the intellectuals, the literate middle or working classes with blatant propaganda or conventional press releases extolling the virtues of a rich United States. There is, however, a way by which we can begin to offset the Chinese and Russian offensive in the conquest of their mind. It lies in making available paperback books of the world's great literature at prices so low that a student or worker can't afford not to acquire them. We know something about distribution and merchandising in this country. Why can't we set up a publishing and distribution system that can put these books in the cafes where the students congregate; set up distribution points at factories; harness cooperatives and trade unions as focal points for distribution?

The Peiping Chinese and the Russians are distributing their literature in depth. They begin with children's books and end up with the translations of scientific tracts. Capture the mind of the child as the strategic goal; give the intellectual, the professional, the technician, the scientist a useful tool which he can employ now. Win this group by supplying an immediate need. This is obviously the strategic goal and the tactical objective.

Recently, I examined a sampling of books for children printed by the Russians and the Chinese. They can be obtained at virtually no cost. Or they can be had free. They are excellent both from an artistic and substantive content. Surely we are not lacking in talent to meet this offensive by Moscow and Peiping?

What are we doing to publish the works of Latin America's intellectuals who, lacking any creative outlet for their talent, drift into the Communist ranks?

What are we doing to make certain that democratic newspapers do not fold for lack of funds with which to buy newsprint?

What are we doing to provide financial and technical support to the true voice of progress in Latin America which reposes in the 23 liberal democratic parties? It was these parties, under the leadership of that dynamic hemisphere statesman, wise counselor, and great friend of the United States, President José Figueres, who presented to President Kennedy their joint resolution in support of the Alliance for Progress.

While you are fielding my questions, will you indulge me if I throw you still another? Assuming for the moment that a major decision of policy were reached with the objective of executing action in these various areas upon which passing mention has been made, what institutions do we have in the U.S. Government which possess the capability and the skill to implement the tactics of this strategy of political development?

Can an agency of the U.S. Government—even assuming the requisite talents were on hand—undertake such missions in Latin America without imparting to the undertaking the kiss of death? If not, how can this job of work be done? I believe—perhaps I should say, I hope—you will agree that the questions come easier than answers. But answers there must be—and soon.

If the Alliance for Progress is to become a dynamic and powerful weapon on Latin America's revolutionary battleground, we must regroup our forces and establish a new order of battle priorities. One objective should be the creation of a few, spectacularly successful showcases of democracy which will supply the "multiplier" effect for the rest of the continent. If we are prepared to place a higher value on success than on piecemeal failures, we should—certainly for the time being—concentrate our maximum energies, attention, and resources on three countries. These countries should be the Dominican Republic, Venezuela, and Brazil.

(1) In the Dominican Republic, circumstances and events have handed us a golden opportunity for the assertion of initiative and leadership to overcome the Castro propaganda that Fidelismo is the true faith and that Fidel is its only true prophet. If we don't fumble our chance, the Dominican situation presents us with the one big break we need to put the Alliance on its feet, and in the process to deal Castro a devastating blow. We could do this by launching an impressive program of land reform and low-cost housing. We could help overcome the desperate shortage of public administrators, business managers, and technicians. Unless the Dominican Council of State can quickly provide some visible evidence of its capability of meeting the compelling needs of the people for housing, for the ownership of land, for jobs, the fragile democratic political structure will collapse under the increasing pressures from the remnants of Trujillo and the Castro left.

Here is the opportunity to demonstrate to all Latin America that the United States can and will help a new and struggling democracy to make up a 30-year exile from the 20th century. Here is the opportunity to give the lie to the Castro propaganda that Castro alone has a patent on the social revolution.

The people of the Dominican Republic are hungry—after 30 years of a brutal dictatorship—for the sweet taste of representative government and individual liberty. If through bureaucratic ineptness, lack of imagination and boldness, this opportunity is allowed to slip through our fingers, we can kiss the Alliance off: it will be dead.

(2) The second country where our energies should be applied is Venezuela. Venezuela is the democratic bastion of the entire Caribbean, if, indeed, it does not occupy this role for the entire continent. Unique among all of Latin America, Venezuela has already undertaken a number of the social reforms called for by the Alliance for Progress. It is no exaggeration to say that without Betancourt at the helm, Soviet tankers would today be pumping oil from Lake Maracaibo. Venezuela is the prime target of the Sino-Soviet strategy as it operates out of Cuba. If, in this taut struggle, Betancourt can be discredited and deposed not only does the Sino-Soviet bloc fall heir to one of the world's richest prizes, but the implications for the rest of Latin America are appalling.

In 4 years, Betancourt's administration has settled more than 40,000 campesino families on over 1,250,000 acres of land—land paid for in cash and bonds. As Romulo Betancourt is fond of pointing out, this is more land than Dr. Castro ever distributed under expropriation.

Betancourt is determined that, before the end of the 2 years of office which remains to him, he will have provided land for 150,000 families, or half of the 300,000 rural landless families.

The dramatic significance of even this small beginning in land reform is apparent when you pause to consider that in the sporadic guerrilla fighting now taking place in the Andean Mountains of Venezuela, it is the peasants who are bearing arms against the Castro-supplied and inspired guerrillas. Nowhere else will you find a comparable example of peasants voluntarily fighting to protect their land against Communist guerrillas.

If the lights go out in Venezuela, the hopes for democracy in Latin America will have been extinguished.

(3) The third country where concentration of effort must be applied is obviously Brazil. Brazil is like a gigantic suction pump in the heart of the continent. It can pull into its vortex of political and economic chaos the whole of Latin America. Brazil is at the peril point because of the revolutionary ferment in its misery-stricken northeast. For four centuries this region has been Brazil's "geography of hunger." This is the India of the Western Hemisphere. Here, 20 million landless, illiterate, diseased, hungry, and restless people—one-quarter of the population of Brazil—scratch a wretched existence out of subsistence agriculture. For generations, the chief export of the northeast has been its people. Today, in broken-down trucks, trudging on foot their few belongings bundled over their backs, you can see them swarming over the dusty roads into the nearby coastal cities, or to distant Rio de Janeiro and Sao Paulo. There they join the other denizens of squalor in the favellas of Brazil's festering slums—Castro's breeding grounds.

The peasants of the northeast are at the point of open rebellion against the great landlords. Their age-old despair has found an outlet in the "Peasant Leagues" whose leader, Francisco Julião, is a disciple of Dr. Castro. Jittery plantation owners have called in Federal troops. The Peking Chinese see in Brazil's northeast the ideal laboratory for their own brand of propaganda. Mao Tze Tung's writings translated into Portuguese have flooded the region. The Cuban brand of subversion is on the scene, too, with thousands of copies of Major Gueverra's book on "Guerrilla Warfare" along with 16-millimeter films on how to produce a Molotov cocktail. I am not, however, aware that the Declaration of Independence—the world's greatest revolutionary document—has been printed in Portuguese and is in competition with the false prophets of revolution.

The northeast of Brazil is the real testing ground for the Alliance for Progress. If the northeast explodes, Cuba will seem like a firecracker by comparison.

Writing in the April issue of Foreign Affairs the celebrated Brazilian sociologist, Gilberto Freyre, observes that, if the Alliance for Progress is to be effective in quieting the peasant unrest in the northeast, "it has to become a visible reality without much delay."

I am not at all certain that putting drinking fountains in town squares or stringing electric light bulbs on town streets or even bringing sewage facilities to a few towns in the interior—as we now contemplate doing—will produce the visible impact; supply the feeling of hope in a better future; buy some time for Brazil. These are the categorical imperatives we need to keep the roof from blowing off Brazil's hydrogen-gas filled house.

I would think a far more direct impact could be obtained (at, incidentally, infinitely less cost) by launching a massive campaign on illiteracy through the radio techniques successfully employed by Monsignor Salcedo in Colombia—"one of the most dramatic campaigns to overcome illiteracy in all the world."

If direct, visible impact is the objective, what better way to achieve it than by undertaking land redistribution in Brazil's blighted northeast? If our objective is to reach the people, why not proceed to do so directly by attempting to meet the hunger for land? How could we accomplish this?

A ready-made managerial and administrative device, with proven success in Europe and the United States, exists. It is the public authority. Celebrated examples are the Tennessee Valley Authority (TVA), the Port of New York Authority, and the Port of London Authority. Through this device, land could be acquired and financed without having to resort to expropriation. The authority—backed by U.S. funds—could guarantee that the cash and bond payment to the landowner will not so depreciate in value as to make the transaction uninteresting. In reality, this is the nub of the matter in getting landowners to sell. Many landowners have seen the handwriting on the wall. The shadow of expropriation haunts them. If there is an opportunity to sell out at a reasonable price, with assurance that ultimate payment will not be in "wall paper," obviously they would prefer the bird in hand to the one in Castro's bush.

The essence of this proposal turns on the use of the carrot and the stick. The local authority would offer to buy outright that portion of land which today lies idle. A condition of the purchase of the idle land would turn, however, on the landowner increasing the productivity of that portion retained. In this way, the landless would be given land; and by increasing the productivity of his own holdings, the landowner would add to the employment opportunities and the economic stability of his particular region.

As an independent body, the public authority would be removed from the political jealousies and bureaucratic overlapping of governmental ministries. (In Venezuela, for example, there are no less than 13 separate agencies involved in land redistribution.) The authority can place under one managerial roof the whole sweep of operations required for a balanced agricultural economy—low-interest, long-term credits for the purchase of land, homes, seed, fertilizer, tools; storage and marketing facilities; penetration roads; mechanized farm equipment pools; irrigation, sanitation, and water systems; schools and hospitals.

By utilizing the authority mechanism we can bring the Alliance for Progress directly to the people—something we are not doing where our relations are from bureaucracy to bureaucracy. It is our signal failure to reach the people that Professor Freyre believes we are repeating in Brazil the mistakes of our policy in pre-Communist China.

The public authority could be the means for involving in the planning process some of the business elite, the democratic political leaders of the left along with non-Communist trade union leadership.

Just as has happened in France where all sectors participate with government in establishing investment targets so, too, the public authority offers the opportunity of involvement in the process of planning for and the implementation of broad, social objectives.

Social change in Latin America will become a reality when all segments of the social and economic structure become deeply committed in the process of effecting social change. I am convinced from my discussions with responsible Latin Americans that we could begin this kind of involvement by utilizing the public authority mechanism. The missing ingredient is sponsorship of the idea by the United States.

If taking the initiative for putting a specific program into action is going to raise the old Latin American bugaboo, of "intervention" in the affairs of another state, it is high time to forget about the other "sovereign" state. Let it get its help elsewhere. Intervention is a convenient cloak behind which the oligarchy will conceal its own resistance to reforms. It has its convenience for the legion of timid men in the establishment who prefer inaction to political risks.

A great power intervenes in the affairs of other nations as much by what it does as by what it fails to do. Right now, we are guilty of a failure "to do."

The strategic interests of this Nation—and they are in the final reckoning the only interests that count—will no longer permit us to genuflect before a shopworn and threadbare policy, a mystique, if you please, which says you mustn't do what Americans have done for each other since the founding of the Republic—helping our neighbors to help themselves.

Those Latin American leaders who really believe in the Alliance for Progress will welcome with open arms and with heartfelt respect a posture on the part of the United States such as I have suggested. They would welcome this attitude because it is the only proper attitude for a great power to assume. Moreover, they know that is the only way that Latin America can be saved from itself.

Representative GRIFFITHS. It would alarm me to invest money in Latin America.

Mr. NEHEMKIS. We have shown far more confidence than you, Mrs. Griffiths, over the past decade.

Representative GRIFFITHS. You are taking a phenomenal risk, are you not?

Mr. NEHEMKIS. Of course, all investment overseas involves great courage in the use of stockholders' money, if you please.

Representative GRIFFITHS. In South America, perhaps, but not in Europe.

Representative GRIFFITHS. You may proceed, Mr. Rockefeller.

STATEMENT OF RODMAN C. ROCKEFELLER, VICE PRESIDENT AND DIRECTOR, INTERNATIONAL BASIC ECONOMY CORP., NEW YORK CITY

Mr. ROCKEFELLER. Madam Chairman and Mr. Curtis, in the interests of time, I would like to reduce my remarks somewhat from the published statement.

Representative GRIFFITHS. Your prepared statement will be inserted in the record following your oral presentation.

Mr. ROCKEFELLER. I am a vice president and director of the International Basic Economy Corp., of New York, which is an international development corporation founded in 1947 on the premise that American business techniques and know-how can help solve some of the problems in the basic economies of the underdeveloped nations. In general, we have found that our activities have resulted in effective social development, economic development, and in good business.

Madam Chairman, one cannot participate in this hearing and roundtable discussion without some words of congratulation on the excellence of this subcommittee's report on economic policies and programs in South America. This is an extremely timely analysis of the situation in which we find ourselves.

The questions raised directly about the Alliance for Progress are particularly pertinent, and our Government would do well to look to their solution.

Surely the subcommittee and its staff deserve credit for this work.

A group of private businessmen, of which I was one, were privileged to attend the first Punta del Este conference and to observe the birth of the Alliance for Progress. We were deeply impressed by the dedication of the Government officials present, by the lofty aims of the charter, and by the magnitude of the goals set forth.

Our Government is signatory, with 19 other governments, to a gigantic economic, social, and political joint venture, which, if it succeeds, will go down in history as a unique contribution to mankind; and if it fails, will result in political upheaval throughout Latin America and impair our national security perhaps irreparably. This is of concern to every man in this country.

I would like to explore for a moment the basic elements of the development program which we are undertaking.

Prof. Raymond Mikesell, of the University of Oregon, stated in his 1959 report, "Problems of Latin American Economic Development":

> For Latin America the basic determinants of growth are the level of investment and the complex of conditions which make for increases in productivity.

Translating these into more general terms, these two themes of mobilization of capital and planning of the investment of this capital dominate all discussion of investment. These are the two themes of the Alliance for Progress.

What has been the experience of the Alliance in the successful beginning of planning and of mobilization? To date, from outside appearances, it seems that we have concentrated on the creation of a centralized U.S. Government bureaucracy and on struggle of this bureaucracy to push out $1 billion in loans in the first year of the Alliance.

The immediate results seem to have been much recrimination in Latin America at the slowness with which the money is flowing, and an almost complete lack of understanding on their part of their role in this joint venture.

It would seem to be time to stop and take stock of our program for a moment. We are playing for huge stakes in any terms, be it money, human values, or national security.

Have we adequately defined the spiritual, political, and economic resources which are available to us? Are we, as a people, using the total resources available to insure the attaining of the goals of the Alliance?

To date we have committed our Government and our tax dollars to the struggle for the attainment of the goals of the Alliance. We have created goals that are worthy of the greatest effort all people in the Americas are capable of, and then we have said that one Government agency dispensing dollars in massive doses to other Government agencies can do the job.

We have not committed our greater resources, our private values, leadership, skills, and capital.

Even more important, we have not asked the people for whom all this is to be done and in whose name we all strive to participate in an active sense. Rather, in a very real sense, they are to be fed the development.

Let us turn to our own tradition, our own experience with economic, social, and political development. Surely these lessons and principles are applicable to Latin America.

Our development has occurred within a framework of law and a concept of value that states that the benefits of development are real only if they accrue to the individual.

We have found that the means to this end is local, active participation by the citizen with his fellow citizens, and the Government, in solving the problems of development. This joint effort may vary in size and scope from the local school board or planning board to the great regional authorities.

One can cite such recent outstanding examples of public and private collaboration as the redevelopment of the Golden Triangle in Pittsburgh, the building of the St. Lawrence Waterway, and the current urban renewal programs right here in Washington.

Looking back into our history, in a very real sense our prairie States were settled on this basis. Here the National Homestead Act resulted in the setting of the stage for private initiative.

The ironic fact is that we have had successful but largely overlooked experience applying these principles to the development of Latin America.

During World War II, the Office of the Coordinator of Inter-American Affairs was set up under similar circumstances to accomplish many of the same goals, although on a more modest scale. According to the official history of this agency, for 6 years it was responsible for the maintenance of financial stability of the Latin American governments, for the reorganization and development of their transportation systems, for management of joint development programs for each country in education, health, and sanitation, and for the creation of economic development programs in each country.

All this was done by a staff which never exceeded 1,100 persons, and by means of a 6 year total expenditure of only $140 million.

The secret was the use of joint efforts. Every possible use was made of Latin American governments, private American citizens, U.S. private institutions, and private Latin American groups. All development work was planned and executed jointly, in the specific country, by jointly operated, jointly financed servicios, boards, and institutions.

At no time could it be said that the United States was dictating policy or refusing aid on the basis of inadequate plans. Cooperation, participation, and joint planning created political allies and resulted in successful development.

Planning and development are not just the concern of goverments. At Punta del Este the U.S. Government pledged $20 billion over the next 10 years toward the achievement of the goals of the Alliance. It is now said this represents perhaps 10 percent of the capital needed.

Where is the remainder to come from? Over and over again, officials of AID have stated they expect local and foreign private capital investment to fill much of this gap. There is a good chance this can be done. I believe it should be done. But it will never happen by itself.

Representative GRIFFITHS. May I interrupt you just a moment?

I would like to express my appreciation to all of you. I think that you present a good case. It is very kind of you to come here and to give us your views. Thank you for your cooperation.

And now I have to leave, and Mr. Curtis is going to take over the committee.

Thank you very much.

Representative CURTIS (presiding). Go ahead, Mr. Rockefeller.

Mr. ROCKEFELLER. Net foreign investment capital in South America has been falling for several years. My colleagues have cited statistics in this connection. We are told that over $3 billion of South American flight capital is in New York and Switzerland.

If the private sector is going to be counted on for a major contribution to the Alliance for Progress, it is going to have to be taken into the Alliance on the basis of equality, and included in the planning programs at every level of development.

Only on this basis will we be able to overcome the fears of the private sector that it is the forgotten man of the Alliance for Progress.

It has recently been suggested that private planning can and should be instituted on a formally organized basis in the individual Latin American country. Such a revolutionary concept would elevate private business, labor, and nonprofit groups from their present passive state of being planned for, being directed, and being developed, to an active state of participation in the initiative for the future. This participation opens all sorts of possibilities for the solution of problems now nagging the Alliance.

It will automatically produce greater public awareness and acceptance of the Alliance and its goals. It will provide the sorely lacking human talent for planning and administration, and it will encourage the vital inflow of investment capital.

I would like to submit for the record, with the permission of the chairman, a condensation of a speech by Prof. Alfred De Grazzia of New York University, delivered to the North American Association in Caracas, Venezuela, in March 1961. This clear challenge to the private sector to assume an active role in development is worthy of our study as possible future policy.

I would like to close with several recommendations for action which would serve to develop private participation in the Alliance for Progress.

Representative CURTIS. Mr. Rockefeller, would you like to have that speech here, or at the end of your remarks?

Mr. ROCKEFELLER. I have it, sir, in summary, two-page fashion.

Representative CURTIS. Without objection, it will be inserted at the close of your remarks.

Mr. ROCKEFELLER. Thank you.

I would like to close with several recommendations for action, which would serve to develop private participation in the Alliance for Progress. I would like to recommend:

That it be the declared policy of the Alliance for Progress that the end beneficiary of the planned development be the individual, and that private resources in each of our nations be utilized to the maximum possible in the course of the planned development.

That the U.S. Government declare it our policy to foster the creation of regional, joint public-private planning and development authorities in each Latin country, on which private citizens and groups could be represented and through which the private sector could actively participate in the national development.

That this subcommittee study the possibility and advisability of assigning roles in the overall Alliance development process to private institutions in each country and the United States, as well as to the governments involved.

In the field of mobilization of capital, it is apparent that the United States will be the largest outside association. However, development will require an ever-increasing share from the countries themselves.

The field of housing has been selected for particular attention by the Alliance program. Solution of the staggering housing problem in Latin America will require the utilization of enormous quantities of capital. This can be immediately accelerated by U.S. long-term funds and possibly accomplished in the long run through mobilization of local capital by the enactment of two current pieces of legislation and by the creation of a new type of international agency.

I recommend passage of the so-called Smathers bill, amending the Federal Home Loan Bank Act and the Home Owners Loan Act of 1933, to allow U.S. Federal savings and loan associations to invest in foreign mortgages under the proper safeguards and to create an International Home Loan Bank for that purpose. The passage of this bill will stimulate the creation of local savings and loan associations, provide those presently active with needed new funds, and allow a unique program of private economic and social development at no cost to the American people.

I recommend modification of section 221 and 224 of the Act for International Development of 1961, so that the all-risk guarantees contained in these sections would cover all of a specific portion of the investment exposure rather than the present requirement that it cover an undivided 75 percent of the exposure.

This change would enable U.S. long-term funds to invest in foreign mortgages arising from low-cost housing projects in Latin America. Presently, the required undivided 25 percent risk that is not guaranteed appears to preclude fiduciary funds, such as labor welfare funds, from investing.

Lastly, I would like to recommend the creation of an international housing finance institution, to offer the security of an international guarantee to local savings accounts and local mortgages arising from the low-cost housing programs of the Alliance.

I wish to submit in this connection a recently written paper prepared by IBEC and a recent speech made by Mr. William Butler, vice president of the Chase Manhattan Bank. I have copies of both of those, sir.

The creation of such an institution would enable local capital to save and invest in long-term securities, thus mobilizing local mortgage money in significant volume.

Today I sincerely believe that the full resources of the private talent and capital of this Nation and of the Latin nations are available to fulfill the goals of the Alliance for Progress.

Planning and mobilization of capital cannot be only governmental affairs. Apart from all other considerations, there is not enough capital or enough talent to be found in the governmental sector to do the job. Our basic political traditions, which this Alliance is designed to protect, demand that every man participate. Harnessing our spiritual, political, and economic forces, we can accomplish the job.

Representative CURTIS. Thank you very much, Mr. Rockefeller. And may I extend my personal appreciation to the panel for their very fine contribution to this study.

Let me say also that the absence of the members of the committee should in no sense be interpreted as any lack of interest of the committee members. Unfortunately, we are running three- and four-ring circuses here. Senator Sparkman, who had fully intended to be here, is chairing the Foreign Relations Committee, due to a temporary illness of Senator Fulbright, and Mrs. Griffiths and I, being on the Ways and Means Committee, are actually writing up the Reciprocal Trade Act at this time.

The main function of the hearing—I know you gentlemen are aware of it—is to create a record, which will be published; and this written hearing will be gone over by our staff and the members, as well as students throughout the country. It is the record that we are primarily concerned about.

In line with that, you do have the papers and speech of Mr. William Butler that you referred to?

Mr. ROCKEFELLER. Yes, sir.

Representative CURTIS. Without objection, I would request that you give them to the reporter to be included in the record.

(Mr. Rockefeller's full statement and papers previously referred to follow except for the paper by IBEC which will be included as appendix E.)

Mr. Chairman, distinguished committee members, my name is Rodman C. Rockefeller, and I am a vice president and director of the International Basic Economy Corp. of New York. IBEC is an international development corporation founded in 1947 by Nelson Rockefeller on the premise that American business techniques and know-how can help solve some of the problems in the basic economies of the underveloped nations.

In the 14 years since that time IBEC has had some success in this endeavor and has been able to make a number of profitable investments, largely in Latin America, which have resulted in an improvement in the living conditions of the peoples affected. The company has been active in developing supermarkets and the concept of large volume low-markup sales—we are proud to have been associated with Sears Roebuck in this regard. Today, we own or manage 31 markets in 4 countries. In addition, we are active in the production of pasteurized milk, hybrid chickens, and hybrid corn. Our stockholders and our consumers both benefit from these activities.

The company has exported the American concept of mutual investment funds, offering the Latin general public an opportunity to participate in the economic growth of their country for the first time. Today we have four funds in operation. The potentials for mobilization of investment capital and democratizing the ownership of private industry are apparent.

We are active in the construction of low-cost homes and will complete our ten-thousandth home this fall in Puerto Rico. Currently we are building there, as well as in Chile and Peru, and we are anxious to expand in Latin America. In general, we have found that these activities have resulted in effective social development, economic development, and in good business.

Mr. Chairman, one cannot participate in this hearing and roundtable discussion without some words of congratulation on the excellence of this subcommittee's "Report on Economic Policies and Programs in South America." This is an extremely timely, cogent, and penetrating analysis of the situation we find ourselves in. The questions raised directly about the Alliance for Progress are particularly pertinent, and our Government would do well to look to their solution. Surely the subcommittee and its staff deserves credit for this work.

Today we in North America are deeply concerned about the development of Latin America. We are concerned as individuals and as a government for several reasons. First, our national security is directly at stake. Geographically we are vulnerable to attack if these areas are not in friendly hands and our national industrial effort is dependent on a number of vital imports from Latin America. Secondly, our neighbors to the south are some of our best trading partners which we can ill afford to lose in our drive for greater trade. Lastly and most fundamentally, our Western Judeo-Christian belief in the dignity and worth of the individual will not allow us to sit idle while poverty and suffering continue so near.

The development, which we desire to assist our friends to the south in attaining, must be an integrated development. It must be an economic, social, political, and spiritual development for they are inseparable and mutually dependent. It was gratifying to see this point made several times in the subcommittee report, for I believe today in some circles there is a tendency to compartmentalized thinking and a failure to realize the complex nature of true development. For instance, not much is heard nowadays about the social impact of private investment. By the same token the economic value of social investment must not be overlooked. To do so is to risk superficial planning, distorted political centralism, and developmental failure.

A group of private businessmen, of which I was one, was privileged to attend the first Punta del Este Conference and to observe the birth of the Alliance for Progress. We were deeply impressed by the dedication of the government officials present, by the lofty aims of the charter and by the magnitude of the goals set forth. Our Government is signatory with 19 other governments to a gigantic economic, social, and political joint venture which, if it succeeds, will go down in histsory as a unique contribution to mankind, and if it fails, will result in political upheaval throughout Latin America and impair our national security—perhaps irreparably. This is of concern to every man in this country.

I would like to explore for a moment the basic elements of the development program which we are undertaking. Raymond Mikesell of the University of Oregon stated in his 1959 report "Problems of Latin American Economic Development":

"For Latin America * * * the basic determinants of growth are the level of investment and the complex of conditions which make for increases in productivity."

Translated into more general terms, these two themes of mobilization of capital and planning of the investment of this capital dominate all discussion of development. These are the twin themes of the Alliance for Progress.

What has been the experience of the Alliance in the successful beginning of planning and of mobilization? To date, from outside appearances, we have concentrated on the creation of a centralized U.S. Government bureaucracy, and on the struggle of this bureaucracy to push out $1 billion in the first year of the Alliance. The immediate result seems to have been much recrimination in Latin America at the slowness with which the money started flowing and almost complete lack of understanding on their part of their role in this joint venture. As predicted in the subcommittee report, the Alliance has fallen into the political trap of allowing the Latin governments to force our agency into making budgetary loans rather than planned development loans. Already our Government is caught in the dilemma of insulting the Latin governments or compromising the principles of the Alliance.

It would seem to be time to stop and take stock of our program for a moment. We are playing for huge stakes, in any terms, be it money, human values, or national security.

Have we adequately defined the spiritual, political, and economic resources which are available to us?

Are we, as a people, using the total resources available to insure the attaining of the goals of the Alliance?

To date we have committed our Government and our tax dollars to the struggle for the attainment of the goals of the Alliance. We have created goals that are worthy of the greatest effort all people in the Americas are capable of, and then have said that one Government agency, dispensing dollars in the massive doses to other Government agencies, can do the job. We have not committed our greater resources, our private values, leadership, skills, and capital. Even more important we have not asked the people, for whom all this is to be done and in whose name we all strive, to participate in an active sense. Rather, in a very real sense, they are to be fed the development.

Let us turn to our own tradition, our own experience at economic, social, and political development. Surely these lessons and principles are applicable to Latin America. Our development has occurred within a framework of law and a concept of value that states that the benefits of development are real only if they accrue to the individual. We have found that the means to this end is local, active participation by the citizen with his fellow citizens and the Government in solving the problems of development. This joint effort may vary in size and scope from the local school board or planning board to the great regional authorities. One can cite such recent outstanding examples of public and private collaboration as the redevelopment of the Golden Triangle in Pittsburgh, the building of the St. Lawrence Waterway, and current urban renewal programs right here in Washington. Looking back into our history, in a very real sense, our Prairie States were settled on this basis. Here the National Homestead Act resulted in setting the stage for private initiative.

The ironic fact is that we have had successful but largely overlooked experience applying these principles to the development of Latin America. During World War II the Office of the Coordinator of Inter-American Affairs was set up under similar circumstances to the present situation to accomplish many of the same goals, although on a more modest scale. According to the official history of this agency, for 6 years it was responsible for the maintenance of financial stability of the Latin governments the reorganization and development of their transportation systems, management of joint development programs for each country in education, health, and sanitation, and the creation of economic development programs in each country. All this was done by a staff which never exceeded 1,100, and by means of a 6-year total expenditure of only $140 million. The secret was the use of joint efforts. Every possible use was made of Latin governments, private U.S. citizens, U.S. corporations and institutions, and private Latin American groups. All development work was planned and executed jointly in the specific country by jointly operated, jointly financed "Servicios," boards and institutions. At no time could it be said that the United States was dictating policy or refusing aid on the basis of inadequate plans. Cooperation, participation, and joint planning created political allies and resulted in successful development.

Planning and development are not just the concern of Governments. At Punta del Este the U.S. Government pledged $20 billion over 10 years toward the achievement of the goals of the Alliance. It is now said this represents 10 percent of the capital needed. Where is the remainder to come from? Over and over again officials of AID have stated they expect local and foreign private capital investment to fill much of this gap. There is a good chance that this can be done (I believe it should be done) but it will never happen by itself.

Net foreign capital investment in Latin American has been falling for several years. We are told that over $3 billion of South American flight capital is in New York and Switzerland. If the private sector is going to be counted on for a major contribution to the Alliance for Progress it is going to have to be taken into the Alliance on the basis of equality, and included in the planning programs at each level of development. Only on this basis will we be able to overcome the fears of the private sector that it is the forgotten man of the Alliance for Progress.

It has recently been suggested in several quarters that private planning can and should be instituted on a formally organized basis in the individual Latin country. Such a revolutionary concept would elevate private business, labor, and nonprofit groups from their present passive state of being planned for, being directed, and being developed to an active state of participation in the initiative for the future. This participation opens all sorts of possibilities for the solution of problems now nagging the Alliance. It will automatically produce greater public awareness and acceptance of the Alliance and its goals. It will provide the sorely lacking human talent for planning and administration and it will encourage the vital inflow of investment capital. I would like to submit for the record a condensation of a speech by Prof. Alfred De Grazia of New York University, delivered to the North American Association in Caracas, Venezuela, on March 27, 1961. This clear challenge to the private sector to assume an active role in development is worthy of our study as possible future policy.

I would like to close with several recommendations for action, which would serve to develop private participation in the Alliance for Progress.

1. That it be the declared policy of the Alliance for Progress that the end beneficiary of the planned development be the individual, and that private resources in each of our Nations be utilized to the maximum possible in the course of the planned development.

2. That the U.S. Government declare it our policy to foster the creation of regional, joint public-private planning and development authorities in each Latin country, on which private citizens and groups could be represented and through which the private sector could actively participate in the national development.

3. That the U.S. Government agencies concerned with the Alliance create one or more such U.S. bodies as advisers to the agencies and use them both in the formulation of plans and as a channel for bringing U.S. private capital into Latin American development.

4. That this subcommittee study the possibility and advisability of assigning roles in the overall Alliance development process to private institutions in each country and the United States, as well as to the governments involved.

5. In the field of mobilization of capital, it is apparent that the United States will be the largest outside source. However, development will require an ever-increasing share from the countries themselves. The field of housing has been selected for particular attention by the Alliance program. Solution of the staggering housing problem in Latin America will require the mobilization of enormous quantities of capital. This can be immediately accelerated by U.S. long-term funds and possibly accomplished in the long run by the enactment of two current pieces of legislation and by the creation of a new type of international agency.

(*a*) I recommend passage of the so-called Smather bill amending the Federal Home Loan Bank Act and the Home Owners Loan Act of 1933 to allow U.S. Federal savings and loan associations to invest in foreign mortgages under the proper safeguards and to create an International Home Loan Bank for that purpose. The passage of this bill will stimulate the creation of local savings and loan associations, provide those presently active with needed new funds, and allow a unique program of private economic and social development at no cost to the American people.

(*b*) I recommend modification of sections 221 and 224 of the Act for International Development of 1961 so that the all-risk guarantees contained in these sections would cover all of a specific portion of the investment exposure rather than the present requirement that it cover an undivided 75 percent of the exposure. This change would enable U.S. long-term funds to invest in foreign mortgages arising from low-cost housing projects in Latin America. Presently, the required undivided 25 percent risk that is not guaranteed precludes fiduciary funds, such as labor welfare funds, from investing.

(*c*) I recommend the creation of an international housing finance institution to offer the security of an international guaranty to local savings accounts and local mortgages arising from the low-cost housing program of the Alliance. I wish to submit in this connection a recently written paper prepared by IBEC and a recent speech made by Mr. William Butler, vice president of the Chase Manhattan Bank.[1] The creation of such an institution would enable local capital to save and invest in long-term securities, thus mobilizing local mortgage money in significant volume.

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[1] The paper prepared by IBEC appears as app. E, at the end of the hearing. Mr. Butler's speech is included after this statement (pp. 69–73).

Today, I sincerely believe that the full resources of the private talent and capital of this Nation and of the Latin nations are available to fulfill the goals of the Alliance for Progress. Planning and mobilization of capital cannot be only governmental affairs. Apart from all other considerations, there isn't enough capital or enough talent to be found in the governmental sector to do the job. Our basic political traditions, which this Alliance is designed to protect, demand that every man participate. Harnessing our spiritual, political, and economic forces, we can get the job done.

HOUSING IN LATIN AMERICA—ITS PRESENT STATUS AND HOW TO IMPROVE IT

(An address by William F. Butler, vice president, the Chase Manhattan Bank at the Latin American Housing Symposium, the Chase Manhattan Bank, New York, N.Y., April 3, 1962)

I take it that my function today is to help set the scene by giving you a brief review of some of the economic factors which are pertinent in considering the manifold problems of elevating housing standards in Latin America. Thus, I propose to consider the following questions:

(1) What are the key economic principles governing housing in any economy?

(2) What are the general dimensions of the Latin American housing problem?

(3) What progress is now being made in dealing with the area's housing problem?

(4) What could be done to meet the need for better housing in a more efficient and expeditious manner?

The provision of adequate housing is one of the foremost economic problems of any society. The list of basic economic wants begins with food, clothing, and shelter. It has become a goal of free societies to provide individuals with minimum standards in these necessities of life, together with opportunities and incentives to do better than the minimum.

As such, housing falls into the category of important economic problems to which the approach cannot be entirely economic. The standard of housing a society provides, reflects its inner character in many ways. Poor housing—slums, to be blunt—can breed many social problems. It is, for instance, peculiarly difficult to provide adequate educational opportunities for children of the slums. Political stability, and the progress toward political maturity, can be affected intimately by housing conditions. A man's home is his castle. As such, its condition has a great deal to do with his dignity as a human being, with his outlook on the society in which he dwells, and with the selection of the politicians for whom he votes. Thus, a modern society needs to pay attention to housing conditions, and should work to improve them.

Having recognized all this, let me proceed to a discussion of some of the basic economic factors influencing the condition of housing in any economy. Economic factors, while not all-important as I have indicated, are certainly very important. I believe that in the economy with which I have the most experience, we would have better housing today if we had paid more attention to economic factors and less to other considerations.

In any case, consider some of the elemental facts about housing:

(1) Housing is expensive in relation to the other things the average family buys. The purchase of a home is the biggest single commitment most families ever make. Or if a family rents, the monthly payment is often as large or larger than the outlay for food.

(2) A house lasts, or should last, a very long time. Its average useful life is at least five times, and frequently a larger multiple, of that of an automobile.

(3) Thus, the housing in existence is regarded as a capital asset, and the annual addition to the stock of housing is a part of an economy's investment. All investment has to be financed, in one way or another, from savings.

(4) Housing is a very important part of a modern economy's capital assets, and homebuilding is a very important part of each year's new investment. More than one-fourth of the national wealth of the United States consists of its housing—in fact, the value of housing in existence about equals the value of all capital assets in use by business. Each year's investment in new residential construction equals a fifth to a fourth of all domestic investment. To look at it from the other side, housing absorbs 20–25 percent of domestic savings. These numbers are based on experience in the United States over most of the past

century, but fragmentary evidence indicates that they give a general idea of the relative importance of housing in the rest of the hemisphere.

(5) There are several other important features of housing which should be noted briefly, some of which stem from the above characteristics:

The level of interest rates has a greater bearing on investment in housing than on investment in assets with shorter lives;

Investment in housing is to some extent competitive with investment in business plant and equipment and Government investment in education, roads, and other public works. Assuming a given rate of saving, a decision to increase housing investment would require a reduction in the rate of investment in these other areas, with possibly adverse effects on the rate of advance of the overall economy. If savings can be increased, then a greater housing effort can be financed without cutting back other areas of investment.

Most of the materials and the labor going into residential construction are available locally, so that housing imposes far less pressure on the balance of payments than other types of investment.

DIMENSIONS OF THE PROBLEM

Now these are all fine generalizations. But as someone said, all generalizations are wrong—including this one. Nevertheless, it seems to me that these general principles have some practical applications in considering the problems of Latin American housing.

They help, first, in getting some idea of the dimensions of the housing problem in Latin America. Let me point out at the outset that we are not embarrassed by any very significant quantity of factual knowledge. Thus, most of the statistics I will present represent very crude estimates based on entirely inadequate data. I do not apologize for these estimates—in fact I would have to term them superb. But, seriously, I should warn you that the seemingly precise numbers I am about to impose on you are no more than educated guesses. At best they serve to indicate general orders of magnitude. With these caveats, which I shall not repeat as often as I should, let's consider the general dimensions of the Latin American housing problem.

Some 90 million people now live in urban areas in Latin America. I shall direct most of my attention at the housing problem in urban and suburban areas since I believe this is where the major effort is needed. I assume an average of five persons to a housing unit (if this seems out of line, remember that the figure for the United States is a little over three). Thus, the 90 million people in Latin American urban areas live in 18 million housing units. There are varying, and probably not very good, estimates as to the conditions of existing housing. However, even to replace the least attractive one-fourth of this total would involve building 4½ million units. This is not a problem unique to Latin America—a 1960 census rated 19 percent of U.S. housing units as substandard and another 8 percent as deteriorating. Estimates of the desirable amount of rebuilding in Latin American cities would run up to 12 to 14 million housing units.

This, then, is one dimension of the problem—a vast need to improve existing housing standards. At a low estimate of $2,500 per unit, a total investment of $10 to $30 billion is involved.

A second dimension is provided by the need to accommodate the increasing numbers of people living in cities. Latin America has the fastest rate of population growth of any major area in the world. In addition, people are moving off the farms into the cities in vast numbers. Thus, the urban population has been growing 5 percent per annum. This means that almost a million new homes must be built each year to keep pace with the growth in the urban population.

In this manner, it is possible to calculate a need for as many as 1½ million new housing units a year in the near future—half a million to replace substandard units and another million to match population growth. At an assumed average cost of $2,500 per unit, the total annual investment would be $3¾ to $4 billion.

PRESENT PERFORMANCE

While there are no good estimates, an informed guess based on fragmentary data would be that the Latin American Republics are now investing about $2 billion per annum in residential construction and putting up perhaps three-quarters of a million new units a year. Thus, something like a doubling of the current rate of homebuilding would be required to make reasonably good progress toward the objective of increasing housing standards.

What would be involved in attempting to double the scale of the existing housing effort? Obviously, it could not be done quickly, for it takes time to train workers, expand building materials output and, perhaps most importantly, increase the number of capable contractors.

At the same time, a substantial increase in savings, or a substantial diversion of investment funds from other uses to housing would be required. Gross capital investment, public and private, is probably running at an annual rate of around $10 billion in the area. Residential construction now accounts for about one-fifth of all investment. It also makes up about 3 percent or perhaps a bit more of the area's total production of goods and services.

These would appear to be reasonably high ratios, indicating that Latin America is already making an effort in the housing field that is comparable in relative terms with that in other areas of the world. While conditions are, of course, very different, it is interesting that during the past 90 years U.S. investment in housing has averaged less than 20 percent of capital formation and about 4 percent of gross national product. These ratios were somewhat higher in the early decades of the period—around one-fourth of total capital investment and 6 percent of gross national product.

Consequently, it would seem to be difficult, and probably unwise, to try to increase the housing effort in Latin America by diverting resources from other forms of investment. To do so would be to reduce the overall growth of the area's output, which would work to the detriment of housing in the longer run.

To my mind, the best, and perhaps the only practical way to improve housing conditions is to increase the area's total flow of savings and investment, which is an important prerequisite for increasing its overall rate of economic growth. If general economic growth is proceeding at, say 2½ percent per person per year, then housing standards can be improved substantially by investing around 5 percent of total production in new residential construction. In such a situation, housing would constitute between a fifth and a fourth of total capital investment.

All of this may appear obvious. Yet I believe it to be very important and it seems to me that a failure to understand these basic economic principles has led to a confusion in our thinking about the housing situation and to some operating decisions which have been positively wrong. The real problem is to increase the flow of savings in Latin America and to channel a fifth to a fourth of that flow into housing.

I do not believe outside assistance can be counted on to support any appreciable part of the direct financing of Latin American housing. The dimensions and the risks are too great—I cannot conceive of any flow of capital from abroad which would fill more than a minor part of the need, short of Government guarantees which are not likely to be forthcoming. Nor do I believe it would be wise to induce a large flow of capital from this country into Latin American housing by means of subsidies or guarantees. I take it to be true that no one is more unpopular than a mortgage holder, unless he be a landlord. For these and other cogent reasons, I believe housing should be financed most importantly out of local savings. Thus, I come back to the proposition that the problem is one of increasing savings in Latin America.

CAN SAVINGS BE INCREASED?

One of the many economic myths is that savings cannot be increased. All of economic history supports the proposition that the flow of savings can be enlarged, and that this is part and parcel of the growth process.

To appreciate the potential increase in savings which could be achieved in Latin America and it impact on housing, it is necessary to depart from the conveniently broad averages I have been using and look at the problem in somewhat more realistic terms. Average income per person in Latin America works out to around $300 per year. This figure has been used to support the argument that savings cannot be adequate to finance better housing. However, averages can be quite misleading, as is shown by the story of the fellow with his head in the furnace and his feet in the deepfreeze, who on the average felt fine.

Since per capita income in farming is well below the average, per capita income in cities is well above the $300 a year figure. The average income per person living in urban areas may be as high as $500 to $550 a year. But this, too, can be a misleading figure. To get at the housing market, one needs some idea as to the distribution of income. Such information is exceedingly hard to come by. However, the following tentative observations seem to flow out of what we do know:

(1) If average per capita income is $500 to $550 a year, then average family income is higher, simply because there are five persons in the average family.

(2) A middle-income group is growing in size and relative importance, in part because many families have two or more members with jobs.

(3) As a result, the number of families who could afford better housing is quite impressive.

As illustrative figures, the following rough estimates might be in the general range which is useful for planning purposes. Of the 18 million families living in urban areas: 6 million may have annual incomes of $500 or less and can afford to pay no more than about $12.50 a month for housing; 5 million may have annual incomes of $500 to $1,000 and can afford to pay up to about $20 a month for housing; 5 million may have annual incomes of $1,000 to $4,000 and can afford to pay $20 to $65 a month for housing—these families could buy a house costing $2,400 to $7,800.

At least 2 million famlies have annual incomes in excess of $4,000—in many nations the average income in this group is quite high.

If one assumes that the private housing industry can build homes to sell for as little as $2,000 and that financing can be arranged under reasonable terms, then at least half, and probably a higher proportion, of these families could afford to buy or rent a new privately built home.

All of this serves to emphasize the fact that there are many aspects to the housing problem. It is not just a problem of dealing with slums, important though that may be. It is really a problem of providing the different sorts of housing which fit the situation that prevails in the area. Thus, there is a place for subsidized housing for low-income groups in cities, self-help housing for low-income groups, cooperative and medium and higher cost private housing.

In realistic terms, private enterprise must handle the great bulk of the effort. If governments were to set out to provide an additional 1 million housing units a year, government expenditures would rise by at least $2½ billion a year, or about one-fifth. There would appear to be little chance of raising that amount of money by increasing taxes, selling bonds to the public or borrowing abroad. Thus, the result would be highly inflationary. Moreover, there is no reason why governments need use their limited resources to meet all housing requirements if private savings can be mobilized and channeled into housing.

FINANCIAL PROBLEMS

The problem is to develop a financial mechanism which will support the growth of the private housing industry. While progress has been made in promoting savings institutions and mortgage lending in many Latin American nations, two broad problems have held back development:

> In many nations inflation, combined with artificially low interest rates, has discouraged saving through institutions;
>
> The credit risks involved in mortgage lending have been high, with the result that mortgage terms have been rigorous and losses on the part of savers have been high.

It is extremely difficult to develop a mechanism of saving through mortgage institutions in an atmosphere of inflation. In theory, both the return to the saver and the payments by the mortgagee could be linked to an escalator clause—I am told that this has been done in Chile. However, serious inequities and risks could result in practice—if, for example, the income of a particular mortgagee happened to lag behind the general inflation, he might be forced into default.

In my judgment, this is one of the many good reasons why developing economies must create the discipline required to avoid inflation. Experience around the world shows that price stability can be achieved by appropriate national economic policies. Nations which have pursued these policies intelligently have experienced the most rapid economic growth. The policies required for growth without inflation call for balanced government budgets and an appropriate rate of growth in the money supply. I appreciate that certain political problems are involved—for some reason it seems easier to get approval for government expenditure programs than for the tax increases required to pay for them.

Yet it seems to me that the general development of any economy, and housing development in particular, can proceed in a satisfactory manner in the years ahead only if inflation can be contained. However, I would go so far as to say that policies to end inflation would do more to encourage housing in Latin America than any specific housing measures which can be devised.

GUARANTEE PROGRAMS

In attacking the second financial problem relating to housing finance—that of the risks involved—it seems to me that the guarantee device could be used to great advantage. I have in mind the sort of mortgage insurance provided by the Federal Housing Administration and the Veterans' Administration in this country. Obviously, the procedures would have to be modified to adapt such a program to Latin American conditions. I will not attempt to spell out in detail the manner in which such a guarantee program could be worked out—to do so would be to go beyond my field of competence. As I have explained in relation to other broad problems, I advise on policy—these are operating matters.

However, I would like to sketch the general outlines which I believe could be followed in developing a mortgage insurance program for Latin America. A central institution would be formed which might be called the Latin American Housing Association. It might usefully be a part of the Inter-American Development Bank, or a subsidiary of that Bank. This housing association would have three functions:

(1) It would set standards for housing construction and financing, with due appreciation of differences in local conditions;

(2) It would insure for a fee approved mortgage loans up to a percentage of their face value, though the lender would have to take at least 10 percent and perhaps more of the risk;

(3) It would develop a secondary market in insured mortgages to smooth out short-term swings in the flows of mortgage money and increase the liquidity of mortgage investment.

A program would have to be worked out for local participation in the Latin American Housing Association. In general, commercial banks, insurance companies, other private savings institutions, and perhaps even government pension funds could qualify by agreeing to observe certain standards in mortgage lending and perhaps by purchasing a small amount of stock in the association. They could originate mortgages which the association would guarantee if its standards were met. The problem of inflation would have to be faced—through local government exchange guarantees and escalator clauses, or more hopefully through measures to contain inflationary pressures.

The capital of the Latin American Housing Association would be supplied by the members of the Inter-American Development Bank, plus any subscriptions from participating mortgage lending institutions. Its income from mortgage insurance fees could be set to cover losses over a period of time.

BENEFITS OF A GUARANTEE PROGRAM

I would not argue that such a program would produce dramatic results in the near future—if one wants a dramatic and quick impact, the answer is subsidized public housing placed atop a hill for all to see. Such housing is likely to make little contribution to the longer term problem, and may well do more social and economic damage than it does good.

I would argue that a realistic program for mortgage guarantees could make a substantial contribution to Latin American housing in the decade ahead. It would, particularly if inflation can be conquered, encourage the flow of individual savings into mortgages, in large part through institutions. It would encourage the development of new institutions to attract savings and channel them into mortgages. It could lead to substantial benefits to the home buyer in the form of lower downpayments, reduced interest rates, and longer terms. It would minimize pressures on overburdened government budgets. It would help provide the flow of mortgage financing necessary to support larger scale building operations on the part of contractors.

I would also think that such a guarantee mechanism would serve to direct assistance from the United States into constructive pursuits. U.S. Government funds could help set up and support the Latin American Housing Association. Useful technical assistance could be provided out of this country's experience in the field of housing insurance and finance. It could be argued that the FHA and VA housing programs represent our most successful attempts to use Government powers to stimulate private enterprise in a specific field. U.S. private investment on the part of insurance companies, commercial banks, and savings and loan associations could flow into similar enterprises in Latin America, hopefully in partnership with local investors. By the same token, U.S. builders and manufacturers of building materials would find more attractive opportunities in Latin America.

HOUSING PROGRESS

I have devoted a considerable amount of time to the question of financing, not because I think it is the sole answer to the problem of Latin American housing, but because I believe it is an essential prerequisite to progress in dealing with other important facets of the problem. For example, mass production methods in housing, or development and use of new materials, are not likely to proceed rapidly unless financing can be made available.

As a final note, I should like to stress again the importance to housing of achieving a good rate of general economic growth and development without inflation. It is extremely difficult, if not impossible, to raise housing standards in an atmosphere of inflation and lagging economic growth. But a rapidly developing economy, in which savers have confidence in the integrity of the currency, will see substantial progress in housing, as in other fields.

THE FUTURE OF AMERICAN ENTERPRISE ABROAD

(Summary of remarks to a meeting of American businessmen in Venezuela, on March 27, 1961, by Alfred De Grazia, professor of government at New York University, editor, American Behavioral Scientist)

I have been concerned in my studies, my magazine, consulting work, and teaching with finding out what a group of people want and how they can plan to get it, especially when it is connected with the government process. Sometimes the job of finding out what they want becomes a matter of telling them what they ought to want for their own good. This happens when problems are complex and conditions are uncertain. Therefore the thoughts that I am giving to you have to do with what I think people ought to want as well as how they can get what they want.

It seems that everywhere we face communism's organized conspiracy; we face economic and social chaos; we face collectivism—collectivism not only in the form of communism, but in the form of a kind of statism which assumes there is no room for the individual who has made the world work up to this time, no room for the groups, the private associations, all those things that constitute an individualistic society.

Mankind is not run by the multitude. Universal suffrage does not give control of societies to everyone who casts the vote. Even governments that are supposed to be run by aristocracies, end up being run by a very few active, energetic people.

When people talk about foreign aid, they usually speak of U.S. Government aid, and we know that it is necessary, but we know also that these several billions of dollars that the U.S. Government spends annually, even though they were doubled, would only be a small fraction of all U.S aid abroad, because U.S. aid consists of all those ways in which Americans act constructively abroad. The State Department, the Commerce Department, the Armed Forces, and the U.S. Information Agency, are not alone abroad, but there are also nongovernmental business owners and managers, university personnel, foundation personnel, and a host of missionary and charitable people. In a typical country most of their activities take place individually and are not coordinated.

These individual efforts are not enough. Nor is the U.S. Government effort alone enough. Nor does any single underdeveloped country have a government which is capable by itself of knowing what it wants over a period of time, asking for what it wants, and expeditiously pursuing its desires, even if given some means. The answer then to the question of underdevelopment everywhere is that there must be some large effort made in each place in the world to coordinate all forces, individual and group, private and governmental.

I believe that a hardy, flexible, and disciplined union of forces on the ground should be achieved. It should combine Americans, other noncitizen residents of the country and nationals of the country. It should have the help of the American Government, other governments, international agencies and the government of the country involved.

There is no reason to believe that only governments can plan a society. A kind of organization is needed that will incorporate every single interest. In the union would be foreign and local businessmen, alined with churches, foundations, private universities, public university personnel, and government officials.

What I am describing is practical, pragmatic operationalism in the American tradition. I think that an agenda and budget aimed at the industrial and agricultural development of a poor country could be prepared, that the resources for the execution of this plan could be found, and that in 10 to 20 years responsible people and a class that would give stable leadership to a nation could be developed.

Let us suppose that a group, representing some 2,000 persons and every important domestic and foreign interest in a country including educators and technicians, should suddenly appear on the public scene. If this group through its secretariat and research and survey division, were to come up with a budget of proposals for industrial, distributing, and agricultural developments—concrete plans, that is—several agencies of the Federal Government, of the United Nations, of several Western European countries, and many private interests would be prepared to provide financing for these developments.

Besides the straight financing of business opportunities on a small and large scale, this same citizen and noncitizen group should seek support from foundations, other government agencies, both national and international, and from universities for an educational program to develop a new class of leaders, entrepreneurs, and managers.

This class should be recruited from elements of the population who have never had a chance to contribute to the determination of the future of their country. By testing and examination, those people whom Thomas Jefferson once called the natural aristocracy of talents would be selected and trained.

The program I have described should and would cost a good deal. I am talking about a secretariat and research operation at the heart of the program. I am talking on top of that of an annual educational and social development budget. I am talking of trying to get underway new businesses and agricultural enterprises. The key to the whole operation and coordinating mechanism is the secretariat and individuals who are assisting the full-time staff. The participants should be highly qualified men. Expert advisers of the highest ability should be sought. The operation should be not only local but in Washington and New York and the continuity of the program over a 10-year period should be assured.

This agency should be doing the job of a government. But freemen can plan as well as most governments. We should try to restore the power that complicated industrial and governmental societies have taken away on grounds that only vast organizations can plan men's fate. Now this has never been done before, but I am sure that it can work. It is big enough in conception so that the resources would be adequate. There is enough interest, enough money, and enough skills already here or to be recruited, to do the job.

Representative CURTIS. Also Mr. Leonard Kamsky of W. R. Grace & Co., who had intended to be here and had prepared a paper, which we have, on economic policies and programs in Latin America—that will be included in the record at this point.

(Statement referred to follows:)

STATEMENT OF LEONARD KAMSKY, VICE PRESIDENT OF THE GENERAL DEVELOPMENT DIVISION OF W. R. GRACE & CO.

ECONOMIC POLICIES AND PROGRAMS IN LATIN AMERICA

Mr. KAMSKY. I appreciate the opportunity of presenting and discussing ideas which relate to shaping policies in the vital Latin American area. These are difficult and critical years for all who for public policy or capital investment reasons have a stake in the future of that area. Some have wondered if there is a future for U.S. capital in Latin America. May I say at the outset, the company with which I am associated has been in business in Latin America for 108 years and has never lost faith in its future. Admittedly the problems are very special today. The important question, it seems to me, is whether we are making use of the best practical solutions.

With regard to private investment, some of us were left wondering after the Punta del Este Conference if there was a desire that U.S. private capital play a role in the Alliance for Progress. In the months since that Conference, these doubts have been somewhat dispelled but not to a degree that suggests much enthusiasm for new private capital. This is so despite convincing evidence of the vital need for an inflow of capital from the United States together with the accompanying entrepreneurial, management, and technical skills. In a very direct sense, the intensification of economic difficulties in Latin America can be dated from the period after 1956–57 when U.S. investment fell sharply. Including investments in petroleum concessions in Venezuela in 1957, new U.S. capital, which in that year amounted to $1,075 million, fell to the level of only about $200 million in 1961. If we exclude investment in Venezuela which is largely in petroleum and consider total investment in the rest of Latin America, new U.S. investment fell from $249 million in 1957 to $177 million in 1959 and was still only $170 million in 1961. If the capital inflow goals of the Alliance are to be attained, not to mention the even more important need for infusing skills, private capital will have to be encouraged to go into Latin America in increasing amounts.

Only a few years ago special incentives were being considered in favor of foreign investments in underdeveloped countries. These, rather, than additional taxation, are required if any large increase in private investment is to be expected in the high risk areas of the world.

Incentives for greater effectiveness of private investment in Latin America can be grouped under three headings: (1) What the U.S. Government can do; (2) what businesses can do; and (3) what the Latin American governments can do. A large number of worthwhile measures have been proposed. I shall single out a few of these in each area.

(1) MEASURES BY THE U.S. GOVERNMENT

(*a*) As you know, incentives in the form of reduced taxation on new investments are now provided by many Latin American governments. The effect is largely negated, however, by the fact that the U.S. Government does not grant tax credit for these exemptions on remitted dividends, so that the U.S. Treasury, in effect, collects part of the revenue forgone by the underdeveloped countries. Among remedies which I suggest be considered by the Congress and the U.S. Treasury are U.S. tax credits for the amount of foreign tax reductions, the so-called tax sparing, or alternatively, tax reductions on dividends from foreign operation in underdeveloped countries.

(*b*) In order to reduce the considerable risks created by political uncertainties it is worth considering whether the U.S. Government should grant convertibility and expropriation guarantees without necessarily requiring a similar guarantee to be given by the foreign government.

(2) MEASURES BY THE UNITED STATES AND OTHER COMPANIES

(*a*) In cases where the present economic and political risks are thought to be too high for direct investment, U.S. companies can nonetheless participate in new ventures through the use of management contracts and licensing agreements. Options to buy equity positions at a later time could make it more interesting for U.S. companies to share their scarce managerial and engineering talents.

(*b*) Some U.S. and other foreign companies are in a position to promote directly economic diversification in Latin America through allocating a portion of their investment for that purpose. The recent creation of an investment fund by Creole Petroleum in Venezuela which has this objective is a case in point.

(3) MEASURES BY LATIN AMERICAN GOVERNMENTS AND INTERNATIONAL AGENCIES

(*a*) Financial and exchange rate policy: Latin American countries have had varying degrees of success during the last few years in bringing inflation under control. It goes almost without saying, of course, that the investment climate in Latin America would be greatly improved if inflation and exchange depreciation were halted. The situation is further complicated, however, by a refusal in some countries to face up to facts. If there is a large amount of internal inflation, say about a 50-percent rise in the cost of living over a period of 3 years, and the country refuses to let the exchange rate depreciate, then powerful deterrents are set up to investment and to the development process generally. In this case, many lines of production experience higher internal costs and cannot compete with either imports or in the export market. Furthermore, exchange depreciation comes to be expected and postponement of new foreign investments and outflow of domestic capital results. This situation can be remedied by permitting exchange rates to move in line with cost increases which have taken place through internal inflation.

To attract private foreign investment and to encourage domestic capital expansion, inflation must either be stopped or—where it cannot be stopped—experience teaches that exchange rates must be allowed to move with the economic facts of life.

(*b*) To increase the contribution of private enterprises—both domestic and foreign—to the development process, an improved flow of information on specific investment opportunities is of primary importance. In particular, surveys are needed of new industries which become feasible only in conjunction with other new enterprises which either supply materials or absorb the output of the proposed new plant. In other words, there is a need for specific feasibility and profitability studies which can probably best be carried on by local development banks or corporations. These studies should be readily available to interested persons and companies.

Perhaps the World Bank and the Inter-American Bank can expand their assistance in this field in order to recruit competent engineers, financial analysts, and economists imaginative enough to come up with and screen realistically possible investment projects.

In conclusion, I would like to emphasize that public and private investment are complementary and are both necessary to the success of the Alliance for Progress. The greater the economic progress and social and political stability that can be achieved by government measures in the field of social and human development, and the more effective incentives for private capital are, the greater will be Latin America's overall economic progress.

(As noted in the footnote [1] below the following statement was subsequently supplied for the record.)

STATEMENT OF JOHN F. GALLAGHER, VICE PRESIDENT, FOREIGN ADMINISTRATION, SEARS, ROEBUCK & CO.

Mr. GALLAGHER. I have read the report on "Economic Policies and Programs in South America" of the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee of the Congress, and am most impressed with the completeness of the analysis of the problems and programs and the conclusions reached. Since the total subject is so broad and complex, I would like to devote my comments to the area of private investment.

Much has been said about private investment in South America. Some of what has been said has recognized the value of and the need for more private investment—both national and foreign. More of what has been said has been critical of foreign investment—that it is a form of imperialism, and national investment—that it has not created a satisfactory society. In addition, misunderstandings and uncertainties have resulted from the fact that little has been said in Government circles about private investment and its role in the Alliance for Progress. In fact, it appears to some of us who have devoted much of our business lives to furthering our company's efforts and responsibilities overseas, that the role of private enterprise is conspicuously absent from any Government planning or discussions.

In your report, you made a statement about the role of private enterprise that I would like to give emphasis to by quoting:

> A major effort of U.S. policy toward Latin America should be to point up the merits of and assist these countries to develop a reliance on private enterprise and the processes of private investment decisionmaking. Every time we encourage reliance on centralized planning, we risk playing into Soviet hands, by showing a distrust of our own characteristic national method and encouraging the technique of our ideological competitors.

We, at Sears, agree with you and believe that the best argument in favor of this position is to review for you the story of Sears' operations in Latin America.

Sears' venture in Latin America began in 1942 with a store in Havana, Cuba. It continued postwar with expansion into Mexico

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[1] The following was subsequently supplied for the record:

CHICAGO, ILL., *May 16, 1962.*

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: I regret that a business emergency made it necessary for me to withdraw from personal participation in your subcommittee's panel on Economic Developments in Latin America on May 11. However, because of Sears' relationships in South America, and of our deep interest in this subject, I wish to place in writing some of the thoughts I would have presented to the committee had I appeared. I hope that they may be of some value to the committee.

In my position as vice president for foreign administration of Sears, Roebuck & Co., I am responsible for the operation of 48 retail stores and 14 sales offices throughout Latin America (Mexico, El Salvador, Costa Rica, Panama, Puerto Rico, Brazil, Colombia, Peru, and Venezuela). For the purposes of this statement, the figures and statistics quoted pertain only to the 26 retail stores and 5 sales offices in South America proper.

Sincerely yours,

JOHN F. GALLAGHER,
Vice President, Foreign Administration, Sears, Roebuck & Co.

in 1947. South America's first store opened in Brazil in 1949 followed by openings in Venezuela in 1950, Colombia in 1953, and Peru in 1955. The Sears' investment in capital stock in its subsidiaries in South America amounts to just over $22 million. In addition to the capital investment, the parent company had on loan to these units, at end of last fiscal year, a sum of $6,900,000. Over these years, dividends in the amount of $12,062,000 have been paid the shareowners. The dollar value of reinvested profits at the end of fiscal year 1961 amounts to $9,352,000. The dollar value of the reinvested profits does not truly indicate the percent of profits reinvested because it has been subject to the devaluation of the local currencies—94 percent in Brazil since 1947, 72 percent in Colombia since 1953, 29 percent in Peru since 1955, and 26 percent in Venezuela since 1950.

More important though than pure statistics like these is the human, technical, and economic interdependence which has developed between Sears and the consumer goods industries of South America. Originally our concept was to export goods as well as techniques, adjusting both to the relatively minor degree that might be necessary in order to conform to valid local requirements. This concept proved to be short lived, as immediately after World War II the major nations of Latin America, with populations that provided a relatively broad market potential, began to embark on vigorous programs of industrial development and national self-sufficiencies. Accordingly, we immediately began to develop local sources of supply. We did this on the basis of our time-tested stateside buying arrangements. Within Sears was the proven pattern of close working relationships with thousands of small manufacturers in the United States.

The relationship between Sears and its sources of supply, both in the United States and in Latin America, can best be described as a "partnership." One outcome of such a relationship is the considerable amount of technical assistance provided by Sears. Another is the financial assistance and equitable participation which Sears has provided, when necessary, for product development, product improvement, and for expanded production.

One such example is a story of a young, energetic, intelligent Venezuelan furniture manufacturer who was producing goods in a small shop with inadequate machinery and fewer than 20 employees. Sears went into partnership with him; technicians from the United States helped him lay out the factory for production; our accountants helped him set up an accounting system; our buyers gave him purchase contracts which permitted him to plan his buying of raw materials and schedule his production. Today, this factory employs 80 people making high-quality, excellently styled merchandise, to be sold by Sears stores and others, at attractive prices.

True, Sears in South America still imports merchandise, components for merchandise, parts, fixtures, and equipment. However, in 1961, the amount of goods purchased locally by each South American subsidiary was as follows:

	Percent		*Percent*
Brazil	98.81	Peru	70.96
Colombia	98.82	Venezuela	51.22

These percentages, which accounted in 1961 for purchases totaling $25 million at cost prices, have been increasing annually.

Sears purchases in South America are distributed among 4,600 suppliers, the majority of them very small in size. However, large or small, as a result of Sears' quality requirements, buyers and technical assistance, these manfuacturers have raised their quality standards and have forced their competitors to do likewise. In addition, Sears firm merchandise contracts have enabled the supplier to plan his production, and in many instances lower his costs. The beneficiary is the consumer, just as he has been in the United States for so many years through the application of these techniques which are inherent in the free enterprise system.

Throughout our South American development, Sears' stateside techniques of merchandise procurement has served us and our customers well. The same is true of selling.

We have installed all of the selling methods typical of our U.S. stores—fixed prices, outside selling, cash handling by sales personnel, and extension of consumer credit.

Every day that passes provides additional proof that we can and should apply the same criteria to our Latin American operations that we apply to our stores in the United States; high turnover at a reasonable markup; adequate sales per square foot of floor area; selling cost of sales personnel; commission rates; total payroll; advertising expenditures; return on advertising. These techniques, together with those involving sales promotion, are being passed on to our South American executives and, in turn, are being copied by our competitors. The result, the establishment of a new and respected profession, that of the retail salesman and retail executive.

No single aspect of Sears expansion into South America has been more satisfying—even dramatic—than the development of personnel to staff all aspects of our operation.

Initially, a nucleus of U.S. employees was sent to each South American country in which we started operations. It was their job to organize, supervise, and train people hired locally. While most Latin American countries permit corporations like Sears to employ stateside personnel up to a total of 10 to 25 percent of the work force, Sears has progressively reduced the U.S. personnel assigned to South America, until today, only 45 of our 5,120 South American employees have been assigned by Sears from the United States. Each succeeding year shows a marked reduction in North American personnel—their positions being filled by properly trained nationals.

It is difficult to illustrate the diversification and responsibility of the executive and semiexecutive positions held by our South American employees without a detailed description of each Sears unit. However, 19 of the stores and all of the sales offices are managed and staffed totally by South American nationals. South Americans handle 90 percent of Sears' total south of the border buying, 95 percent of the retail credit, 98 percent of the retail merchandising, 98 percent of the retail accounting.

Many of these men and women having visited comparable Sears operations in the United States of America for training. There is a constant interchange of ideas and information between parent company specialists and their South American counterparts. In each month and year, more of our South American employees advance in accordance with the long-established Sears policy of promotion from within. It is also Sears policy, both in the United States and in South America, that the pay of Sears employees in any unit of the company be equal to—or better than—the pay for comparable work in the community.

A wide range of employee benefits are, generally speaking, stipulated in Latin American countries by law which provide costly indirect benefits, considerably in excess of any found in the United States of America. Nonetheless, and in addition, two of our corporations have their own profit-sharing funds; a third will be added before the end of 1962; with the possibility of even a fourth being established this year if it is not in conflict with local legislation. Employee members of the funds, no U.S. personnel are permitted to join, contribute 5 percent of their salaries up to a maximum amount. The company then makes a contribution annually of 5 percent of its net profit before Federal income taxes. The major portion of the funds, thus made available, are used to purchase stock in the local company. At the present time, the Mexican employees of Sears de Mexico own 20 percent of the company—the Venezuelan employees own 13 percent of Sears de Venezuela.

These principles and policies have established Sears as a good place to work and has enabled us to attract and maintain staffs of capable and loyal employees. In turn, they have been our best ambassadors of good will in the communities in which we are doing business.

Believing, as we do, that Sears must account for its stewardship, not only on the balance sheet but in matters of social responsibility, we have followed in Latin America our traditional policy of having Sears executives assume positions of responsibility in local civic and business organizations.

In addition to regular financial assistance to many charitable and social welfare organizations, we have a number of special activities, among them:

Scholarship programs in national and regional universities—scholarships which are designed to assist both deserving students and the universities of their choice.

Contributions to the growth and development of 4–H-type activities.

The complete support of a 50-pupil elementary school in one of the poorer sections in Caracas.

The establishment of manual training classrooms.

Aiding in equipping a vacation camp for underprivileged children.

Sponsoring, organizing, and financially supporting boys' baseball leagues and other youth programs.

Very active role in the organization and financial support of North American societies, whose purpose is the promotion of better understanding between the Americas.

I have used Sears as my framework of reference not because I think we are unique (although I am proud of our contribution to Latin America and the principles for which my company stands) but because I can speak from a broader knowledge of my own company than I can for American business generally. However, I know the thinking of other business leaders and can assure you that it differs in no way from ours at Sears—that the best kind of foreign aid this country can provide to countries in Latin America is the stimulus of American business in introducing modern, efficient, business methods which create jobs and raise standards of living.

It has been an honor for me to present this statement to you. I hope that it clearly indicates to you, as it does to me, the contribution which private investment can and does make to the societies of South America, not only in the area of providers of finance and technical know-how, but also in the areas of total economic, personal, cultural, and community development and will serve to emphasize that Government action, both in the United States and South America, should be directed toward stimulating more rather than restricting the activities of private investors.

Representative CURTIS. And now, before I ask some questions, I would like to ask our staff, Mr. Moore and Mr. Lehman, who participated in our studies last fall, upon which the report of this subcommittee was based, to have questions.

And incidentally, if any of you gentlemen on the panel would care to direct any questions to each other, that is certainly permissible and would be helpful.

Mr. MOORE. While the concern of this committee is primarily economic, we cannot ignore the political aspects of the problem. I gather that not only the deterrents to private investment but the flight of local South American money, are prompted more by political considerations and the threatened political instabilities than they are by economics and the ordinary profit-seeking quest.

Would you agree that that is true and that the relative profit opportunities in South America are good if we did not have this political overlay?

Mr. NEHEMKIS. There is no doubt that is a major deterrent.

Mr. MOORE. So the problem, then, for the Alliance and for the U.S. Government is in some ways this political instability, rather than economic considerations?

Mr. NEHEMKIS. It seems to me this is the heart of the problem, and why I believe that the present emphasis of the Alliance is erroneous. I think that the fundamental problem in Latin America is more a political problem and less an economic problem; and we have put the cart before the horse.

If we would work harder on achieving the kind of democratic political foundations through education and through assisting the democratically oriented parties, we could then make it possible to superimpose a sophisticated economic superstructure; whereas at the present time we are endeavoring to superimpose a very sophisticated economic structure on political quicksand.

Representative CURTIS. Could I interpose there just a minute to ask this: One of the things our report pointed out, and that we stressed in our visits, was to avoid what we suggested was a fallacy, of looking at Latin America as if it were homogenous. There are differences. And when you make these remarks, I am inclined to ask this question. It seems to me that Argentina and Chile and possibly Brazil were really quite sophisticated economies, and the social structure was quite sophisticated, quite a different picture than—I would not care to name them, but other of these countries. Uruguay was one I wanted to add into these groups of sophisticated not only economies but social structures. And although they have got political problems, it strikes me that your statement would perhaps not apply to Latin America in toto.

Or would it?

Mr. NEHEMKIS. Well, it would apply even in some of the countries that you mentioned, Mr. Curtis.

Let us take Argentina. It is as you say. This is certainly one of the most sophisticated countries in Latin America, with a highly Europeanized flavor to its whole structure. This is not characteristic of some of the countries north of Argentina.

Nevertheless, as well all know, within the past 3 weeks, this very proud country has been brought to the verge of political chaos. There is no political structure that means anything today in Argentina. Basically, the Argentine political parties never really recovered from the Peron dictatorship.

There is a tremendous problem of work to be done in weaning away the whole Argentine trade union movement from the symbols of Peronismo. If we are to understand what happened in that political upheaval, in which 35 percent of the vote expressed itself in favor of Peronista candidates, we ought to look at it more as a means by which the great mass of the Argentine people, the working class, the middle-class people, expressed their dissatisfaction with Frondizi. There was no other way for them to express that dissatisfaction, except through the kind of ballot and candidate that was available to them.

Representative CURTIS. In other words, you think it was more of a negative Frondizi vote than pro-Peron?

Mr. NEHEMKIS. To an enormous degree it was just as you have put it, anti-Frondizi, rather than pro-Peron.

Peron is an empty symbol today. No responsible political or trade union leader ever expects the return of Peron. This is a useful banner to wave. And neither does Peron himself really ever expect, I do not think, to get back.

Representative CURTIS. That is certainly interesting. We certainly did not get those reports. Maybe I had not read carefully enough. I am very interested in that.

Mr. Rockefeller, did you have something?

Mr. ROCKEFELLER. Mr. Curtis, in our discussions of economic, political, and social crises, or the other half of the coin, in our discussion of development, I think there is a tendency to separate these items from each other as though they were independent and in no way interrelated; when it would seem to be the case that it is almost impossible to distinguish between social, economic, and political development.

Just citing the case of Argentina as a perfect illustration, the protest, which is politically expressed, is based on social and economic unrest. And the political 35-percent negative vote is largely, in my opinion, a statement by these people that they do not feel that they are included in the social and economic development of their country. And as such, to say that it is a political situation or an economic situation or a social situation I think is compartmentalized thinking which just lead to nowhere.

Representative CURTIS. I feel, myself, that economic factors are things that largely create the political instability. Dr. Moore, I took that away from you.

Mr. MOORE. I just had one other area of curiosity at this point. Mr. Nehemkis, you mentioned the speech of Mr. Jorge Mejia Palacio, Minister of Finance of Colombia. I have that speech, and he has a remark in here in reference to the international coffee agreements:

> So long as this is not achieved, any help that may be given to us, however generous, will not be new blood and fresh life for our economy, as has been planned, but merely a palliative to prevent a total collapse. (See p. 87.)

Would you comment on the probable success, as well as the wisdom of the United States participating in these international commodity agreements? I am afraid that the history of these commodity agreements has not been conspicuously successful.

Is that one of the dilemmas that we are faced with; agreeing to something that we find in principle unattractive?

Mr. NEHEMKIS. Dr. Moore, first let me say I am not competent to discuss the commodity stabilization programs. But with your indulgence, and Mr. Curtis', just as a general business point of view, I would say we have a problem in Latin America that is very deep and critical. It is a problem with which the committee's report dealt most effectively and very lucidly.

The problem is: How do you get countries which depend on the profitable export of one or two commodities into a situation where they can also at the same time build up enough foreign exchange to go through an industrial revolution and at the same time a great social readjustment?

They have to depend on what they can sell. And as we well know, they have suffered very severe losses in their commodity exports.

As the statement from which you quoted shows, we are sending to one of our most stanch allies, Colombia, aid under the Alliance for Progress program which Dr. Mejia says falls two or three times short of the losses which they have sustained from their export of coffee, for which they depend to the extent of 70 percent for their foreign hard currency earnings.

So this is why I believe, Dr. Moore, this is a dilemma which our policymakers cannot continue to push under the rug. They have got to face it.

It strikes me, just as a layman, speaking from a business point of view, that this is not wise economics, to keep pumping a billion dollars in there to meet one crisis after another, which we ought to know is not fulfilling the objective, and where there might be another way of dealing with it.

Now, I cannot say, because I am not sufficiently a student of the problem, whether the approach should be through international commodity stabilization agreements. But because the problem exists, it would seem to me perfectly apparent that we could very well use the machinery of the Development Assistance Group, which is a machinery set up to channelize the forces, the interests, of West Europe, on this very problem. Let that group really come up with the figures.

What are the figures? What would it cost if you really started to stabilize? Is it so staggering that it is preposterous, that we could not meet it?

If we know what that answer is, that ought to lead us, from a policy point of view, into a certain type of thinking. Maybe we ought to forget the problem. If, as a matter of fact, neither West Europe or the United States has the financial resources to undertake commodity stabilization, it will take political courage to tell Latin America. On the other hand, if we would deal with the problem intelligently, why do we not get the first essentials? What would it cost? What is involved? Would you have to stabilize on the basis of an entire hemisphere, or do you start, perhaps, where it is most critical, with the coffee countries, and then move on gradually to other commodities?

It seems to me these are things which our policymakers ought to be deciding and doing.

Representative CURTIS. I must comment that here we are over in Ways and Means, as I say, writing up extensions of powers for the President in this trading area. And what you are saying here, and I can see it just as you are presenting it, has not even been in our discussions. There has been no testimony in the some 30 days of public hearings, and over an equal amount of time in executive session, with our top people in Commerce, Agriculture, State, Treasury—no reference to this problem.

And yet, if we were going to provide this kind of machinery to even deal with this, this should be the time for doing it. But as I say, your calling attention to that is quite interesting.

Are there any other comments on that question?

Mr. BUTLER. Well, I think that in economic terms there are some things that can be done through international commodity agreements, if you do not expect too much, and if you do not try to do too much.

I think all experience shows that attempts to stabilize a place at a level higher than that indicated by the basic forces of supply and demand have failed. But I think what can be done through primarily the buffer stock mechanism is to avoid the very violent fluctuations in commodity prices that have been upsetting and in effect smooth out the price trend while allowing the laws of supply and demand to operate.

But the law of supply and demand is a peculiar, inexorable law, even in the hands of governments; and so one has to keep that in mind.

Now, in coffee specifically, an expedient which I am sure would work would be for the United States to set up quotas on coffee in the same manner as it did in sugar. And this would protect Latin America's dollar earnings, while leaving the problem of oversupply to be dealt with by the Latin Americans or someone else.

Representative CURTIS. May I interject this? FUTURES MARKET.

Why would not futures markets, if they were encouraged, instead of denigrated, as seems to be the tendency in our country today—to strike at anything that people do not understand—why would not futures markets, as we have provided them in this country, provide that kind of mechanism?

Mr. BUTLER. Yes. Well, an associate of mine, Mr. Stacy May, and I, have argued for some time that the way to deal with these commodity problems is through an international agreement which will limit the price fluctuation in any year within a certain band; and the following year this band will be set in relation to the previous year, so that if we have a condition of oversupply, prices will gradually move downward, but there will not be wide fluctuations. And if you have a period of shortage, prices will tend to move up, and you can do this along with a buffer stock arrangement and I think contribute all that can be contributed through commodity agreement arrangements.

Now, in addition, I think that more could be done to develop a mechanism to make loans to countries whose export earnings have declined very sharply because of some commodity development, crop failure, for example, or condition of oversupply.

And as I remember it ih your report, or perhaps it is in Mikesell's report, there is a scheme described which seems to me to be reasonable, feasible, and not terribly expensive, where if a nation's commodity export earnings declined more than 5 percent, this nation would be able to borrow half of the difference between its actual export earnings and this 95 percent of normal, and would repay in periods when its export earnings went back above a certain point. Over a time, this would probably cost some money in that repayments would probably not fully offset the loans, except over a very long period. But it would operate to stabilize the ability of these countries to import which is our real objective in dealing with a commodity situation.

Mr. Moore. Since Mr. Nehemkis has referred to the speech by Mr. Jorge Mejia Palacio and it bears on this discussion, I suggest that the full text be included in this record at this point.

Jorge Mejia Palacio, Governor for Colombia, Address Given at the Inaugural Session of the Third Meeting of the Board of Governors of the Inter-American Development Bank on Behalf of the Visiting Delegations, Buenos Aires, Argentina, April 23, 1962

The date of the establishment of the Inter-American Bank will ever be a memorable one in American history, for on that historic day inter-American solidarity, affirmed militarily by the Mutual Assistance Pact of Rio de Janeiro and politically by the Act of Bogota, reached its apogee in the resolute measures taken in the economic and social fields. The regional system became, so to speak, concrete and tangible in human terms to our peoples in form of financial programs and projects; for the first time, the countries of America realized that their destinies were henceforth irrevocably linked and indivisible.

Unions of nations had existed before, usually unions of the weak under the oppressive or benevolent wing of the strong. Here, however, we see the most powerful nation on earth take its seat beside the smallest in a confraternity of common rights and responsibilities, without special privilege or discrimination. Membership in the Bank is, therefore, like a certificate of Amercan citizenship, committing us to aid others and entitling us to receive aid in our turn.

In 1 year of operations, the Bank has made a name for itself as the most flexible and up to date of international institutions, ever attuned to its members' needs. The statistics before us are eloquent testimony of how, in so short a time, further abridged by the tasks of physical organization and familiarization of hemispherical problems, the Bank has processed and approved 98 loans totaling U.S.$426 million, for a broad gamut of objectives ranging from the purely economic, such as industry, agriculture, mining, electrification, and transportation, to social assistance in the fields of housing, education, and sanitation. No problem has been outside its sphere of interest, its statutory powers, or its principles of internal policy, and whenever a country has sought aid, it has received it without excuses or exaggerated conditions. It can, therefore, be called the American house for all American nations.

Special emphasis should be placed on the part it has played as the instrument chosen by the Government of the United States to administer the social progress trust fund under the Alliance for Progress, for the Alliance would not have been the same, either politically or economically, had it not found at the outset such an institution as the Bank, enabling it to focus on the proposed objectives, in the face of the manyfold difficulties besetting any unilateral assistance, generous and well-intentioned though it may be. The Bank has not only been a good administrator, investing in 31 operations U.S.$212 million of the $394 million assigned it, but has given the Alliance a multilateral aspect which preserves, dignifies, and ennobles it.

All this is attributable to the intelligence and dedication of a man who, as the Bank's President, has endowed it with his personal qualities of generosity, spontaneity, insight, and humanitarian warmth. Acknowledgment is also due to a staff of colleagues who display the same sympathetic attitude toward the difficulties and hardships of our peoples. Felipe Herrera is not only a source to deep pride to us, but also our best answer to those who have for centuries questioned the aptitude of the Latin peoples for high finance. He is proving that it is possible for a man to be both a banker and a human being, and a combination of these two qualities constitutes the golden mean for anyone wishing to plan for the future, without losing sight of practical implications for the present.

Latin America is in the throes of the worst crisis in its entire history. From one end to another, strife, unrest, hatred, and revenge are sowing their seeds of discord and toppling men, governments, economies, and institutions that seemed unshakable. The cold war chills to the bone the feeble structure of our democratic government, and the firing wall looms as the symbol of proletarian claims, as the guillotine represented the egalitarian principles of the French Revolution.

A year ago, at the Punta del Este meeting, our governments gave their reply to this situation by signing the Alliance for Progress and raising it on high as a banner of hope to hearten people. A great deal has been accomplished since then, and here is nothing to indicate that this is not the proper turning to be taken at this crossroads in our history. I believe in the Alliance, the loftiness of its aims, the sincerity of its distinguished proponents and mentors, such as President Kennedy, for history offers no parallel to this profoundly humanitarian crusade. Should the hemisphere founder today in the Marxist-Leninist tempest lowering over it, the idea of the Alliance would outlast the horrors of the firing wall, as Christianity survived the massacres of the Circus Maximus.

However, the Alliance, which was a carefully weighed plan to sustain our exports of primary products as the conerstone of all proposed development and provide adidtional financial assistance to expedite it, has not yet been able to maintain a steady, measured pace, and this irregularity continues to impoverish our people, deepen economc differences between classes, and trigger crises, devaluations, and unemployment, such as we have witnessed in several countries in the past few months. That these phenomena are still occurring frequently is a sign that the Alliance, at the end of its first year, has not yet been able to reverse the downward trends in our economies that motivated its creation. One thing we can do in its behalf is to examine its shortcomings.

The first and most fundamental is the little it has been possible to do in support of markets and prices for our primary export commodities. I come from a country that has received substantial assistance from the Alliance in the way of credits for both economic development and social welfare. Nevertheless, the losses suffered in the coffee market and prices since the Punta del Este Conference are two or three times greater than the special aid received.

Generally speaking, we have lost rather than gained ground, for what was intended as an additional help to accelerate our progress has served only to mitigate, to a certain extent, the tremendous impact of the fluctuations in coffee prices. That is why I have often said, and I reiterate here today, that as far as Colombia is concerned—as well as most Latin American countries—the greatest contribution the Alliance for Progress could make would be to establish a world coffee agreement on a long-term basis. So long as this is not achieved, any help that may be given to us, however generous, will not be new blood and fresh life for our economy, as had been planned, but will merely act as a palliative to prevent a total collapse.

To add to the gravity of the situation, foreign private capital—which should play such an important role in furthering our economic development plans—is not forthcoming, because of the Cuban specter, in total disregard of geographical and historical considerations. And even traditional foreign capital investors, who have made steady progress for years under the protection of our guarantees and institutions, find it more convenient to make use of national savings accumulated in banks and insurance companies, than to continue to invest foreign capital in their industries, thus giving rise to dangerous exchange imbalances.

If the Alliance is, as it should be, a movement, not restricted to governments and international financial institutions, but inclusive of the peoples also in a collective effort, it is imperative to raise the morale of foreign capital investors and demand their contribution to this historic crusade.

Acceleration of the economic development of Latin America in accordance with the provisions of the Punta del Este Charter implies a substantial increase in imports of capital goods. But while the prices of our exportable raw materials drop, those of manufactured goods continue to increase, thus widening the gap between the terms of interchange. The Alliance for Progress program tends to reduce, and ultimately to eliminate, the great disparities between hemisphere nations. But this will be impossible without equitable remuneration for labor.

Most Latin American countries have made commendable efforts to diversify their production for export by seeking new and more favorable trade outlets. But this Latin American awakening coincides with the appearance of a series of restrictions, prohibitions, preferences, and tax and customs barriers in the large world markets which are, apparently, more like fortresses aimed at total isolation than of exchange. There can be no economic future for us if we can see nothing beyond our frontiers and coasts but the erection of barriers against our new products, for no other reason than that we do not form part of certain areas of influence, or are parties to a military or political agreement.

International financial institutions first, and the Alliance for Progress plan later, have laid special emphasis on the financing of projects in the public sector, a preference which is readily understandable if the elementary economic infrastructure of our Republics is taken into account. But if a highway is built, it is for the purpose of driving on it in automobiles which we do not produce, for the most part, and if new powerplants are set up, it is to power engines which we also have to import. Progress in the public sector thus leads to pressure by the private sector on importations without compensation and in a way dangerous for the maintenance of the exchange balance. Our most recent deficits in the balance of payments are mostly the result of this logical increase in demand, but our economists and bankers are shocked when mention is made of a loan to cover such deficits. At least during the transitional period the Alliance for Progress program will have to show greater consideration for these phenomena, whose influence it is impossible to avoid, and endeavor to maintain the balance between the public and private sectors, a complementary action which is essential to the success of all economic development programs planned under a free economic system.

I am sure that those who guide and direct the activities of the Alliance for Progress program will correct its deficiencies during this second year of its existence. Its funds should be used as additional support to accelerate development and not as insufficient compensation for losses caused by situations which we can remedy. If this is not done, we will come to the end of our 10-year program only to find these same people even poorer than they are today and, still worse, deprived of all hope for the future. It is necessary to act, and act at once, if we want to prevent this very noble effort of a people and of a continent—which has definitely dwarfed the greatest altruistic feats of all times—from becoming the greatest tragedy in history.

Mr. President, there are cities which belong to the world. Buenos Aires is one of these and its romantic image is forever present in the dreams of half the world's population. Its streets, its glories, its joys, and its sorrows have been vividly reflected in the words of its tangos that on arrival here for the first time, we cannot help but feel that we are returning to a place we already know.

Pursuant to the honorable mission entrusted to me by the delegations attending this Third Meeting of the Board of Governors of the Inter-American Development Bank, I wish to express to you and your government our deep appreciation for the warm hospitality offered to us and, to the people of Argentina, our admiration for their country's glorious past and our great faith in its brilliant future.

Mr. LEHMAN. Much of the discussion today has centered on increasing the role of private investment. Some of you have suggested areas in which government investment would still be required. I wonder if you might expand on the role you would like to see government play in investment.

Mr. Butler mentioned education, health, and sanitation. In our report and in our visits to South America, we heard a great deal about the "infrastructure" necessary to sustain an economy.

Would you care to comment, Mr. Butler, on what the 20 percent of total investment to be accounted for by government should cover?

Mr. BUTLER. Well, I think one of my complaints is that governments have moved into areas such as electric power and communications, where vast quantities of capital are required, and where the capital could be obtained from private investment with proper government policies.

The fact that these activities have been termed "infrastructure" supporting activities I think should not be allowed to obscure the fact that a very big proportion of the scarce resources available to governments is being used in this manner.

It seems to me that government funds should go for traditional activities in such fields as education, health, sanitation, which is very important in many of these countries, highways, which are properly a part of infrastructure, and properly provided by government, I think. And I think it would take all of the resources that can be reasonably made available to government to do what is required in these fields.

I think education in particular needs far greater emphasis in Latin America; far more in investment and in annual operating moneys than it is now receiving. And this would make, over a period of time, a much greater contribution to economic development than many of the things that are now being done by government.

Mr. LEHMAN. And that is, of course, one of the goals of the Alliance for Progress, as spelled out I think in terms of the elimination of illiteracy in 10 years, and the provision for every school-age child of at least 6 years of elementary schooling.

Representative CURTIS. Mr. Rockefeller?

Mr. ROCKEFELLER. I think that Mrs. Griffiths had an awfully good comment on this subject during Mr. Butler's speech. As she pointed out, many times governments go into what perhaps we think they ought not to go into, because political expediency forces them into it. And in many cases there are obvious areas of private nongovernmental investment which are not fulfilled, be it because there is no one with the training, no one with the experience, or no one with the economic courage to go in.

And I think, if I may say so, it is extremely difficult for any group to sit in judgment of what a government should or should not go into unless the political and social conditions of the particular country are considered.

To me, the essence of this element is not an abstract discussion of government investment in one area or another, but rather the planning process by which the decisions of investment are made. And this is why I feel that the planning and the participation in planning by nongovernmental groups is so important—because the political pressures in these countries are not simply a question of elections, but a question of individual personal survival in some cases. And an awful lot of things are done on that basis which might not fit an economic analysis.

But if planning were institutionalized and structured in such a way that the private sector, not just business but all of the private sector, nonprofit, educational institutions, and all participated in the national planning program, an awful lot of these pressures could be alleviated if not done away with.

Mr. NEHEMKIS. Mr. Chairman, I want to emphasize again, if I may, two things that have already been said, and perhaps say them just a little bit differently, as they appear to me.

First, it seems to me that the most pressing, compelling need is for our Government to give far greater emphasis to the importance of education—education at all levels but starting at the vast base of illiteracy. Perhaps anywhere from 60 to 80 percent of this Southern Hemisphere consists of a inchoate mass of people who are illiterate.

Private investment, coming from the area which I represent, manufacturing cannot sell, it cannot manufacture successfully or profitably, in a gigantic poorhouse. This is where the big push comes, starting with illiteracy, with the public schools, which are virtually nonexistent, the high schools, which are nonexistent, and the universities, which I gather from my talks with educators in Latin America, are virtually obsolete.

Let us not forget that we have lost virtually 50 percent of the loyalties of the university students of Latin America. And if we lose the other 50 percent, as I had occasion to say earlier, you can hand the continent over to Moscow and Peiping without one Russian or Chinese soldier even having to land.

So education ought to be the big drive. Get to the minds of the people. And the Russians and the Chinese are not losing this opportunity. They are getting to the minds.

Secondly, the point that my colleague Mr. Rockefeller has made so ably: Involvement in the process of planning is in my opinion the most essential element for growth.

I have been very greatly impressed with what the French have done in this respect.

Briefly and with some oversimplification, you have there a situation in which all elements of society, business, trade unionists, consumers, and the Government, jointly participate in the establishment of certain investment goals. Once people become involved in a process, they have a very deep stake in fulfilling the goals set under the planning process.

This we have not done in Latin America at all.

Planning in Latin America today is largely a very esoteric process, the work of a few economic high priests in the respective countries and here in Washington. This does not involve people in the process. It does not give people a stake in the future. And the thing we have to remember is that the great battle in Latin America is the battle of hope.

So I would say if we could do two things—and these are techniques we know all about; we do them every day in our own companies: Set up, as Mr. Rockefeller has urged, systems by which all of the people can participate in establishing the goals which they want to reach. Then they have a stake in their fulfillment.

Secondly, we have a technique in the United States which has been used very successfully here, as well as in Europe. It is the public authority. This is a managerial device which deals with a problem area. The authority is designed to accomplish solutions quickly. It avoids vast encrustations of bureaucracy.

If we would give serious attention to instituting public authorities in those countries where we know there will be receptivity to the idea, we could attract, for the top management, nonpolitical figures. We could attract into those authorities the highly trained younger generation of technicians throughout Latin America. And they are very superbly trained technicians. But at the present time these men lack the power of political decision. They are just in that age bracket where they have not moved fast enough. You could put this device to work on the solution of specific problems in given problems areas—housing, land reform, and so on.

To sum it up in a word you cannot manage a social revolution out of Washington, D.C., 5,000 miles from the theater of operations. If you want to manage anything, you must manage where the problem exists. We are not doing that.

Mr. ROCKEFELLER. Mr. Chairman, if I might just say, in complete agreement with what Mr. Nehemkis says, in such cases where such regional authorities have actually been created in Latin America, they have been extremely successful.

The Coca Canca Valley Authority of Cali, Colombia was one I was going to mention. There are a number of illustrations which would bear out what has just been said.

Representative CURTIS. This is quite interesting.

I, ~~incidentally, do not~~—maybe you expressed it in a way that I just got the wrong overtones. Peiping and Moscow do not bother me very much. That is a synonym for saying that chaos and tyranny would take over. I do not regard it as Moscow or Peiping. And frankly, I think their abilities are not very good. It is not too difficult to throw a monkeywrench into machinery and break it. It does not require much brains or a very clever society to do it.

But I certainly agree with what little I know of the manner in which the universities have been infiltrated with what—they hope this would be it, but, of course, it is a false hope, and what they end up with would be in chaos and tyranny. ON-THE-JOB TRAINING

Let me ask this, though: How much on-the-job training is done? L.A. Do not all the private companies down there have to indulge in that to a great extent?

Mr. NEHEMKIS. You cannot start, for example, Mr. Curtis, a highly complex appliance establishment and take people out of the hills and put them next to machinery. They do not even have the feel of technology. So you have to have on-the-job training. And this is done by most American companies, to my knowledge. It is a sheer necessity.

Representative CURTIS. I have followed for years Aramco's annual statement, ~~and they have a~~ little chart in there—this is the thing I look at each time—which shows the number of employees, and the breakdown shows those who are native and those who are American; and then they have about four or five categories, unskilled, semiskilled, skilled. I think they have foremen, and then on up to junior managership, and then on up. And over the years it has been very interesting to me to see the manner in which the native Arabians are filling in right on up to the top.

LABOR FORCE. L.A.

And to the extent I could, when I was in South America, I inquired to see if that process was not going on, too, with many of our companies. And the answer seemed to be yes, it was.

I think that is one of the most dramatic things that remain to be publicized more to our own people.

I was attending a little symposium in St. Louis 3 or 4 weeks ago, and one of the spokesmen, who was from a university nearby, Illinois, made the remark that our companies were exploiting the people in South America; which I said I thought was a very unfortunate remark unless he could back it up. I said, "Maybe there are bad instances that we need to know of, but overall I think it is untrue."

LABOR: EXPLOITATION OF L.A.

In the audience, I found out later, were five or six exchange students from Latin American countries, and I will not identify the countries, but they believed all that. They, instead of defending against it, were spreading that kind of thought.

Then I had a young lad from St. Louis University, who happened to attend this same thing, who wrote to me and asked for help to get information, "Because," he said, "I am running into that over at St. Louis University, with exchange students from Latin America, who are actually talking and promoting this kind of thought." And he said, "I need the information."

So I have not endeavored to get it for him, but I will. It is not easy to get. And I believe what I have been saying is true, but I have asked it here to see what your comments would be, as to whether I am wrong or right.

Mr. ROCKEFELLER. One of the most effective means for spiking the idea of exploitation, particularly of a wholly owned American company operating abroad, is to sell a portion of the equity of that company in the local market.

An example which has been cited many times is the Willys Overland Co., which, in both Argentina and Brazil, is actually controlled, in terms of stock proportionate ownership, by local nationals. And at no time has there ever been, to my knowledge, an accusation that either one of these companies was exploiting the local situation.

EDUCATION.

Representative CURTIS. Was it Creole Oil in Venezuela, where I found out that the Venezuelans controlled the board of directors? And it was a company, too, that had been engaged for years in primary and secondary education, had developed the school system for their own people, because it was economically advantageous, but it certainly was a tremendous social and humanitarian advantage, too.

If this is the real story of American private enterprise in Latin America, I think some of our people in the State Department might become better aware of it, and certainly our own people should know it, and our people who represent us in the United Nations should know it.

Mr. NEHEMKIS. May I just add a footnote to what Mr. Rockefeller said: I found recently in Buenos Aires that the Kaiser Industries were the most popularly regarded of any company, any North American company, in Argentina, without any question.

Representative CURTIS. And they were popular because of their employment systems?

Mr. NEHEMKIS. They identified themselves completely with Argentina. It is not looked upon really as a North American company.

And I think Sears, Roebuck has made an enormous contribution in giving opportunities to the people of the various countries in which its stores are located to enjoy supervisory and managerial positions.

I thing this is true of W. R. Grace. And even with some of the large west coast mining companies. I cannot verify this from personal knowledge, but I have been told that the salaries paid to miners in Chile, including the fringe benefits which they receive, are as high as or even higher than those received in the United States; and yet those companies are perpetually harassed and threatened with nationalization.

Representative CURTIS. The thing that disturbs me is that our own American citizens, the people in the United States, do not know this. They have absorbed this kind of propaganda, if it is propaganda, and I believe it is, untrue propaganda, and we ourselves do not know it.

Mr. Lehman just handed me a note saying that Sears has 5,200 employees in Latin America, and only 45 are North Americans.

Incidentally, how about the Whirlpool operation? How do you operate?

Mr. NEHEMKIS. We have licensing arrangements in a number of countries. We have a minority interest in an appliance venture in Brazil.

I think that some of our colleagues in the business community sometimes frown upon that; but our experience has been an extremely happy one, with our majority partners. We get along quite well.

I think you might be interested in a venture that we attempted jointly with a group of our industrial colleagues in Colombia.

One of the things that we find as a great shortcoming is an enormous gap which exists in the technicians below the decisionmaking process.

We have a lot of fine decisionmakers in Latin America, and you have a vast base of people who can do things, but to translate a decision from one that has been reached to its activation can frequently stop a whole process.

Mr. ROCKEFELLER. This is true of government, also.

Mr. NEHEMKIS. This is a chronic difficulty of government in the United States and elsewhere. You are quite right, Mr. Rockefeller.

And so as we looked about as to how we could make a meaningful contribution, as we saw it, to implement the Alliance for Progress, in terms of the private sector doing it, we went to a group of our industrial friends in Medellin, Colombia, and suggested to them that they join with us in establishing a technical institute for the training of middle management—young people just out of high school.

The doors were opened on February 22 of this year for the first class of 60 students. It will be a 3-year course. They do not become engineers, and they will not receive a professional diploma, but these people will be able to take their place in industry as part of that vital layer of middle management.

We could use a hundred more schools of this kind in Latin America sponsored by 100 other U.S. companies; a hundred such schools would provide an enormous stimulant in economic growth.

One other thing: I am profoundly convinced that if you take a young man just out of high school and begin to expose him to what we call, and I make no apologies for it here this morning, the capitalist system, you have a convert that nobody will thereafter be able to touch—with or without a beard.

Representative CURTIS. Dr. Butler?

Mr. BUTLER. I think the Commerce Department has figures on employment in U.S. oversea companies, and a breakdown showing the number of nationals, which might be of interest.

Representative CURTIS. Do they grade them?

Mr. BUTLER. I think not. It is just an aggregate. But the impressive thing is the very low percentage of American employees when you lump together all of our private investment. There is a breakdown by industry.

It seems to me that this joint venture approach can be extremely important in Latin America and other lesser developed areas. This I think is one of the very effective ways of checking this flight of capital which was mentioned earlier.

Many people down there who have funds to invest are reluctant to invest them locally because they have no confidence in local business management, and in many cases it is impossible to buy shares in the successful local businesses. But these people are usually anxious to go into partnership with a U.S. concern in which they have confidence.

And there is a lot of capital down there that can be mobilized through this joint venture technique. We have been doing it through a subsidiary company which we have, Chase International Investment, and in every case we have had no difficulty raising the local capital for the venture. We have had much more trouble getting an American partner with know-how in the particular field.

I think this is developing, and I think it is moving ahead quite rapidly, and I think this is going to make a very telling contribution to development throughout the area.

This, incidentally, can be done pretty widely. There are a number of such ventures in Central America, for example; again with local capital, a U.S. company with some know-how, and in our case we also put up some of the money.

Mr. ROCKEFELLER. You mentioned a point earlier which I would like to return to, if I may. That was the point that the value of the contribution of American business is not understood, and that instead we receive such pat phrases as "exploitation" as the common expression.

I think this is one of the greatest weaknesses which this country suffers from at the present time, the inability to express in understandable terms the value of the system which we have got. It is probably the best system for the most number of people that has ever been created on the face of the earth; and yet we are constantly on the defensive.

Representative CURTIS. I think it is, too. I think the proof shows it. And yet even our own people do not understand it. They are constantly attacking it. It just is a wonder to me. It really is.

Mr. ROCKEFELLER. Could it be that we are ourselves guilty of this compartmentalized thinking? And by this I mean that we think in economic areas, and that is business; and we think in social areas, and that is welfare, or unemployment relief; and it never occurs to us to realize that the greatest social force in this country is capital investment, and that there is more social value from capital investment than in all of the welfare programs, the relief programs, that have ever been created; and that the business people in this country themselves do not realize the social consequence of what they are doing? As a matter of fact, I think sometimes they go out of their way to deny it.

Representative CURTIS. Let me say this: One of the reasons for this hearing—~~and I am so~~ pleased that you three gentlemen appeared—is to try to counteract that. Or—I do not like word "counteract"—to try to build up this kind of thinking.

This committee, by setting this up, is trying to emphasize this in a small way. The notable absence of the media, the press, the radio, and so forth, in these kinds of hearings raises questions as to what they think the people are interested in since they publicize other kinds of hearings. I think I know the American people, at least in my district, pretty well, and I can tell the media, radio, television, newspapers, that they are more interested in what we have been discussing here today than the kind of stuff in the media. And I hope some day that those who are in control of our great fourth estate are going to wake up to the fact that one reason they are having difficulty in selling their product is that they are out of tune with the thinking.

But at any rate, this has served a purpose. And I again want to refer to the fact that these discussions we have had here will be printed. Fortunately, scholars around the country do ask for copies of these hearings. Our scholars here will go over them. A number of Senators and Congressmen will go over them. These will be referred to other committees. These become permanent records.

So the closing remarks are these, and I will close out, now.

This record will be open in case you want to add additional material that you think would help, being bound in this document that will go around. You have extended to you the privilege that we in the House and Senate have, of not having said what you did say, but what you wish you had said.

What is the time on that, and the technique?

Mr. LEHMAN. Each of you will be sent his transcript tomorrow morning. We would like to have it back with corrections by midweek; but if there are some additional materials which you will be sending to us, just let us know, and we will make arrangements to insert those in the galley proof. These materials should be in our hands by the end of next week, in order to keep up the lively interest which now exists in these hearings.

Representative CURTIS. And please, in correcting your remarks, revise and extend. That is what I was trying to get across; to make something clearer than it was as you gave it, do extend your remarks in any way you see fit.

Thank you very much.

(Whereupon, at 11:55 a.m., the hearing was closed.)

APPENDIXES

APPENDIX A

The Growth of Output, Employment, Capital Stock, and Real Wages in Basic Sectors of the Chilean Economy*

(By Tom E. Davis, University of Chicago)

1. INTRODUCTION

The very fact that the value of output per capita in Chile at the end of the period did not exceed US$400 suggests that the economy has not grown at rates as high as 2 percent per annum over the past century.[1] At a rate of growth as high as 2 percent per annum, output doubles in 35 years. Hence, had growth taken place at this rate, output per capita could only have been US$100 in 1890 and US$50 (in 1957 prices) in 1855. This is obviously inconceivable since the per capita value of Chilean exports—the measurable component of GNP in that period—exceeded US$40 in 1855, and presumably exports constituted the surplus after the provision of basic necessities. Gross output per capita as high as US$100 (in 1957 prices) would seem to be the minimum plausible figure for 1855 and would imply that economic growth must have been limited to 1 percent per annum over the past century. Thus, from the level of output per capita in Chile at the present time coupled with an assumption as to the corresponding figure for 1855, it can be deduced that the rate of economic growth has been substantially lower than in the United States where it approximated 2 percent per capita over this same period.

2. THE PURPOSE OF MEASURING THE GROWTH OF OUTPUT

The purpose of measuring the rate of growth of gross output in Chile is, first, to confirm that it has been low relative to the United States, and, second, to determine whether the rate of growth has fluctuated significantly in the course of time. Fluctuations, i.e., long cycles, apparently have been characteristic of the economic growth of the developed countries and particularly of the United States during the past century. As the composition of their economic activity has altered (e.g., the major reduction in the proportion of the population engaged in primary activities), the tendency has been for the expansion of secondary and tertiary activities to occur not at the expense of the level of activity in the primary sector but even to give stimulus to this sector. This pattern obviously requires that the productivity of the remaining resources (especially labor) in the relatively declining sector increase considerably. The experience of U.S. agriculture is a classic example in this respect. It would appear to stand apart from the experience of many other countries where the relative expansion of industry and government has apparently taken place at the expense of primary activities, especially agriculture, with the consequence that the overall rate of growth is both slower and bereft of long waves in economic activity.

Even a brief review of Chile's economic history reveals that the growth of a particular sector has not succeeded in eliciting a strong, expansive response from the remaining sectors of the economy. The expansion of agriculture and mining, which led the economy up to the great depression, gave way to industry

*This paper was presented at the 1961 summer meetings of the Econometrics Society held in Stillwater, Okla. It is included here in connection with Professor Davis' testimony in these hearings. (See p. 6.)

[1] This figure for per capita output in 1957 is arrived at by dividing the most recent CORFO estimate ("Cuentas Nacionales de Chile, 1950–60," Santiago, October 1960) for GNP in 1957 by a population estimate of 7 million inhabitants and converting into dollars at an exchange rate of 800 pesos=US$1.

and government thereafter. Even within the predepression period, the expansion of agriculture was followed by nitrates, which in turn gave way to copper. Not only would it appear that the expansion of activity in one sector failed to stimulate others, but, in fact, "forced" industrialization is frequently held to be responsible for the concurrent stagnation in agriculture.[2] Thus, a certain basis exists for the supposition that Chile will not have experienced marked fluctuations, or long waves, in aggregate economic growth.

3. THE GROWTH OF OUTPUT IN BASIC SECTORS OF THE CHILEAN ECONOMY: 1908–57 [3]

The salient feature that emerges from the data is that during the past half century—the only period for which quantitative measures can be obtained—output has increased 3.8 times and population 2.2 times. (See tables 1–7.) This implies a per capita increase of 73 percent for the 50-year period or approximately 1 percent per annum. Thus, the empirical data for the more recent period clearly confirm the deduction that emerged from the comparison of present and (assumed) past levels of output per capita with respect to the rate of growth of per capita income over the past century, but suggest that the last half century has not been markedly different, at least in this respect, from the preceding 50 years.

Less clear cut are the findings that emerge with respect to differentials within the 50-year period in the rate of growth of gross output. Table 7 reveals that output per capita grew relatively rapidly (2.71 percent per annum) until 1929, and thereafter never succeeded in surpassing the 1929 level. On the basis of this comparison, the data would appear not only to indicate the existence of extended "long waves" but also to suggest that the causes of the subsequent stagnation in the Chilean economy should be found in the changes that were introduced subsequent to, or concurrent with, the great depression.

This comparison is open to the fundamental objection that the initial wave terminates at the height of the 1929–30 boom and that the second opens in the throes of the great depression. There can be no doubt that the years 1928–30 were most exceptional for the Chilean economy, particularly with respect to the volume of foreign borrowing and the price of nitrate that ruled during those years, which provided the resources for a vast expansion of the Government sector and public investment. If these years are eliminated and 1927 chosen as more representative a measure of the real expansion that occurred in the economy since 1908, the impact of the great depression appears to be neither as sharp nor as extended as is frequently inferred from data based on the 1929–30 peak as a benchmark. By 1934, output per capita had regained its 1927 level.

This fact suggests that perhaps a more valid and generally acceptable manner of comparing differentials in the rate of economic growth would be to exclude the period 1928–33 as simply a cyclical interlude separating the period 1908–27 from the period 1934–57. Using this approach the differentials are greatly reduced, although not completely eliminated; the economy grew at a rate of 1.45 percent during the period 1908–27 and at 1.20 percent during the period 1934–57. However, a slightly different system of weighting the sectoral indexes—one that gives slightly more weight to industry relative to mining and agriculture—is now sufficient to eliminate the differential entirely, thus completely negating the proposition that there have been during this period significant "long waves" of economic advance.

In short, if one accepts this rather plausible line of argument, highly questionable is the case for holding that, with the elimination of the impediments to growth that sprang up during the depression and postdepression period (e.g., the accelerated inflation, the greatly expanded "interventionist" bureaucracy, the system of multiple exchange rates and price controls, the social security empire, etc.), the economy would automatically have reverted, or currently would revert, to a much higher rate of economic growth.[4]

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[2] The situation in Argentina under Peron was frequently presented in markedly similar terms, while Brazil's successive booms—sugar, diamonds, rubber, coffee, and now industry—are well demarcated.

[3] This section is a condensed version of a paper presented by Tom E. Davis and Marto Ballesteros at the meetings of the International Association for Research into Income and Wealth, Rio de Janeiro, June 1959. Source and methods employed in the construction of the output indexes are discussed in the appendix. The basic sectors contributed over 50 percent of GNP during the years 1950–57 according to the most recent estimates. For a comparison with other series of GNP for more recent years, see table 6.

[4] Even if the predepression economic order would offer the prospect of a somewhat higher rate of economic growth, it is doubtful that the postdepression political spectrum would have permitted the dismemberment of what was essentially a defensive bulwark designed to protect the economic interests of the dominant political group—the middle-class public employees.

4. THE INCREASE IN OUTPUT PER WORKER

Employing the rate of growth of output per worker as a measure of economic growth, however, tends to accentuate further the differentials between the growth rates in the periods 1908–27 and 1934–57. If the 1907 census is accurate and employed definitions comparable to those of the 1920 and subsequent censuses, there was a fall in the labor force as a percentage of the population between 1907 and 1920. Similarly, if the 1930 census did not fail to count as members of the labor force those who were unemployed at the time of the census, there was a further fall in the ratio of active to total population between 1920 and 1930 that reversed itself by 1952. (See table 13.) Thus, the available evidence suggests that differentials in output per worker may exist that fail to reflect themselves in differentials in output per capita because of a tendency to utilize some of the potential provided by a higher rate of growth of output per worker in the period 1908–27 to enjoy additional leisure, and to compensate for a lower rate of growth of output per worker in the period 1934–57 by forgoing said leisure in order to increase the degree of labor force participation. While serious doubt about the validity of the apparent downward trend in labor force participation prior to 1930 must prevail, one possible explanation for a higher rate of growth of output per worker in this period would be a more rapid rate of growth in the per capita capital stock that would have offered the potential of subtituting capital for labor in the production process.

5. THE INCREASE IN THE PER CAPITA CAPITAL STOCK

Inferences about the change in the capital stock must be based upon data on capital goods imports which are readily available since 1870. Imported equipment is, of course, only a portion of the total capital stock (even when housing is excluded). Nevertheless, an index of the capital stock would presumably be reasonably well reflected in an index of imported capital goods if the import content of investment (excluding housing) has remained approximately constant. The exclusion of agricultural land, which has failed to keep pace with population growth, is assumed to compensate for any downward bias that would be introduced by a declining coefficient measuring the import content of investment.

Measured in this manner, the index of capital stock per capita shows very little upward trend over the period 1908–55. The per capita capital stock grew only 20 percent in comparison with an increase of 70 percent for per capita output. The explanation is that peak per capita imports of capital goods were reached in the period prior to World War I. Even in the late twenties, stimulated by foreign loans (mainly for the purpose of Government investment) and high prices in the world mineral markets, imports of capital goods per capita failed to surpass the pre-World War I levels. Naturally, imports were very low during the depressed thirties and the wartime forties. Even in the post-World War II decade, however, imports on a per capita basis only slightly surpassed their average level during the period 1905–29. (See table 16.) Thus, the import replacement policy that was intended to stimulate capital goods imports by keeping out final products barely succeeded during its most successful period in maintaining the average predepression level.

For these reasons, it should come as no surprise that while the per capita capital stock increased by 65 percent between 1908–1927, it actually fell by 13 percent (unless depreciation and obsolescence tended to fall) between 1934–1955. This would appear to suggest that any differential in the rate of growth of output per worker between these two periods might be attributable to changing capital inputs and not to marked differentials in the degree of utilization of existing technology, which, if anything, may have been somewhat higher in the more recent period in order to permit the economy to sustain its growth despite what may have been a reduction in capital per worker. Nevertheless, over the half century there can be little doubt that Chile failed to take full advantage of the potential provided by technical advance to sustain a rate of economic growth comparable to that of the United States which was achieved without a markedly higher rate of increase in the per capita capital stock. This same explanation would also seemingly serve to explain why expansions in one sector of the Chilean economy were accompanied by stagnation (if not contraction) in others with the resulting absence of "long waves" of rapid economic growth.

C. THE RATE OF INCREASE OF REAL WAGES 1860–1958

The failure of output per worker to advance more rapidly than 1 percent per annum over the past 50 years implies that any increase in real wages in excess of 1 percent per annum would necessarily come at the expense of capital. This can occur only subject to quite definite limits. Suppose that at the beginning of some period during which output per worker is growing at a rate of 1 percent per annum, labor and capital are sharing the product equally, then, if real wages increase at 2 percent per annum, at the end of 70 years labor will be receiving the entire product. However, since the share of capital has seldom exceeded one-half or fallen beneath one-third in a capitalistic economy (for which data are available), it would be unrealistic to expect that such a differential could be maintained for much more than 35 years. This suggests that over periods as long as a century, there will be a very close correspondence between the growth of output per worker and the growth of real wages.

Unfortunately, it is impossible to obtain long series of wage data in Chile except for the public sector. The relevant question is, of course, how representative is the public sector? Obviously certain positions are held for reasons of prestige, politics, et cetera, and need not compete for individuals to occupy these positions by offering competitive money wages. This situation only should exist at relatively high level in the public administration. At the lower levels the public sector presumably must compete with the private sector for the persons that it hires. Over a period as long as a century, if real wages in the public sector did not grow while those in the private sector advances at 2 percent per annum, wages in the private sector would be eight times those in the public sector (assuming that they were equal at the beginning of the period). Even if wages in the private sector grew at only 1 percent per annum, they would still be three times those in the public sector at the end of a century. It is the implausibility of greater differences that argues against there being a difference in excess of 1 percent in the rate of increase of real wages in such broad divisions of the labor force. To this must be added the fact that a sector that is expanding relative to the rest of the economy generally has to maintain a favorable wage differential to achieve the more rapid rate of growth of its labor force. (In Chile, however, this latter argument loses some of its force due to the fact that the public sector has expanded to provide the white-collar positions that have not been created in sufficient numbers as a result of the limited growth of the private sector.)

The data for the public sector show no real increase in wages over the past century (even after the employer's contribution to the social security system has been added.[5] Furthermore, there is only a very slight change in relative wages within the public sector suggesting that this absence of an upward trend is virtually independent of the "weighting" system employed to combine the indexes for individual positions into a combined index for the entire public sector. The procedure of using the wage received by persons in particular positions might impart a downward bias to the index of the percentage of public employees in these categories fell markedly over time, e.g., if the rank of private held 70 percent of those in the Armed Forces in 1860 but only 5 percent in 1958. There is, however, no evidence to indicate that this has occurred; the Government, as residual employer, has apparently had little difficulty in filling its traditional positions over the course of the past century.

To accept the proposition that output per worker has risen at a rate of approximately 1 percent annually over the period and real wages not at all would appear to imply (following the reasoning set out above) that the share of labor in the total product would have fallen as low as 25 percent. This clearly has not occurred so that presumably either (*a*) the average increase in real wages in the nongovernmental sector has been greater, or (*b*) the rate of growth of output per worker has been lower, or (*c*) the "wedge" between the value of output and the receipt of personal income has increased (due to such factors as the adverse terms-of-trade, the relative growth of the public sector which does not market its product, etc.) Regardless of the exact combination of the foregoing that has occurred, the fact remains that the real standard of living of the middle sectors in Chilean society, upon whose loyalties the maintenance of democratic processes depend, have not enjoyed those increases in real per capita income characteristic of U.S. "middle classes" over the past century.

[5] See table 18.

APPENDIX

SOURCES AND METHODS EMPLOYED IN THE CONSTRUCTION OF THE INDEXES OF OUTPUT, EMPLOYMENT, CAPITAL STOCK, AND REAL WAGES IN BASIC SECTORS OF THE CHILEAN ECONOMY

A. PRODUCTION INDEXES

The production indexes presented in this paper represent the major components of the agricultural, industrial, mining, governmental, and public utility sectors. These sectors have been termed the "basic" sectors of the Chilean economy in the sense that autonomous growth is presumably limited to these sectors. It is doubtful that an economy could grow over an extended period of time, such as that considered here, solely upon the basis of an expansion of commerce and services, though these sectors would be expected to expand *pari passu* with an expansion in the basic sectors. Consequently, the rate of growth presented herein for the basic sectors probably represents a maximum estimate for the rate of growth of total product in the whole of the Chilean economy.

The nature of the data employed for constructing the individual series differs substantially. For mining,[1] public utilities,[2] and agriculture,[3] measures of physical output exist and the indexes have been based upon them. They cover all of the important products in these sectors. The probability of omitting a commodity whose growth has been more rapid than that of the sectoral index and which is currently important in terms of its value-added contribution is virtually zero.

Unfortunately, the same cannot be said for industry. Consequently, indexes of physical production were rejected as the basis for forming the output indexes for the industrial sectors, and were replaced by the value of output for industrial establishments taken from annual surveys that date back to 1908.[4] There are gaps in the series, such as the one from 1926 to 1937, and years when the comparability of the data is questionable due to revisions in the data-gathering process, such as the period from 1913 to 1916. Finally, the most recent year for which the data have been published is 1953. These omissions and defects gave rise to the necessity for interpolation and extrapolation.

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[1] The data on physical production are taken from the "Mineria" section of the Anuario Estadistico for successive years. A U.S. dollar value series was formed by multiplying output by the average U.S. dollar price for the years 1950–54 taken from Desarrollo Economico de Chile, 1940–55 and set out in table 11. The conversion of the average U.S. dollar price to pesos was effected at the average 1951–55 free exchange rate as found in any subsequent issue of the Boletin Mensual del Banco Central.

[2] The data on the production of gas and electricity between 1916 and 1934 were taken from the section "Industria" of the Anuario Estadistico, and, thereafter, from successive issues of Estadistica Chilena. The prices used to value the series are the average retail prices in Santiago for the years 1951–55.

[3] The crop production series is based on the following 12 crops: wheat, barley, oats, rice, corn, potatoes, beans, chickpeas, peas, lentils, sunflower seed, and tobacco. The livestock series reflects the production of cattle, sheep, pig, and goat meat, wool, and milk.

The basic data for crops, wine, wool, and milk production are taken from the Anuarios Estadistico and Estadistica Chilena published by the Servicio Nacional de Estadistica and from the Ministerio de Agricultura's La Agricultura Chilena en el Quinquenio 1951–55 (Santiago, 1957).

The basic data for livestock for the years 1908, 1911, and 1915 are from the Servicio Nacional de Estadistica. For the years 1919, 1922, 1925, 1929. and 1935, the figures are based on the respective livestock or agricultural censuses. For 1945 and 1955, the indexes are based upon the slaughter figures reported by the Ministry of Agriculture, Agricultura y Ganaderia, No. 11–12, September-December 1957, pp. 42–43. Values and indexes for the intermediary years were calculated by arithmetic interpolation.

The average 1951–55 prices employed as weights were taken from La Agricultura Chilena, op. cit. For further details on sources and methods, see Marto Ballesteros, Desarrollo Agricola Chileno, 1910–55 (Santiago, 1959).

[4] The survey data are published in the successive issues of Anuario Estadistico, in the section devoted to "Industria." The limitations on the size of firms that qualify to be included in the survey have varied somewhat over time. Prior to 1916, a large number of very small firms were included that afterward were eliminated. These firms were of very little consequence in terms of their value-added contribution. Such bias as is introduced, however, would tend to cause an underestimate of the rate of growth of the industrial sector.

These data were deflated by the six-commodity index of manufactures for the years prior to 1929. For subsequent years, the price index for industrial products prepared by the Servicio Nacional de Estadistica, and published in successive issues of Estadistica Chilena was used.

Several of the components of the industrial series are presented in table 3; namely, beverages, food, shoes and clothing, and textiles. As in the case of the aggregate series, these were deflated by the six-commodity index prior to 1929. Thereafter, differing deflators were employed: Beverages were deflated by an index of the retail price of beer in Santiago; food was deflated by the price index for food products that constitutes part of the price index for all industrial products, and textiles were deflated by the textile component of the same index.

The policy followed was to interpolate or extrapolate on the basis of indexes of physical product, if available. Unfortunately, for the period 1913–16, they are not with the consequence that the years 1913, 1914, and 1915 were arbitrarily equated to 1916 for lack of a better alternative. Indexes of physical output for a large number of commodities are available for the period beginning in 1928. Therefore, it was possible to fill the larger gap in all but the years 1926 and 1927 with these data. With the index of physical production based on 1938, the extent to which the interpolated values for the year 1928 correspond to the value series for the year 1925 is truly remarkable. (Such an interval as remained was filled by simple algebraic interpolation.) It should be noted that neither of these interpolations affect the analysis of, or the rate of growth of, output over the period as a whole, but only the allocation of that growth to the various years during a period for which interpolation was necessary.[5]

A much more important decision in terms of its effect on the estimated rate of growth of industrial output since 1929 was that of using deflated "value series" up until 1953 in place of the indexes of physical production that were available. These latter indexes show a rate of growth of industrial production markedly lower than that presented in this paper. There were arguments against using both the deflated "value series" and the indexes of industrial production in physical units because both the price index used for deflation and the estimates of physical output in more recent years are frequently held to be understated. However, as it was thought preferable to err on the side of overestimating the rate of growth, the deflated "value series" were used.

The estimates for the government sector were constructed by simply deflating total public expenditures.[6] The price indexes used were, as in the case of the industrial sector, of rather primitive construction for the period prior to 1928. To the index of industrial prices based on a average of six commodities were added a rather inclusive index of agricultural prices and an index for the price of imported products. These three indexes were combined to serve as a deflator for public expenditures.[7]

The indexes of physical output for gas and electricity which compose the public utility sector only extend back to 1916. Prior to that time the values assigned are completely arbitrary. The value of output in this sector in the year 1916 is so small, however, in terms of the magnitudes of the other sectors that these arbitrarily assigned values have virtually no effect in the determination of the rate of growth of the economy as a whole during these years.

The problem of combining the various production indexes for individual goods or services into a sectoral index was solved by valuing products or services by their average 1951–55 price, thus obtaining a sectoral "value product" series which was then indexed with base 1929=100. When the sectoral indexes were combined to form an aggregate index, the value-product series (average 1951–55 prices) were multiplied by a value-added coefficient (which varied from 0.5 in the case of industry to .85 in the case of mining).[8] This sectoral value-added coefficient was assumed to have remained constant over the half century in question. The only sector for which it was possible to verify this assumption was industry; there the value added proved to have been completely stable.

The process of multiplying the sectoral value-product series by the value-added coefficient produced a value-added series for each sector which were then added to form the aggregate value-added total. This series was then also in-

[5] The interpolation for the period 1928–38 in the aggregate index was based upon the combined index of industrial production published in the section "Industria" in the Anuario Estadistico (see table 9, col. 1). For the food component, refined sugar constituted the only available index; for beverages, beer production was used; for shoes and clothing, a combined index of men's, women's, and children's shoes were used, with men's shoes receiving twice the weight of either of the others, and, finally, for textiles, it was a combined index of knitting yarn and woolen cloth, weighted equally.

[6] Up to the year 1929, the data on expenditure are taken from the section "Hacienda" of the Anuario Estadistico. Thereafter, the section is termed "Finanzas, Cajas, y Bancos."

[7] The products included in the six-commodity price index of manufactures are: leather (heavy shoe sole type and fine leather), wheat flour, thread, paper, and canned goods. These prices were taken from the Revista Comercial of Valparaiso and represent averages of the prices ruling on the final day of business in the months of February, April, June, August, October, and December. The nine-commodity agricultural price index includes: bran, barley, beans, lentils, corn, potatoes, wheat, beef, and wool. The price data were taken from December issues of El Mercurio of Santiago and Valparaiso. The weights assigned were: wheat, 27.3; beef, 23.1; potatoes, 13.6; beans, 13.6; wool, 9; barley, lentils, and corn, 4.5 each.

[8] The value-added coefficients used for the other sectors were: agriculture, 0.8; government, 0.7; and public utilities, 0.8. It should be apparent that only relative, and not the absolute, values of the coefficients affect the aggregate index.

dexed with 1929 as the base year. (It should be noted that for the sectors the index of the value-product series is identical to that of the value-added series since the one is simply a multiple of the other.)

It should be noted that the use of 1951–55 relative prices introduces the possibility that the "current weight" index may underestimate the rate of growth both of the sectors and of the aggregate. Unfortunately, the absence of price data for earlier periods rules out the possibility of attempting to establish the maximum limit of the possible underestimate.

B. LABOR FORCE PARTICIPATION

The data on labor force participation were taken directly from the censuses of 1907, 1920, 1930, and 1952. (The reliability of the 1940 census is not such as to warrant its inclusion.)

The 1907 census contains data on the type of activity (e.g., shepherd, laborer, doctor, etc.) that active persons were engaged in at the time of the census. Due to the ambiguity of certain of these classifications, it was necessary to assign, e.g., laborers, to particular sectors, e.g., industry, without any objective criteria for said assignment. The census fails to set forth unambiguously the criteria used for determining whether an individual was considered to be a member of the labor force. This may have resulted in an overestimate (relative to subsequent censuses) of the active population engaged in agriculture at the time of the census.

The censuses of 1920 and 1930 classify persons according to the sector of the economy in which these services are performed, and according to whether the services were rendered as an employer, a white-collar employee, or a manual worker. The inactive population is reported separately for each class of activity by the industry or sector in which the activity was performed. Accordingly, there is some presumption not only that the sectoral classification should be markedly superior, but even that the definition of labor force participation was more uniformly adhered to. Nevertheless, in the case of the 1930 census it was necessary to apportion the unemployed rather arbitrarily in order to reduce what would otherwise have been a disastrous decline in the fraction of the population rendering personal services.

The 1952 census required no adjustments and the definitions and classification set forth therein serve as the model for reclassifying the data contained in the earlier censuses.

C. INDEX OF CAPITAL GOODS IMPORTS [9]

The method employed to form an index of real capital goods imports was to construct a separate series in terms of current dollars, pounds, and marks, respectively, for capital goods received from the United States, Great Britain, and Germany. (These countries supplied approximately 90 percent of the total.) [10] These current value indexes were then deflated by price series for capital goods in each of the three countries in order to arrive at separate series expressed in real terms, i.e., 1926 dollars, pounds, and marks. (For the price series that were used, see table 15.) The English and German series were then converted into 1926 dollars by dividing by the exchange rate (i.e., the price of dollars in terms of pounds and marks respectively) that prevailed in 1926. This figure was then multiplied by the inverse of the percentage of total trade (measured in terms of Chilean gold pesos) that was represented by these three countries in order to correct for imports entering from other countries. The resulting aggregate was then separated into its principal components according to the sector in which the capital goods would most probably be employed.

On the basis of the index of capital goods imports in 1926 dollars, the index of the capital stock was computed on the assumption that imported capital goods had a probable life of 30 years during which time they would be maintained at full efficiency, but after which time they would be scrapped. Thus, the index of the capital stock has as its base (1927=100), the sum of capital goods imports in 1926 dollars entering Chile during the years 1898–1927. Components of this index for the agricultural, mining, industrial, and transportation sectors are set forth in table 17.

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[9] This index was prepared by Rodolfo Castro, formerly research assistant, Centro de Investigaciones Economicas, Universidad Catolica de Chile.

[10] This required the conversion of the amounts expressed in terms of Chilean gold pesos that are contained in successive Anuarios de Comercio Exterior into dollars, pounds, and marks using the equivalences contained in table 14.

D. INDEX OF REAL WAGES IN THE PUBLIC SECTOR: 1860–1957

The basic wage rates for the public sector are published in the Presupuesto de la Nación. Since 1939, however, it has been customary for public employees to receive a wage increase during the year that only appears in the Presupuesto in the year following. Hence, since 1939, there appears as the basic wage for the year in question, the amount appearing in the Presupuesto for the year following. (See table 18.) The employer's contribution to the social security system should be added to the basic wage in order to obtain an estimate of wage cost, and to a lesser degree, of real wages from the standpoint of the employee over the course of the last four decades. (See table 19.)

The average index has been constructed by weighting the individual series according to an estimate of the relative importance of each occupational class. The general trend of the index is not influenced by the weighting system employed. More serious is the fact that it has not proved possible to continue the original series (that begins in 1860) beyond 1925 with the consequence that it has been necessary to splice the series in that year. The second series contains occupational classes that are similar to, but not identical to, those of the first.

TABLE 1.—*Aggregate and sectoral production indexes*

[1929=100]

Year	Aggregate	Agriculture	Industry	Mining	Government	Public utilities
1908	43.1	63.0	49.5	35.6	30.9	58.3
1909	43.9	58.1	52.5	37.1	35.4	59.3
1910	47.4	57.4	55.7	41.7	43.0	60.3
1911	47.0	53.5	56.9	42.5	42.1	62.3
1912	52.2	63.3	61.1	44.8	50.4	64.3
1913	52.8	67.7	60.7	46.9	41.6	66.3
1914	49.2	68.0	60.7	42.7	31.4	68.3
1915	45.7	73.5	60.7	36.1	19.2	68.3
1916	54.2	69.4	60.7	54.9	23.5	68.3
1917	58.6	73.6	61.7	60.8	26.5	67.1
1918	58.7	72.9	65.1	59.4	25.9	65.9
1919	46.4	67.7	65.7	39.4	18.5	65.9
1920	53.0	68.4	63.9	51.8	24.5	60.1
1921	45.6	73.8	74.5	32.6	19.5	50.2
1922	48.8	73.9	73.7	39.5	19.9	48.9
1923	60.7	76.2	88.4	58.9	21.2	46.7
1924	66.2	75.6	98.1	68.3	19.0	66.9
1925	67.0	70.0	88.4	70.1	----------	77.2
1926	68.7	77.8	84.0	66.1	----------	81.3
1927	72.9	82.8	84.3	67.4	----------	85.4
1928	90.6	98.5	81.7	92.5	80.7	89.7
1929	100.0	100.0	100.0	100.0	100.0	100.0
1930	89.3	102.4	100.3	73.2	109.8	108.6
1931	74.1	89.7	74.4	54.8	109.4	105.2
1932	54.2	88.3	85.0	30.4	49.5	105.1
1933	63.1	104.2	93.6	40.7	44.2	117.2
1934	76.4	109.0	102.0	62.9	46.0	129.9
1935	81.3	97.1	117.3	69.9	60.9	142.5
1936	82.4	102.4	120.2	69.3	59.0	153.5
1937	96.6	106.4	126.0	97.0	52.7	169.9
1938	92.7	110.3	113.4	87.3	62.4	180.8
1939	95.0	111.1	128.9	85.4	68.5	184.5
1940	100.1	107.8	143.1	90.9	76.9	204.6
1941	111.6	106.0	165.9	107.3	82.6	221.5
1942	110.9	108.3	173.1	107.8	67.2	231.4
1943	115.1	112.2	192.4	105.4	79.0	247.8
1944	118.9	122.6	198.4	104.2	86.5	260.1
1945	126.6	118.0	246.3	103.1	104.3	301.4
1946	115.8	118.1	208.3	90.0	105.8	328.7
1947	125.3	118.2	220.9	102.1	117.2	353.3
1948	138.8	126.8	242.5	109.0	151.6	380.2
1949	132.6	123.3	260.2	95.0	143.7	411.8
1950	136.2	122.0	275.0	93.3	163.9	467.8
1951	141.4	123.6	281.1	97.9	167.8	504.9
1952	148.9	120.7	303.6	99.6	205.6	548.5
1953	152.2	131.9	313.0	92.0	215.5	578.6
1954	154.9	133.2	328.8	93.8	210.4	618.2
1955	162.2	137.4	319.9	104.5	224.5	643.8
1956	165.1	139.9	341.9	110.1	202.5	671.5
1957	164.0	137.1	340.3	111.7	195.4	686.0

TABLE 2.—*Production indexes for components of the agriculture sector*

[1929=100]

Year	Agriculture	Crops	Wine	Livestock	Year	Agriculture	Crops	Wine	Livestock
1908	63.0	56.1	32.1	79.2	1933	104.2	107.4	99.3	102.8
1909	58.1	51.0	34.4	72.3	1934	109.0	122.0	89.2	103.5
1910	57.4	56.0	36.5	65.3	1935	97.1	99.5	67.6	104.2
1911	53.5	52.4	41.2	58.4	1936	102.4	96.8	104.9	106.8
1912	63.3	65.3	60.5	62.5	1937	106.4	102.4	108.2	109.4
1913	67.7	68.3	69.7	66.6	1938	110.0	108.8	110.0	112.0
1914	68.0	57.0	90.8	70.7	1939	111.1	116.1	86.0	114.6
1915	73.5	64.8	94.6	74.8	1940	107.8	106.9	81.0	117.2
1916	69.4	69.1	49.5	76.0	1941	106.1	98.5	84.9	119.8
1917	73.6	70.4	71.6	77.2	1942	108.3	101.8	82.7	122.4
1918	72.9	70.3	63.2	78.5	1943	112.2	109.2	80.6	125.0
1919	67.7	60.5	50.7	79.7	1944	122.6	119.3	116.2	127.6
1920	68.4	61.9	47.5	81.0	1945	118.0	115.3	87.8	130.2
1921	73.8	72.9	50.3	82.2	1946	118.1	115.9	80.2	132.2
1922	73.9	71.7	59.0	80.7	1947	118.2	114.2	79.8	134.2
1923	76.2	76.2	66.9	79.2	1948	126.8	123.8	106.0	136.2
1924	75.6	77.0	64.8	77.8	1949	123.3	116.7	95.8	138.2
1925	70.0	71.5	46.4	76.3	1950	122.0	108.3	104.4	140.2
1926	77.8	79.3	59.9	82.2	1951	123.6	113.3	100.5	142.2
1927	82.8	73.0	94.1	88.2	1952	120.7	113.8	67.1	144.2
1928	98.5	100.9	105.3	94.1	1953	131.9	124.5	108.4	146.2
1929	100.0	100.0	100.0	100.0	1954	133.2	125.7	107.6	148.2
1930	102.4	106.0	97.7	100.7	1955	137.4	135.4	109.3	148.2
1931	89.7	82.3	74.0	101.4	1956	139.9	137.7	120.6	148.2
1932	88.3	79.5	70.6	102.1	1957	137.1	130.2	122.0	148.2

TABLE 3.—*Production indexes for certain components of the industrial sector*
[1929=100]

Year	Industry	Beverages	Food	Textiles	Clothing, shoes, and rubber products
1908	49.5	34.5	69.5	23.0	51.3
1909	52.5	38.7	72.8	24.5	55.0
1910	55.7	42.9	76.2	26.1	58.8
1911	56.9	49.6	70.3	27.1	63.4
1912	61.1	50.2	73.2	30.8	72.6
1913	60.7	74.0	79.5	28.8	59.1
1914	60.7	74.0	79.5	28.8	59.1
1915	60.7	74.0	79.5	28.8	69.1
1916	60.7	74.0	79.5	28.8	59.1
1917	61.7	80.0	77.4	28.6	61.1
1918	65.1	88.7	81.4	34.8	66.2
1919	65.7	67.8	84.5	35.8	60.9
1920	63.9	66.0	83.3	31.5	57.3
1921	74.5	80.9	97.3	35.7	66.0
1922	73.7	83.1	93.5	46.4	66.0
1923	88.4	96.9	104.6	49.8	78.5
1924	98.1	106.9	114.4	68.4	89.5
1925	88.4	95.4	101.5	59.0	74.6
1926	84.0	90.2	90.0	67.1	76.9
1927	84.3	85.3	78.2	73.2	79.3
1928	81.7	80.4	66.7	83.3	81.6
1929	100.0	100.0	100.0	100.0	100.0
1930	100.3	105.4	99.4	112.9	78.9
1931	74.4	69.3	84.9	129.8	52.6
1932	85.0	70.2	77.8	196.2	60.6
1933	93.6	75.8	95.4	195.9	97.2
1934	102.0	86.5	95.4	215.7	112.2
1935	117.3	111.8	105.4	261.3	107.2
1936	120.2	119.3	114.4	189.8	112.2
1937	126.0	136.0	119.5	210.4	61.2
1938	113.4	119.6	128.9	214.0	61.0
1939	128.9	109.3	145.8	245.4	65.3
1940	143.1	110.9	160.3	272.7	66.0
1941	165.9	92.7	165.9	299.8	87.6
1942	173.1	96.9	154.2	387.7	88.5
1943	192.4	97.8	164.9	385.1	91.7
1944	198.4	128.0	181.4	517.7	124.8
1945	246.3	139.4	188.5	532.9	135.2
1946	208.3	114.2	186.2	569.5	116.4
1947	220.9	144.7	195.2	643.2	114.7
1948	242.9	162.3	213.0	720.0	133.6
1949	260.2	180.5	236.6	763.6	145.3
1950	275.0	181.3	247.9	843.6	142.3
1951	281.1	181.5	261.9	868.3	157.2
1952	303.6	238.0	270.9	961.1	164.6
1953	313.0	273.1	286.4	1,083.5	179.4
1954	328.8	264.9	291.2	1,137.7	182.9
1955	319.9	293.4	280.3	1,156.5	184.3
1956	341.9	300.7	298.3	1,040.7	160.2
1957	340.3	311.8	295.6	1,065.5	165.1

TABLE 4.—*Production indexes for the major components of the mining sector*

[1929=100]

Year	Mining	Copper	Nitrate	Iron ore	Coal	Iodine	Sulfer	Silver	Gold	Oil
1908	35.6	13.1	61.0	-----	62.3	23.8	16.6	93.6	60.3	-----
1909	37.1	13.3	65.3	-----	59.6	34.2	27.7	77.0	66.3	-----
1910	41.7	11.9	76.3	-----	71.2	41.9	23.5	75.1	55.9	-----
1911	42.5	11.4	78.0	1.6	78.8	31.5	27.9	59.4	56.3	-----
1912	44.8	13.0	80.0	.4	88.5	33.0	27.2	64.8	39.5	-----
1913	46.9	13.2	85.7	.8	85.1	31.5	40.8	62.9	44.0	-----
1914	42.7	13.9	76.2	3.5	71.7	35.3	61.4	58.8	32.3	-----
1915	36.1	16.3	54.3	8.1	77.7	51.2	59.9	54.1	44.5	-----
1916	54.9	22.2	90.1	3.1	94.0	95.5	91.3	118.9	85.5	-----
1917	60.8	32.0	92.8	.3	102.1	54.8	116.2	68.5	85.7	-----
1918	59.4	33.3	88.0	-----	100.6	59.4	107.7	50.9	72.5	-----
1919	39.4	21.7	51.9	-----	98.5	36.4	116.0	49.1	110.9	-----
1920	51.8	30.9	78.1	.2	70.5	25.3	81.8	120.2	47.4	-----
1921	32.6	18.5	40.7	.4	84.5	38.5	59.3	145.3	84.2	-----
1922	39.5	40.4	33.1	16.0	69.8	17.7	75.2	109.2	90.3	-----
1923	58.9	56.9	58.9	37.2	77.2	34.0	69.8	115.5	96.6	-----
1924	68.3	59.1	74.3	57.9	102.1	52.6	59.9	88.6	100.9	-----
1925	70.1	60.0	58.1	68.1	96.4	62.6	57.6	101.1	77.6	-----
1926	66.1	63.3	62.4	77.1	98.9	65.4	54.8	92.3	89.3	-----
1927	67.4	75.7	49.9	83.7	98.3	56.2	76.7	85.0	86.6	-----
1928	92.5	89.5	97.9	83.6	91.2	71.8	96.1	83.3	103.5	-----
1929	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-----
1930	73.2	68.7	75.6	93.2	95.6	6.1	113.4	55.8	62.5	-----
1931	54.8	69.7	34.8	40.9	72.9	-----	31.3	19.3	64.8	-----
1932	30.4	32.2	21.5	9.5	71.6	-----	73.4	6.7	114.4	-----
1933	40.7	51.0	13.5	31.2	102.0	14.1	78.3	17.2	446.3	-----
1934	62.9	80.1	25.1	53.7	119.9	37.4	126.9	70.2	719.8	-----
1935	69.9	83.3	37.7	46.9	125.9	23.6	123.4	86.7	800.4	-----
1936	69.3	79.0	39.0	74.7	124.3	81.7	159.1	100.0	753.5	-----
1937	97.0	128.9	43.7	84.4	131.8	84.6	138.4	123.8	825.9	-----
1938	87.3	109.6	43.2	88.7	135.5	41.1	171.6	91.8	890.4	-----
1939	85.4	106.4	44.6	39.7	122.7	30.4	197.8	79.0	997.8	-----
1940	90.9	113.2	45.9	96.5	128.5	101.0	217.9	100.6	1,015.9	-----
1941	107.3	146.2	46.3	93.6	136.6	110.5	154.5	83.3	799.0	-----
1942	107.8	151.1	57.4	22.6	142.6	62.1	146.5	60.5	566.3	-----
1943	105.4	155.1	36.2	.3	150.2	59.5	149.8	67.2	526.2	-----
1944	104.2	155.4	30.6	1.0	150.9	44.2	131.2	66.5	617.5	-----
1945	103.1	146.6	42.8	15.3	137.9	53.5	127.4	54.5	546.2	-----
1946	90.0	112.6	51.0	65.0	130.4	47.7	56.5	37.1	699.2	-----
1947	102.1	133.1	53.2	95.9	137.1	88.7	72.7	49.8	518.3	-----
1948	109.0	138.8	56.8	149.6	150.6	140.8	81.8	57.5	497.1	-----
1949	95.0	115.8	55.3	151.4	142.0	6.3	64.7	51.3	559.6	8.8
1950	93.3	113.2	49.7	163.0	147.0	34.1	94.9	63.1	582.7	100.0
1951	97.9	118.7	52.0	175.2	146.7	93.9	185.5	79.4	529.6	120.5
1952	99.6	127.5	44.5	130.4	162.3	60.0	298.0	94.4	508.9	144.3
1953	92.0	113.3	44.0	162.2	155.6	14.9	199.9	109.9	453.3	199.6
1954	93.8	113.4	48.7	121.3	150.3	82.8	305.2	99.4	378.5	275.4
1955	104.5	135.2	47.6	84.8	153.1	80.4	312.4	114.4	372.1	408.8
1956	110.1	152.7	35.9	147.1	151.1	50.6	231.2	121.7	286.1	561.9
1957	111.7	151.5	40.5	148.7	139.0	95.2	-----	103.9	313.8	687.9

TABLE 5.—*Production indexes for the public utility sector*

[1929=100]

Year	Public utilities	Gas	Electricity	Year	Public utilities	Gas	Electricity
1908	58.3	(1)	(1)	1933	117.2	123.0	113.8
1909	60.3	(1)	(1)	1934	129.9	130.9	129.4
1910	62.3	(1)	(1)	1935	142.5	142.8	142.2
1911	64.3	(1)	(1)	1936	153.5	152.7	153.8
1912	66.3	(1)	(1)	1937	169.9	163.7	173.4
1913	68.3	(1)	(1)	1938	180.8	175.9	183.6
1914	68.3	(1)	(1)	1939	184.5	183.4	185.1
1915	68.3	(1)	(1)	1940	204.6	200.0	207.3
1916	68.3	91.0	55.3	1941	221.5	218.5	223.3
1917	67.1	84.2	57.2	1942	231.4	228.8	232.7
1918	65.9	77.4	59.2	1943	247.8	237.3	253.8
1919	65.9	77.6	59.3	1944	260.1	250.7	265.4
1920	60.1	53.9	63.6	1945	301.4	260.1	325.1
1921	50.2	74.0	36.4	1946	328.7	276.7	358.5
1922	48.9	70.1	36.7	1947	353.3	282.1	394.1
1923	46.7	56.5	41.1	1948	380.2	303.8	424.0
1924	66.6	78.9	60.0	1949	411.8	317.7	465.8
1925	77.2	76.1	77.8	1950	467.8	319.8	552.7
1926	81.3	80.5	81.8	1951	504.9	319.8	611.2
1927	85.4	84.9	85.8	1952	548.5	317.7	681.0
1928	89.7	89.3	89.8	1953	578.6	325.6	723.9
1929	100.0	100.0	100.0	1954	618.2	322.1	788.3
1930	108.6	107.0	109.4	1955	643.8	319.2	830.1
1931	105.2	109.8	102.5	1956	671.5	321.1	872.6
1932	105.1	108.3	103.3	1957	686.0	319.2	897.4

[1] Not available.

TABLE 6.—*Comparison of the results of three independent studies of the growth of output in Chile*

Year	Agriculture	Industry	Mining	Public utilities	Gross product	Davis-Ballesteros index	Gross national product
1925	82.9	87.8	70.3	68.6	80.5	67.0	----------
1926	84.6	82.8	65.1	73.5	88.5	68.7	----------
1927	83.4	74.1	62.4	82.8	74.8	72.9	----------
1928	100.7	81.7	93.0	89.2	87.9	90.6	----------
1929	100.0	100.0	100.0	100.0	100.0	100.0	----------
1930	103.9	100.2	70.4	109.8	92.9	89.3	----------
1931	85.8	74.5	48.2	103.4	74.0	74.1	----------
1932	88.0	85.0	26.2	103.4	72.9	54.2	----------
1933	106.4	93.5	32.7	114.2	82.4	63.1	----------
1934	113.9	102.0	53.1	129.9	96.2	76.4	----------
1935	102.1	117.4	60.3	142.2	96.3	81.3	----------
1936	105.6	120.1	61.4	152.9	100.8	82.4	----------
1937	106.3	126.1	85.3	172.1	101.9	96.6	----------
1938	103.0	130.7	74.5	181.9	101.6	92.7	----------
1939	113.5	129.0	74.1	184.8	109.4	95.0	----------
1910	108.4	142.9	80.9	205.4	109.2	100.1	100.0
1941	106.2	146.4	92.8	222.5	117.0	111.6	104.4
1942	106.4	144.5	89.9	231.9	112.7	110.9	99.4
1943	111.0	139.4	89.2	252.0	117.4	115.1	109.8
1944	120.3	143.2	88.9	263.2	124.6	118.9	118.3
1945	115.3	163.0	87.2	319.1	134.9	126.6	128.4
1946	116.2	173.0	77.3	352.4	136.3	115.8	134.8
1947	114.3	177.4	87.6	380.4	133.7	125.3	115.8
1948	121.0	185.0	92.3	410.8	146.0	138.8	135.7
1949	131.9	191.5	80.5	446.1	135.8	132.6	141.4
1950	118.6	184.8	79.5	512.7	143.1	136.2	147.0
1951	118.7	191.5	84.6	553.4	148.8	141.4	145.9
1952	120.0	210.7	83.5	604.4	155.0	148.9	157.3
1953	128.7	230.3	75.9	644.1	149.5	152.2	169.9
1954	127.6	236.2	64.5	833.3	153.9	154.9	168.7
1955	----------	----------	----------	----------	----------	162.2	163.7

TABLE 7.—*Compound annual rates of increases in population, output, and ouput per capita*

[Percent]

Period	Output	Population	Output per capita
1908 to 1927	2.80	1.34	1.45
1927 to 1940	2.47	1.51	.94
1940 to 1957	2.95	1.98	.96
1908 to 1957	2.76	1.60	1.14
1927 to 1957	2.74	1.77	.95
1908 to 1929	4.10	1.34	2.71
1929 to 1957	1.79	1.80	

TABLE 8.—*Physical output indexes used for interpolation in the period 1928–38 and extrapolation for the period 1953–57 in the industrial sector*

Year	Aggregate	Refined sugar	Shoes	Beer	Textiles
1927	87.6				
1928	95.5	91.5	92.8	93.4	97.3
1929	116.9	137.2	113.8	116.3	116.9
1930	117.2	136.5	89.8	122.8	131.9
1931	87.0	116.5	59.8	80.7	151.7
1932	99.4	106.8	69.0	81.6	229.2
1933	109.3	130.8	110.5	88.3	228.9
1934	119.2	130.8	127.7	100.6	252.1
1935	137.2	144.7	122.0	130.2	305.3
1936	140.5	157.0	127.7	138.8	221.7
1937	147.4	164.0	69.6	158.2	245.9
1938	152.7	176.9	69.4	139.2	250.0
Year	**Aggregate**	**Food**	**Clothing**	**Beverages**	**Textiles**
1953	237.7	262.8	113.1	191.5	162.1
1954	239.6	267.1	115.3	185.8	170.2
1955	242.9	257.1	116.2	202.5	173.0
1956	259.6	273.6	101.0	219.4	155.7
1957	258.4	271.3	104.1	218.6	159.4

TABLE 9.—*Price indexes used as deflators for the "value-product" series in the governmental and industrial sectors during the years 1908–29*

Year	Industrial goods price index [1]	Agricultural goods price index [2]	Imported goods price index	Composite index	Year	Industrial goods price index [1]	Agricultural goods price index [2]	Imported goods price index	Composite index
1908	42.4	39.2	34.8	38.8	1919	80.8	69.2	86.1	78.7
1909	44.0	39.1	30.8	38.0	1920	92.8	85.6	93.0	90.5
1910	42.8	41.7	32.6	39.0	1921	80.5	75.2	111.1	88.9
1911	42.0	43.4	33.7	39.7	1922	84.9	79.0	87.1	83.7
1912	41.2	41.2	34.5	39.0	1923	78.3	82.6	93.7	84.9
1913	47.5	43.0	39.9	43.5	1924	80.9	84.3	119.3	94.8
1914	51.4	46.6	42.6	46.9	1925	99.6	104.5	114.7	103.6
1915	60.9	64.0	49.0	58.0	1926	102.6	91.1	105.7	99.8
1916	61.0	52.4	50.4	54.6	1927	99.5	81.7	103.5	94.9
1917	65.7	68.5	48.6	60.9	1928	107.1	98.8	101.3	102.4
1918	68.3	63.1	53.9	61.8	1929	100.0	100.0	100.0	100.0

[1] Based on 6 commodities.
[2] Based on 11 commodities.

TABLE 11.—*Price indexes used to deflate the industrial "value-product" series, 1938–53, and Government, 1929–57—Sectoral indexes*

Year	Food products	Textiles	Beverages	Industrial products	Wholesale price index
1929	100.0	100.0	100.0	100.0	100.0
1930					86.6
1931					78.9
1932					119.5
1933					179.5
1934					178.2
1935					178.1
1936					196.9
1937					235.8
1938	240.0	213.6	250.0	224.2	224.1
1939	212.0	212.7	291.5	205.8	218.2
1940	225.0	245.0	318.5	224.7	240.7
1941	247.0	259.0	462.3	239.7	280.8
1942	367.0	300.4	666.5	318.9	381.7
1943	392.0	355.3	666.5	333.8	421.1
1944	405.0	325.9	666.5	376.1	434.7
1945	452.0	385.2	715.3	429.2	462.7
1946	556.0	423.0	979.3	506.4	534.2
1947	735.0	522.3	1,083.3	644.8	689.0
1948	828.0	627.8	1,333.0	760.9	722.1
1949	893.0	748.5	1,343.0	862.1	901.9
1950	957.0	868.1	1,546.3	966.6	1,058.3
1951	1,131.0	1,080.6	1,799.5	1,215.4	1,384.2
1952	1,441.0	1,126.1	2,121.8	1,485.0	1,716.3
1953	1,813.0	1,416.5	2,707.8	1,870.6	2,110.4
1954					3,312.7
1955					5,841.4
1956					9,576.4
1957					13,639.4

TABLE 11.—*Average 1951–55 prices used to determine the value of output in the agricultural, public utilities, and mining sectors*

Sector and product	Unit	Average 1951–55 price	
		United States dollars	Chilean pesos
Agriculture:			
Wheat (trigo)	Per 100 kilograms		1,046.15
Barley (cebada)	do		1,047.70
Oats (avena)	do		1,032.79
Rice (arroz)	do		1,198.82
Corn (maiz)	do		1,194.77
Potatoes (papas)	do		845.41
Beans (frejoles)	do		2,779.71
Chickpeas (garbanzos)	do		2,536.10
Peas (arvejas)	do		1,382.15
Lentils (lentejas)	do		2,397.96
Sunflower (girasol)	do		1,396.07
Tobacco (tabaco)	do		2,005.00
Cattle (vacuño)	Per head		20,945.00
Sheep (ovino)	do		1,543.70
Hogs (porcino)	do		5,091.50
Goats (caprino)	do		838.34
Milk (leche)	Per liter		12.16
Wool (lana)	Per 100 kgs		15,275.73
Public utilities:			
Gas	Per cubic meter		10.92
Electricity	Per kilowatt-hour		3.04
Mining:			
Copper (cobre)	Per ton	560.70	136,250.10
Nitrate (salitre)	do	43.08	10,468.44
Iron (hierro)	do	4.04	981.72
Coal (carbon)	do	18.09	4,395.87
Iodine (yodo)	do	3,008.70	731,114.10
Sulphur (azufre)	do	30.00	7,200.00
Silver (plata)	do	26,973.00	6,545,691.00
Gold (oro)	Per kilo	1,125.28	273,443.04

TABLE 12.—*The contribution of the basic sectors to gross national product*

	Percent [1]		Percent [1]
1950	50.3	1954	53.9
1951	49.2	1955	55.1
1952	51.1	1956	53.0
1953	50.1	1957	51.2

[1] Percentage of GNP represented by output in the basic sectors (agriculture, industry, mining, government, and public utilities).

Source: Corporacion del Fomento de la Produccion, "Cuentas Nacionales de Chile, 1950–60" (Santiago: 1960).

TABLE 13.—*Degree of participation in the labor force and distribution of active population by sector*

	1907	1920	1930	1952
Percentage of active population to total population	38.6	36.2	34.1	36.3
Percentage of active population engaged in—				
Agriculture	37.7	36.2	34.7	30.7
Mining	2.8	4.1	5.1	4.7
Industry and construction	17.6	15.2	18.3	23.7
Transportation	3.4	4.8	3.8	4.4
Government	5.3	4.2	7.6	33.5
Commerce and services	33.2	35.5	30.5	
Not specified				3.0

TABLE 14.—*Equivalent of the Chilean gold peso in current dollars, pounds and marks*

Years	US $1		1 pound sterling		1 mark	
	Peso oro	*d*	*Peso oro*	*d*	*Peso oro*	*d*
1877–79	1.096	45	5.333	45	0.261	45
1880–97	1.298	38	6.316	38	.309	38
1898–1925	2.740	18	13.333	18	.653	18
1926–31	8.250	6	40	6	1.960	6
1932	8.250	6	19.56	6	1.960	6
1933	6.680	6	19.56	6	1.960	6
1934–47	4.8425	6	19.56	6	1.960	6
1948	4.85461	6	19.56	6	1.960	6
1949–55	4.85461	6	13.59	6	1.15586	6

TABLE 15.—*Prices of capital goods in the United States, Great Britain, and Germany, 1877–1955*

Year	United States	Great Britain	Germany	Year	United States	Great Britain	Germany
1877	59.6	57.1	61.1	1917	85.4	96.4	91.0
1878	53.3	53.6	55.1	1918	102.4	122.6	138.6
1879	56.6	50.6	52.1	1919	108.9	142.2	84.3
1880	70.2	53.6	56.6	1920	115.4	175.0	82.0
1881	63.4	51.2	52.8	1921	105.4	126.8	57.3
1882	66.4	51.8	54.3	1922	94.0	89.9	50.8
1883	60.9	50.0	52.8	1923	99.8	94.6	92.3
1884	52.4	48.2	50.6	1924	99.4	107.7	97.0
1885	46.1	46.4	49.1	1925	99.1	104.8	102.6
1886	46.5	44.0	48.3	1926	100.0	100.0	100.0
1887	50.3	44.0	50.6	1927	99.7	97.6	98.3
1888	51.2	45.2	55.1	1928	99.8	95.8	103.4
1889	49.0	45.8	61.1	1929	100.6	94.6	104.6
1890	49.2	48.2	66.4	1930	94.7	98.9	104.1
1891	45.2	47.1	61.1	1931	88.4	84.5	98.9
1892	44.7	45.8	56.6	1932	82.9	80.4	89.4
1893	44.3	44.6	52.8	1933	83.3	82.4	86.2
1894	45.8	42.3	50.6	1934	91.2	81.5	86.0
1895	40.0	41.7	51.3	1935	90.5	83.3	85.5
1896	36.5	41.7	53.6	1936	91.7	85.7	85.3
1897	45.3	41.7	57.4	1937	98.6	93.5	85.4
1898	48.4	41.7	59.6	1938	98.6	95.2	85.3
1899	51.8	45.8	59.4	1939	92.9	108.4	85.1
1900	52.0	52.4	80.0	1940	93.7	114.6	85.3
1901	51.4	49.4	67.2	1941	96.3	125.7	85.5
1902	51.0	47.6	61.9	1942	98.9	137.9	85.7
1903	48.5	48.8	64.9	1943	98.6	151.2	85.8
1904	50.9	49.4	64.9	1944	98.6	165.9	85.6
1905	51.0	50.0	67.2	1945	99.9	182.0	----------
1906	50.8	53.6	73.2	1946	111.9	199.4	----------
1907	52.7	56.0	77.0	1947	133.4	225.0	----------
1908	49.4	52.4	67.9	1948	148.7	256.0	----------
1909	53.7	51.8	66.4	1949	153.5	260.1	154.7
1910	53.8	54.8	67.2	1950	159.0	284.5	146.4
1911	57.7	56.0	67.9	1951	175.5	339.3	171.3
1912	55.2	58.3	74.7	1952	177.6	322.0	185.7
1913	56.5	60.7	75.5	1953	181.5	310.1	183.4
1914	57.6	59.5	70.6	1954	183.4	304.8	178.1
1915	61.8	63.1	75.1	1955	188.4	310.8	184.2
1916	69.8	74.4	79.5				

Source: United States, 1887–1938: W. H. Shaw, "Value of Commodity Output since 1869," p. 294. Eight series were combined to form one index using the following weights: Machinery and industrial equipment (10), tractors (1), electrical equipment (8), agricultural equipment (2), locomotives and railroad equipment (1), tools (1), others (2).

———, 1939–1955: The Economic Almanac, 1956, p. 74. The index is the simple average of "metals and metal products" and "machinery and motive products."

Great Britain, 1877–1914 and 1924–38: E. H. Phelps-Brown and Bernard Weber, "Accumulation, Productivity, and Distribution in the British Economy, 1870–1938," Economic Journal (1953), pp. 286–287.

———, 1915–23 and 1946–54: A composite index was formed (with weights equal to 1, 3, and 3) of the following:

Iron and Steel—Burnham and Hoskins, "Iron and Steel in Great Britain, 1870–1930" (for the period 1915–23).

Machinery exports—United Kingdom Board of Trade, "Index of Average Values of United Kingdon Exports of Machinery" (for 1946–54).

Sauerbeck's Index—Layton and Crowther, "Introduction to the Study of Prices in the United Kingdom," p. 238.

Index of prices of finished export goods—H. Schlote, "Entwicklung und Structurhandlungen des englishen Aussenshandels von 1700 bis sur Gegenwart," pp. 181–182.

———, 1939–45: by interpolation.

Germany, 1877–1913: Institut Fur Konjunkturforschung, "Die Grosshandels-preise in Deutschland von 1792 bis 1934,"; Sonderheft 37, Berlin, 1935, p. 45.

———, since 1914: "Statistiches Reichsamt," section on "prices," and "Statistiches Bundesamt," section on "prices." For an explanation on procedures, see Heft 6 (September 1960, pp. 197–206.

TABLE 16.—*Capital goods imports in 1926 dollars per capita*

Decades:	*1926 U.S. dollars*	Subperiods:	*1926 U.S. dollars*
1875–84	1.25	1905–24	6.29
1885–94	3.85	1925–29	6.52
1895–04	2.90	1930–34	3.57
1905–14	8.31	1935–54	4.85
1915–24	4.27	1905–29 (34 percent higher)	6.34
1925–34	5.04	1930–54	4.59
1935–44	3.10	1905–54	5.47
1945–54	6.60		

TABLE 17.—*Index of the capital stock per capita and its distribution by sectors*

Year	Aggregate	Agriculture	Mining	Industry	Transportation
1907	60.6	55.8	70.5	54.9	102.4
1908	68.1	60.5	83.6	62.4	108.4
1909	71.5	64.0	85.7	66.1	111.2
1910	74.9	72.1	85.3	69.6	112.5
1911	80.9	80.2	87.7	75.5	118.9
1912	85.3	87.2	86.0	80.8	121.6
1913	88.9	89.5	83.1	85.6	123.6
1914	90.6	90.7	82.2	88.9	120.8
1915	90.3	90.7	80.2	89.1	117.1
1916	90.8	90.7	79.8	90.2	141.9
1917	92.3	91.9	84.7	91.5	112.7
1918	92.3	91.9	85.6	92.5	107.9
1919	92.8	93.0	88.5	93.0	104.1
1920	91.1	93.0	87.3	90.3	95.5
1921	92.0	95.3	88.0	90.3	93.4
1922	92.8	94.2	86.9	94.0	93.2
1923	93.0	93.0	86.5	94.2	94.9
1924	94.2	94.2	87.2	95.4	96.4
1925	95.7	96.5	89.6	96.2	97.0
1926	98.6	97.7	98.3	99.1	98.2
1927	100.0	100.0	100.0	100.0	100.0
1928	102.4	101.2	100.1	99.7	105.0
1929	107.2	102.3	100.5	108.0	110.3
1930	112.3	102.3	103.7	112.8	117.5
1931	113.0	101.2	105.6	112.7	118.0
1932	109.9	96.5	100.9	109.3	114.4
1933	106.8	90.7	99.8	104.9	111.9
1934	103.4	86.0	96.8	100.6	109.1
1935	100.0	80.2	94.6	96.1	106.8
1936	96.1	74.4	87.1	93.4	95.6
1937	91.8	70.9	80.8	89.4	95.6
1938	88.2	68.6	74.4	84.7	94.5
1939	85.8	66.3	72.1	82.5	90.5
1940	83.6	61.6	71.0	79.8	88.7
1941	80.2	58.1	68.6	76.6	82.4
1942	77.1	53.5	67.7	73.2	78.3
1943	74.4	51.2	68.2	69.9	74.8
1944	73.2	50.0	67.7	67.8	70.8
1945	73.7	51.2	66.9	67.8	72.9
1946	74.4	53.5	66.7	68.2	72.2
1947	76.1	55.8	62.8	69.9	74.5
1948	77.5	60.5	59.8	71.3	74.5
1949	81.1	65.1	56.8	75.7	75.5
1950	82.1	64.0	55.7	76.2	76.4
1951	84.5	68.6	54.5	77.3	76.1
1952	85.0	73.3	54.1	78.5	74.7
1953	87.9	77.9	54.1	80.3	75.7
1954	88.6	84.9	51.5	80.0	75.5
1955	90.1	93.0	48.1	80.4	76.4

TABLE 18.—*Index of real wages of public employees (including the employers' contribution to the Caja de Empleados Particulares), 1860–1958*

Year	Index	Year	Index	Year	Index	Year	Index
1860	90.9	1876	103.2	1892	126.1	1908	88.7
1861	100.4	1877	68.0	1893	116.2	1909	85.9
1862	80.8	1878	92.8	1894	107.8	1910	80.7
1863	96.2	1879	149.1	1895	129.9	1911	78.0
1864	137.8	1880	133.8	1896	139.8	1912	122.6
1865	117.2	1881	116.5	1897	128.6	1913	127.2
1866	123.9	1882	136.7	1898	144.3	1914	117.3
1867	99.3	1883	107.6	1899	117.8	1915	89.3
1868	100.7	1884	109.9	1900	100.0	1916	110.2
1869	107.8	1885	108.9	1901	120.2	1917	84.2
1870	135.6	1886	112.7	1902	103.9	1918	91.6
1871	101.9	1887	150.4	1903	102.7	1919	94.5
1872	85.7	1888	127.5	1904	98.9	1920	76.4
1873	104.3	1889	121.1	1905	89.9	1921	87.6
1874	102.1	1890	151.9	1906	93.3	1922	90.0
1875	90.7	1891	139.4	1907	105.9	1923	86.1

Year	Employers' contribution		Year	Employers' contribution		Year	Employers' contribution	
	Index included	Index excluded		Index included	Index excluded		Index included	Index excluded
1924	87.5	86.9	1936	100.6	95.6	1948	113.3	84.9
1925	92.8	88.3	1937	84.5	73.1	1949	141.1	105.4
1926	152.2	145.3	1938	81.1	69.8	1950	158.9	118.7
1927	152.2	145.3	1939	80.5	69.2	1951	138.2	103.2
1928	152.2	145.3	1940	98.0	84.1	1952	162.8	121.6
1929	140.1	133.1	1941	163.9	140.6	1953	141.5	105.4
1930	141.5	134.7	1942	130.5	112.0	1954	81.9	61.1
1931	143.5	136.7	1943	115.0	96.5	1955	91.0	67.7
1932	118.1	112.5	1944	103.2	86.4	1956	85.8	63.0
1933	95.5	91.0	1945	191.2	155.1	1957	92.9	67.6
1934	95.5	91.0	1946	165.3	134.1	1958	90.0	64.5
1935	94.0	89.5	1947	134.5	100.5			

TABLE 19.—*Employers' and employees' contribution to the social security system (Caja de Empleados Particulares)*

Date	Employers' contribution (percent)	Employees' contribution (percent)	Date	Employers' contribution (percent)	Employees' contribution (percent)
Nov. 11, 1924	5	5	January 1947	33.81	8
Aug. 1, 1937	15.33	8	January 1952	33.86	8
Nov. 4, 1938	16.33	8	Jan. 10, 1954	34.36	8
Jan. 2, 1940	16.43	8	Jan. 1, 1956	36.11	9.25
Feb. 8, 1941	16.48	8	Jan. 2, 1957	36.16	9.25
January 1943	19.48	8	Jan. 6, 1957	38.33	9.25
January 1944	19.68	8	Jan. 1, 1958	39.33	10.25
January 1945	23.10	8	November 1959	39.83	10.75

APPENDIX B

MEASURES IMPLEMENTING THE PURPOSES OF THE ACT OF BOGOTÁ AND THE SPIRIT OF THE ALLIANCE FOR PROGRESS*

Argentina

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

The proportion of national taxes to gross national product has declined during the past decade; they averaged only 10.7 percent of GNP in the 1958–60 period as compared with 15.5 percent in 1951.

About one-third of Federal Government revenues come from taxes on income and capital, while much of the remainder is derived from a wide variety of consumer taxes. Individuals are subject to a basic 9 percent income tax on earnings from domestic sources, plus a supplementary tax, ranging from 6 to 45 percent, on taxable incomes greater than 20,000 pesos (US$240) per year. Corporations must pay an income tax of 33 percent, but those who invest in their own expansion may reduce their taxable incomes by 50 percent of such investments. All enterprises, including corporations, are subject to taxation on earnings in excess of 12 percent of their paid-in capital and reserves in any tax year.

Over 75 percent of National Government expenditures are used for current expenses, including financing of operating deficits of state enterprises (14 percent of Government expenditures). Close to 15 percent of Government expenditures are used for education and public health, while the Armed Forces require between 14 and 17 percent, and some 25 percent is used for investments.

Following a period of grave economic difficulties, gross domestic investment for 1960 exceeded the 1959 figure by about 25 percent and accounted for approximately 21 percent of gross national product at current prices. More than 90 percent of domestic capital formation was financed by domestic savings.

2. Recent Institutional Improvements

(*a*) *Modifications of the tax structure*—The 1961–62 draft budget sent to Congress in September 1961 includes basic amendments to concentrate the tax system on income, excess profits, capital and sales taxes—and to eliminate a large number of trivial and unproductive taxes. One modification provides that the excess profits tax is to be levied on the overall income of enterprises, rather than on each subsidiary activity, as heretofore. Thus, it will cover many activities which had not formerly been taxed. The new capital tax applies to registered stocks which were not formerly taxed.

(*b*) *Improvements in tax administration*—The Internal Revenue Administration, which was reorganized in 1961 to cope more effectively with the problem of tax evasion, has launched a drive to increase tax collections by bringing the tax rolls up to date and by improving collection procedures generally. The principal new measures are:

(i) The Internal Revenue Administration was decentralized into regional bureaus to bring taxation officials closer to the individual taxpayers, leaving the formulation of policies and regulations to the national office.

(ii) Local bureaus of the Internal Revenue Administration were established in the principal neighborhoods of the Federal Capital in late 1960; they have stepped up drives to increase the registration of persons liable for income taxes and to review more carefully tax declarations of those already registered.

(iii) Inspection staffs have been strengthened, both in the capital and in the rest of the country.

(iv) All the offices of the general Internal Revenue Administration are being reorganized to improve their decisiveness and efficiency.

These measures resulted in a considerable increase in collections during the 1960–61 fiscal year, as is apparent from the fact that tax receipts amounted to 100.7 billion Argentine pesos, substantially more than the 82.7 billion pesos anticipated in the budget.

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*Excerpts from the "Social Progress Trust Fund," First Annual Report, 1961, Inter-American Development Bank, Washington, D.C., submitted by William Barnes. (See p. 12 of these hearings.)

Bolivia

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

In 1958 gross domestic investment was equivalent to 13.5 percent of the gross national product, and, allowing for depreciation, the net investment rate was 5.5 percent.[1]

In recent years the public sector of the Bolivian economy has absorbed almost 25 percent of the gross national product; about one-third of this has gone to the Central Government and most of the remainder to various Government enterprises and independent agencies.

In the 1960 Central Government budget, taxes on consumption and foreign trade increased to more than 80 percent of total revenue, as compared with approximately 50 percent in 1951. Taxes on income and capital represented about 16 percent of all 1960 revenues, the balance being derived from sources other than taxes.

Inasmuch as the receipts of the Central Government have not been sufficient during most of the past decade to cover administrative expenses, investment outlays have had to depend on foreign financing, principally from the United States of America.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure and administration.*—A new customs tariff put into effect in June 1961, is expected to increase collections and simplify administration. Various improvements have also been made for handling and auditing of receipts and expenditures. Of particular importance are the introduction of mechanized procedures for payments from the National Treasury and reorganization of the auditing systems in the Ministry of Finance and the Office of the Comptroller General.

The aforementioned national economic and social development plan stresses the need to simplify the tax structure and to improve tax administration. The first step in this direction will be to codify more than 2,000 existing tax laws under a tax code which is expected to become effective in 1962. The improvements envisaged in the plan include redistribution of functions within the Ministry of Finance.

Brazil

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Both the Act of Bogota and the Alliance for Progress are considered to have been derived from basic concepts in Operation Pan-America which was proposed by Brazil in 1958 to foster the economic and social development of the Americas. Since that time, the Brazilian Government has demonstrated a keen interest in measures of international cooperation leading toward the achievement of the lofty ideals of these programs, and has undertaken or proposed several domestic reforms with the same objectives.

Gross capital formation in Brazil during the past decade averaged 15 percent of gross national product and brought about an expansion of production of more than 5 percent per annum. Since the proposed target is to increase GNP by 7.5 percent per annum, gross capital formation will have to be increased to 24 percent of GNP.

The Government's share in capital formation, which has been increasing over the last decade, attained a record level of 27 percent of total capital formation in 1958.

In recent years, approximately one-third of all Federal disbursements have been for current expenditures. Transfer payments represented the same percentage, while capital expenditures accounted for one-fourth of all outlays. Development activities accounted for most capital expenditures, averaging 21 percent of the 1959 and 1960 budgets.

Federal, State, and local taxes, which had amounted to 12 percent of GNP in 1950, increased gradually to more than 15 percent in 1958. If one considers also contributions by salaried persons to the social security system and net profits of the Federal Government through the multiple exchange rate system, both important sources of revenue, the ratio of taxes to GNP increased from 14 percent in 1950 to almost 21 percent in 1958.

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[1] These figures have not changed significantly since 1958.

In 1960 consumption taxes, income taxes, and import duties yielded 42 percent, 32 percent, and 12 percent, respectively, of all Government receipts.

2. Recent institutional reforms

(*a*) *Modifications of the tax structure.*—In September 1961, the Council of Ministers announced its intention to undertake fiscal reforms based on economic and social criteria and including incentives to saving. The new administration proposed in a general policy statement submitted to Congress that income and consumption taxes be modified in order to stimulate reinvestment of profits and investment in priority sectors, that encouragement be given to increased funding for depreciation, that excessive transfers of profits abroad be discouraged, and that tax evasion be impeded.

Late in November 1961, the Council of Ministers presented to Congress a tax reform bill providing for a major revamping of the fiscal system. The proposed tax reform, part of the development policy adopted by the Government, aims at increasing the rate of growth of the economy, with reasonable price stability and better use of available resources, and at the same time reducing social tensions generated by income disparities and aggravated by inflation.

The proposed measures seek: (*a*) to increase the rate of savings favoring reinvestment of profits and development of a capital market as well as by discriminating against nonessential consumption; (*b*) to channel savings into high priority investments; (*c*) to improve income distribution; and (*d*) to combat inflation by eliminating the Treasury's cash deficit. The income tax rate on dividends on bearer shares (shares of stock which are not registered in the name of the owners) would be sharply increased and stern measures, including prison terms, would be used against tax evaders. In addition, loopholes are to be plugged in the tax assessment system, and excise tax rates on luxury articles are to be increased.

The Government also plans to revise the consumption tax, emphasizing its progressive features by raising rates on articles not consumed by low-income persons. Furthermore, the Government has suggested a change in the tax on electricity from a specific tax rate to an ad valorem rate, a new tax on property benefited by highway construction, and an increase in excise taxes on vehicles and tires, all of these to increase resources needed to finance electric power and highway programs.

The income tax law was revised on February 21, 1961, to make the rate structure more realistic in view of inflationary conditions and to increase yields through more efficient tax administration. In the Federal excise tax reform enacted in 1958, tax rates on luxuries had been sharply increased and the "turnover" feature was removed from the excise taxes.

(*b*) *The São Paulo agrarian revision law.*—An agrarian revision law, approved by the São Paulo State Legislature and signed by its Governor at the end of 1960, became effective on April 14, 1961. Its principal purposes are "to promote rational and economically sound land use and to assist in the acquisition of small rural properties." Two methods are provided: (1) subdivision and settlement of lands which are not being fully used (preferably Government lands); and (2) imposition of graduated taxes to encourage intensified use of land.

The land tax runs from 2 percent per annum of the value of the first 100 hectares (241.7 acres) to 6 percent per annum of the value of hectares in excess of 5,000 (12,355 acres). This tax is doubled if at least 70 percent of a particular property is not being used productively or if more than half of it is leased. On the other hand, the tax is reduced if a farm is being reasonably cultivated, if soil conservation practices are being employed, and if the farmworkers are provided with adequate housing.

Chile

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Government receipts varied between 13 and 15 percent of the annual gross national product during most of the past decade. Nearly all of these receipts are from taxes, with nontax income representing barely 5 percent of Government revenues. The tax system is highly centralized, municipal taxes amounting to less than 6 percent of Government tax collections and the Provinces having no independent tax revenues.

Investment allocations from Government revenues increased from 18 percent in 1958 to 24 percent in 1961, while current budgetary expenditures dropped from 75 to 61 percent. An average of 8 percent is generally earmarked for public debt service, although this item represented 15 percent of Government expenditures in 1961 due to increased indebtedness, chiefly foreign, required to finance Chilean infrastructure.

The current national economic development plan emphasizes the necessity of capital formation and proposes that 50 percent of this be in the public sector. The mobilization of domestic resources required by the plan is, therefore, substantial and would represent an additional effort in the public sector to increase gross savings from 10 percent of gross national product to 18 percent of gross national product by 1970.

Two-thirds of the tax revenues of Chile come from taxes on consumption, foreign trade, and copper mining profits. Following a rapid decline in international copper prices from the high 1954-56 levels, various measures were adopted to stimulate investment and production by the large companies. Thus, copper tax revenues have remained relatively stable in recent years despite increased production.

Under the Chilean tax system, income is classified in six categories. In each of these categories (except the first where income is delineated but not taxed) a flat percentage rate is applied. The individual taxpayer's total income from all of the six categories is then subject to an "overall surtax" (impuesto global complementario) on a scale which is first progressive and then becomes proportional. The categories and rates are (*a*) income derived from real estate: no base tax, but for purposes of the surtax, the statute irrebuttably presumes that urban property is to return gross taxable income equal to 7 percent of its assessed value; (*b*) income received as interest, dividends, annuities, 33 percent; (*c*) income obtained from commercial, industrial, agricultural, and brokerage activities, 25 percent; (*d*) income derived from metallurgical activities and from mining (excluding large copper companies), 32 percent; (*e*) income derived from wages, salaries, bonuses, 3.5 percent; and (*f*) income derived from professional activities or from lucrative occupations, 15 percent. The overall surtax rate goes up to 36 percent on incomes in excess of 20 minimum wage units.[2]

2. *Recent institutional improvements*

(*a*) *Modifications in the tax structure.*—The Chilean Government has set as a goal for 1961 and 1962 the study, approval, and implementation of projects to introduce necessary changes in tax legislation in order to satisfy economic development demands."[3]

These projects are primarily concerned with—

(i) Scientific evaluation of farmlands through an aerial photographic survey now in progress (with assistance from the Organization of American States). This survey will be used to determine the real value of farm properties and to institute a system aimed at improved land utilization.

(ii) Modification of the tax on corporate dividends by placing them in category "(*c*)" referred to above, and maintaining incentive for investment by exemptions from the overall tax on dividends on bonus shares.

(iii) Revision of depreciation regulations to stimulate investment in modern machinery and equipment.

(iv) Simplification of complicated taxes on construction activities and on professional services.

(v) Reorganization of exemptions from the supplementary overall tax, to stimulate and control personal savings and provide incentives for investment in projects of national interest.

(vi) Simplification of taxes on transactions in order to concentrate tax rates at levels that will reduce the overall rate on consumer goods and provide better control.

(vii) Reorganization of customs duties to provide greater flexibility and to include modern product classifications.

(*b*) *Improvements in tax administration.*—The Government is reorganizing the Internal Revenue Service in order to improve tax collections and combat evasion. The following are among the measures which have been taken:

(i) Establishment of criminal penalties for tax evasion.

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[2] The Government establishes a minimum "living wage" (sueldo vital) which is based on the cost of living and must be paid to white-collar employees of private concerns. In 1961 the sueldo vital in the Province of Santiago was 77 escudos (US$73.10) per month.

[3] Message of the President of Chile to the National Congress, May 21, 1961, p. 74.

(ii) Recruitment of additional tax inspectors.

(iii) Establishment of a permanent training program for technical personnel, supplemented by study trips sponsored by the U.S. point four mission.

(iv) Decentralization by greater delegation of duties to regional directors.

(v) Creation of a Department for Investigation of Tax Infringement.

(vi) Creation of a Study Office, to include the Departments of Planning, Statistics, and Organization and Methods.

(vii) Installation of equipment for better control of tax information.

Several of these measures had become effective by January 1, 1962. It is expected that the measures will in general help simplify and improve the Chilean tax system.

Colombia

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Between 1950 and 1959, the gross formation of capital expanded at a rapid rate in Colombia. The ratio to the gross domestic product increased from 16.5 to 18.9 percent in the same period. Investments in the public sector played an important role in this trend; in 1950 they represented 19 percent of the country-wide total, while in 1959 they came to 25 percent. On the other hand, the relative part played by personal savings in the gross accumulation of capital declined in the years in question from 38 to 13 percent, even though they increased from 500.1 to 543.8 million pesos in these years.

In the past decade, approximately one-third of gross fixed investment has come from the public sector.[4] The central government is currently receiving close to 55 percent of the public sector revenues, but is responsible for only 40 percent of the expenditures since it transfers 15 to 20 percent of its revenues to the departmental and municipal governments. In 1959 and 1960, the central government financed investments of nearly 1 billion pesos per year, principally from surpluses in its receipts over current expenditures.[5]

The ratio between domestic taxation and the gross national product has been rising over the past decade, from 7.8 percent in 1950 to 9 percent in 1955 and 9.7 percent in 1959. Over this same period, the relative proportion of income tax in the country's total tax receipts has also varied. After remaining at a level of about 40 percent between 1950 and 1955, it began to rise, reaching 47 percent in 1959.

Excise taxes represent approximately 46 percent of all tax receipts at present.[6]

2. Recent institutional reforms

(*a*) *Modifications in the tax structure.*—Since the end of 1958, the Colombian Government has been studying the possibilities of unifying and organizing the various eixsting income tax laws.

As a result of law 81 of December 1960, revising the income tax and the regulations thereunder (decree 0437 of February 1961) tax rates on yearly incomes over 75,000 pesos were increased and rates on incomes under that figure were reduced. The new schedule contains 56 income levels with progressive rates from one-half of 1 percent on the lowest level up to 51 percent on the highest. Three levels are established for corporations: 12 percent on income up to 100,000 pesos; 24 percent from 100,000 pesos to 1 million pesos, and 36 percent with respect to income over 1 million pesos (the prior corporate tax contained 42 levels and was extremely complicated and inefficient.) The income tax on partnerships is payable in three levels: 4 percent on income up to 100,000 pesos; 8 percent from 100,000 to 300,000 pesos, and 12 percent on amounts over 300,000 pesos. Furthermore, a tax on windfall profits from real estate operations was introduced and, in order to combat the practice of some landowners of holding unused urban tracts for purely speculative purposes, the governments of departmental capitals and the district of Bogotá were authorized to levy a 4-percent annual tax on the value of unimproved tracts of land within the "urban development" limits

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[4] The public sector in Colombia includes the National Government, 16 departmental governments, over 800 municipal governments, close to 50 decentralized development and social welfare institutions, and various national, departmental, and municipal public agencies.

[5] In 1959 and 1960, the average rates of exchange for the purchase of dollars were 6.60 and 6.70 pesos per dollar, respectively.

[6] Approximately 82 percent of all indirect taxes are from charges on foreign commerce; of these, charges on imports are greater (approximately 80 percent).

and up to 2 percent annual on the value of improved land over 1,000 square meters in area.

(*b*) *Improvements in tax administration.*—The foregoing law also set up various standards designed to improve income tax collection and administration. In pursuance thereof, the Taxpayer Census Department of the Income Tax Division is putting into practice various procedures designed to maintain permanent records to check on the veracity of income tax declarations. Furthermore, the mechanization recently applied to the operation of compiling and reviewing returns has helped to simplify and increase the efficiency of the country's tax administration services.

2. The foregoing law also provides that corporations may set aside a special tax-exempt reserve (in addition to that required by the law or stipulated in their respective charters) of up to 5 percent per annum of their liquid profits for the purpose of increasing the production of raw materials and products to replace imports. This special reserve is then exempted from income taxation.

3. The same law provides that existing corporations, or those set up prior to 1965 for the establishment and operation of basic industries listed in the law as indispensable to the country's economic development, shall be entitled to exemptions of up to 100 percent on income tax up to December 31, 1969, provided that at least 60 percent of the raw material utilized by them is of local origin. This tax exemption is applicable to companies which operate industries supplementary to iron production and utilize raw materials, over 50 percent of which come from items produced by Siderúrgica Nacional (national steel mill).

4. In order to expedite investments in the housing field, decree 0437 of February 1961 levied a special 6-percent tax on net taxable income of national or foreign corporations (except those engaged in mining), to be used for financing official housing programs, two-thirds of which may be replaced by the taxpayers through investments in mortgage bonds or other securities representing investments in housing.

Costa Rica

A. MOBILIZATION OF DOMESTIC RESORCES

1. Background

In 1959, income from the public sector accounted for 16.5 percent of gross national product, an appreciable advance over the 13.7 percent recorded in 1950. Income from taxes was 11 percent of the 1959 gross national product.

In 1960, 56.5 percent of the ordinary revenues of the Central Government came from import taxes, 4.6 percent from those on exports, and 11.4 percent from taxes on domestic consumption. Income taxes accounted for 11.1 percent and taxes on capital for 4.4 percent of total Government revenues.

In the latter years of the 1950's the prices of coffee and bananas, Costa Rica's chief export products, declined, thus permitting very little year-to-year increase in Central Government revenues. This decline also left its mark on several aspects of the economy; although public expenditures increased slightly, economic development outlays, fixed investments, and the rate of gross capital formation declined slightly.

2. Recent institutional improvements

(*a*) *Modifications in the tax structure.*—Income and property tax reforms are expected to be introduced in 1962 in order to make the tax system more equitable and to increase fiscal revenues. The proposed changes seem to be oriented in two main directions: on the one hand, to broaden the base of both taxes, and, on the other, to tax increases in land values resulting from Government highways.

Also, in order to reduce and distribute more equitably cost-of-living increases import duties on essential goods were reduced while those on less essential and luxury goods (estimated at 40 percent of all imports) were increased by 15 percent and 19 percent, respectively.[7] The duties will be eliminated upon the adoption, before the end of 1962, of a new customs tariff.

In November 1961 a 2-percent tax was established on real estate operations, mortgages, and the automobile licenses.

(*b*) *Improved tax administration.*—In the message accompanying the draft budget for 1962, the Minister of Economic Affairs and Finance announced three bills to: (i) increase the effectiveness of direct tax collection: (ii) regulate the granting of exemptions from customs duties; and (iii) create a central tax-collecting authority.

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[7] Law No. 2801 of Sept. 3, 1961.

Eucador

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Ecuador's fiscal structure is extremely complicated for two principal reasons: (a) the decentralization of agencies to collect and disburse public revenues, and (b) an increasingly large number of specific taxes. The Central Bank estimates that fiscal receipts, which have represented 23 percent of gross national product, have increased over the past decade. From 1950 to 1959, the percentage of tax receipts from taxes on incomes, inheritances and exports increased from 30.4 to 38.7 percent, while receipts from the income tax increased from 21 to 24.4 percent of all tax receipts and became the major tax source.

National savings, representing approximately 13 percent of gross national product during the last decade, were insufficient to cover gross capital formation in almost all of these years. The remainder has been supplied by foreign assistance. The largest proportion of Eucadoran savings is made by private enterprise, chiefly through depreciation reserves; Government and public enterprises have contributed appreciable amounts, and individual savings, declining in recent years, represents the smallest proportion. The savings capacity of the people is very limited, due to the low average income level and the necessity on the part of most of them to use the major part of their incomes for basic consumption.

The social security funds are one of the major channels for private savings, their surpluses being used to finance construction for their participants and for the purchase of Government bonds, mortgage certificates and private securities. Another agency promoting public and private savings is the Comisión Nacional de Valores, organized in 1955 to help stimulate a capital market, which invests its annual revenues from import duties and Central Bank profits in state bonds and mortgage certificates of banks and thereafter seeks to sell these securities to the public. Insurance companies have also been permitted and encouraged to purchase securities.

Private banks have performed a very limited role in the mobilization of savings. Commercial bank fixed-term savings deposits are not significant.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure.*—The Government of Ecuador has during the past 2 years taken certain action to modify the country's tax structure by placing greater emphasis on income and inheritance taxes. The Congress approved a new law with the following basic objectives:

(i) To prevent tax evasion through transfers of property, creation of family companies and the issuance of bearer shares;

(ii) To increase the power of the tax authorities;

(iii) To lessen taxes on small inheritances;

(iv) To revise rates in order to place them on a level with other Latin American countries in similar stages of development;

(v) To unify various taxes; and

(vi) To provide greater flexibility in the procedures for computation and payment of taxes.

In addition, the tobacco monopolies were dissolved and the various tobacco and cigarette taxes were combined, thus ending a series of losses caused by inefficient administration of the collection apparatus, cutting down on the volume of contraband coming from Colombia, and increasing domestic sales.

In addition, the last Congress approved a bill, which will probably be approved shortly by the excutive branch, to modify the income tax to bring about a more even distribution of the tax burden. The bill calls for higher taxes for the wealthy and lower for the poor, and establishes a basic tax on income from whatever source.

Now under consideration is a new sales tax law under which all national and local taxes would be combined and the tax would be based on the ultimate sale rather than on intermediary sales.

(*b*) *Improvements in tax administration.*—In November 1961, a Central Office for Organization and Procedure was set up to assist in a campaign against inefficient collection, custody and administration of fiscal resources. Various procedures were adopted to unify collection and control of a large part of the Government's revenue and to help in the campaign against contraband merchandise.

The Government plans to put modern techniques into effect in its major fiscal units, the Dirección General de Rentas (income) and the Dirección General de Aduanas (duties), and to carry out a program to coordinate the gathering of financial statistics and to make it possible to prepare periodic reports on the distribution of income and taxes by economic activity, geographical sector and income level.

El Salvador

A. MOBILIZATION OF DOMESTIC RESOURCES

1. General Background

Total revenue of the Central Government of El Salvador averaged 11 percent of gross national product (GNP) in 1957–59, while tax collections were 11.5 percent. For 1957 and 1958 gross domestic fixed capital formation averaged 17.4 percent of gross national product.

The tax structure of El Salvador is characterized by heavy dependence on import duties and consumption taxes which accounted for about two-thirds of total tax receipts in 1955–60. Export taxes represented 17 percent of tax receipts in 1960, compared with 33 percent in 1955. The income tax contributed 8.7 percent and the inheritance and gift taxes slightly more than 1 percent of tax receipts in 1960. Property taxes are a part of the "Ley de Vialidad" which consists of an occupational tax, or, if an individual holds significant assets, a tax on net capital.

In 1959 education received 16.6 percent of the Central Government expenditures, while health and welfare accounted for 12.8 percent of the total. Public works amounted to 17.7 percent of the total expenditures, almost double the amount allocated to national defense, which was 9.4 percent in that year. Capital outlays represented 14.3 percent of the total in 1959, a decline from previous years largely due to slower economic activity after the drop of export prices and the difficulty in balancing the budget after 1957.

Fiscal revenues increased rapidly between 1950 and 1957, reaching a high of 189.5 million colones (US$75.9 million) in that year. They dropped in 1958 and 1959, and substantial deficits were registered in both years. In 1960, there was a sharp reduction of Government outlays and an increase in tax receipts resulting principally from a revision of the import tariff in 1959 and from higher taxation of the industries afforded greater tariff protection. Thus the deficits experienced in 1958 and 1959 were turned into a small surplus in 1960. In October of the latter year, the Government entered into a standby agreement with the International Monetary Fund, and technical assistance was secured from that institution for the study of reform measures designed to improve the country's fiscal and financial situation.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure.*—Important changes were made in El Salvador's income tax law by a decree of September 1961 which raised the top rate for income in excess of c195,000 (US$78,000)[8] from 44 to 76.5 percent. The new law includes separate schedules of tax rates covering, respectively, earned income, income from capital, and mixed income from work and capital. The tax payable on earned income is lower than under the previous law for income up to c62,000 (US$24,800), but a progressively higher rate is applied above that level. In the schedule applicable to income from capital and mixed income, the tax is higher than that levied on earned income, and also higher than under the previous law.[9]

Under the new law, companies with taxable incomes of c55,000 or less pay a lower tax than they would have paid under the previous law. However, a progressively higher rate is applied to company income of more than c55,000, so that the tax on net earnings of c300,000 would now be c34,625 as compared with c14,875 under the previous law. The new law also provides that shareholders of limited companies are liable for a tax on undistributed profits of those companies.[10]

A plan to increase import duties on nonessential articles is also under consideration as a means of relieving pressure on the balance of payments, increasing receipts, and obtaining a more equitable distribution of the tax burden.

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[8] At the rate of exchange of c2.5=US$1 in effect at the end of 1961.

[9] Prior to this law the tax rates were applicable to the different sources of income.

[10] This provision was later revised to exempt industrial concerns from payment of this tax.

(*b*) *Improvements in tax administration.*—In addition to closing important loopholes in the previous law, the new income tax law increases the penalty for nonpayment or delay in the payment of the income tax and obliges all commercial, industrial, and other establishments to submit information on all payments for services made during the year.

To facilitate tax payments, a decree of May 12, 1961, provided for the payment of taxes in arrears by installments, while another decree of the same date allowed for the payment of taxes at commercial banks. Other measures being implemented or planned include the following:

(1) Reassessment of real estate values on the basis of actual sales prices, or through comparison with the sales prices of equivalent properties; and

(2) Collection of excise and consumption taxes at the manufacturing or importing level rather than at the retail level.

Guatemala

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Total public revenues averaged 15.2 percent of GNP in the 1958–60 period while tax collections made up 11.3 percent and gross formation of fixed capital amounted to 10.2 percent. The greatest part (90 percent) of Government income was derived from charges on foreign commerce and alcohol and tobacco taxes; taxes on income and capital accounted for the remaining 10 percent.

In the years since 1956–57, declines in general economic activity and prices of export products have resulted in diminished governmental receipts (from Q132.4 million in 1956–57 to Q111.6 million in 1959–60), occasionally coupled with lessened foreign grants. At the same time investments have been reduced while current expenses have remained relatively high.[11]

In November 1959, the Government instituted an IMF-assisted stabilization program which is still in effect and which has improved conditions favoring savings and investments. At the same time it resulted in a considerable decrease in fiscal deficits and, up to 1959–60, a reduction in the debt of the Central Government to the Bank of Guatemala. It should also be mentioned that since 1924 the quetzal has been at par with the dollar.

Since 1950 the Bank of Guatemala has had a "securities regulation fund" to encourage investments in securities issued by the Government and public and semiofficial entities and to stabilize the market in these securities. The fund is administered by a securities commission, made up of the president and the manager of the Bank of Guatemala and the Ministers of the Economy and Finance.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure.*—At the beginning of 1960, decreased receipts from export taxes (from Q15.4 million in 1956–57 to Q9.6 million in 1959–60 [12]) and the need to reduce imports and to maintain reserves resulted in increased import duties on luxury goods and nonessential products.

In September 1961, legislation was submitted to Congress to establish a personal income tax for the first time. Having been approved in principle at the end of the session, this bill will be discussed in more detail and perhaps approved in early 1962. It calls for a tax on all income from Guatemalan sources and on the income of all persons and entities in Guatemala. Rates range from 5 percent on the first Q1,000 of taxable income to a top rate of 40 percent of income in excess of Q500,000. The bill also includes a 10-percent tax on the transfer of earnings abroad except in certain cases such as new industries and agricultural enterprises producing consumer goods. A deduction of up to 20 percent is provided for reinvested earnings. An independent agency is to administer the law and there are to be substantial penalties for willful evasion or delays.

(*b*) *Improvements in tax administration.*—Of special importance among recent measures adopted in this field is the use of the banking system to collect some taxes and the increased mechanization of the tax collection process by the General Tax Administration. Also the Government is planning a 4-year cadastral survey, for which external assistance has been requested and which, it is hoped, may bring about an estimated tenfold increase in real estate taxes.

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[11] Investments were Q50.7 million in 1956–57 and represented 44.5 percent of all Central Government disbursements: in 1959–60 they were Q24.1 million, representing 23.7 percent of total expenditures of Q101.5 million (Bank of Guatemala, Boletin Estadistico, January–February 1961).

[12] Statistical Bulletin of the Bank of Guatemala, November–December 1960.

Preparation of the budget has been made more precise, and programs have been adopted for the training of personnel. Progress from the point of view of public administration is apparent in the creation of the Office of Organization and Procedure and in the preparation of a bill to establish a National Civil Service Administration.

Haiti

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

The principal source of regular state receipts of customs duties which amounted to 56 percent of Government revenue for the fiscal year 1959–60. Taxes on production and consumption for the year represented 36 percent of fiscal receipts, of which 14 percent was made up of certain taxes established to meet specific expenditures. In the same fiscal year taxes on personal income and receipts constituted 8 percent of the Government's fiscal receipts.

During 1959–60, social services and public education represented about 20 percent of public expenditures; allotments to the Ministers of Agriculture, Industry, Commerce, Labor, and Transportation came to about 13 percent; defense expenditures absorbed 21 percent; and administration costs accounted for close to 20 percent.

2. Recent institutional reforms

(*a*) *Modifications in tax structure.*—On September 7, 1961, a new income tax law was passed, raising rates from 30 to 40 percent for annual incomes over G500,000.[13] Other modifications introduced by the law consisted of raising the tax on corporate profits from 5 to 10 percent, and establishing a surtax of 20 percent on the net assets held abroad by Haitian corporations.

A tax was established on "apparent standard of living," which is applicable to individuals who enjoy living standards higher than their declared incomes would seem to permit.

Finally, the income tax law September 7, 1961, set forth penal sanctions for taxpayers who fail to file a return or whose returns contain misrepresentations of any sort.

Under a law of September 18, 1961, taxes on coffee exports were consolidated and unified in a single payment of G55 per 60-kilo sack of exported coffee, plus a surcharge, based on quality and not applicable to washed coffee, amounting to up to G20 for inferior grades of coffee.

(*b*) *Improved tax administration.*—The Government of Haiti, with technical assistance from the International Cooperation Administration [14] has been instituting measures to improve tax administration. These include the creation of specialized divisions in the Ministry of Finance and certain training programs for local personnel.

Honduras

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Tax receipts in relation to the gross national product rose from 5.5 percent in 1950 to 8.5 percent in 1960, while total public revenues rose from 7.2 percent to 9.5 percent. Import taxes represent the main source of Government revenues: these represented 46 percent of all income in 1960, and approximately the same percentage in 1950. Taxes on production and consumption represented 26 percent of tax receipts in 1960, almost double the 1950 percentage. During the same period, taxes on income and capital rose slightly to 14.7 percent of total tax receipts. Although substantial revenues were obtained in the early 1950's from income taxes paid by banana companies operating in Honduras, since 1955 these collections have declined considerably.

The percentage of the expenditures of the Honduran Government for social development (housing, education, public health) rose from 19 percent in 1950 to 31 percent in 1960, while expenditures for economic development declined from 38 percent to 31 percent in the same period. Defense expenditures declined from 17 percent to 10 percent.

The decline in economic activity, due principally to difficulties in banana production and export, has caused the coefficient of gross domestic fixed capital formation to decrease to 13 percent of GNP in the 1955–59 period from a yearly average of 14.4 percent between 1950 and 1954.

[13] 5 gourdes equal US$1.
[14] Now the Agency for International Development (AID).

2. *Recent institutional improvements*

(*a*) *Modifications of the tax structure.*—In September 1961, the Government of Honduras, with the collaboration of the Organization of American States, began a study of a tax reform program. This should be completed early in 1962. The program envisages the following measures:[15]

"(i) reducing the tax burden upon the lower income groups, giving a preferential rate to income derived from labor, and progressively increasing taxes on high-income groups which do not invest their savings in productive enterprises;

"(ii) discouraging nonproductive investments and imposing heavy taxes on windfall profits, in order to direct national savings into productive fields;

"(iii) encouraging productive investments through greater incentives, including tax exemptions;

"(iv) reorganizing the indirect tax system by introducing various progressive elements, such as differential rates, and

"(v) establishing, gradually and on an experimental scale, a general tax on expenditures."

As a first step in its reform of the tax structure, the Governments plans to submit to the National Congress bills to readjust the following taxes: those on inheritances, bequests, and gifts; the income tax; the real property tax; and the land tax. Detailed information on these bills is not available.

(*b*) *Improvements in tax administration.*—Work was completed in 1961 on a study, started in 1960 with assistance from the International Cooperation Administration, which envisaged the following principal measures.[16]

"(i) elimination and consolidation of several taxes and/or amendment of certain taxes having high collection costs;

"(ii) simplification and modernization of collection procedures;

"(iii) pin-pointing of legislative loopholes which permit certain persons to pay no taxes;

"(iv) identification of those geographic areas which, owing to poor regional administrative organization, make inadequate tax contributions;

"(v) improvement and simplification of judicial administrative procedures;

"(vi) establishment of training courses in tax administration; and

"(vii) closer cooperation between different States agencies."

Due to greater efficiency in tax administration, it is anticipated that 1962 income tax collections will increase 10 percent over those in 1961.

Mexico

A. MOBILIZATION OF DOMESTIC RESOURCES

1. *Background*

The 1960 Federal Government revenues in Mexico represented about 8 percent of the gross national product (GNP). Revenues at all government levels represented nearly 11 percent of GNP, while Federal tax collections were equivalent to 7.3 percent of the GNP that year, as compared with 6.4 percent in 1950.

There has been a marked and important trend in Mexico toward reliance on direct taxes, and a corresponding reduction in the relative importance of taxes on gross output, sales, and consumption. In 1959 income and excess profit taxes accounted for 37 percent of Federal tax collections, and export taxes, which are also considered to fall on the income of the producers, accounted for about 12 percent of total collections. Import duties, sales taxes, special excises on liquor, tobacco, and other items, and other taxes on production, consumption, and expenditures accounted for 50 percent of the Federal Government tax receipts.

Until recently, income taxation has been based on a series of separate schedules, according to the source of income. Prior to 1962, there also was no tax on capital gains of individuals; interest on bonds and notes was largely exempt; income from rents was not subject to a regular income tax schedule, and dividends on bearer shares were subject to a withholding tax at the rate of 15 percent.

Fiscal revenues after 1956 failed to keep up with the rising trend of Federal Government expenditures, and as a result there were appreciable deficits be-

[15] Information supplied to the Administrator by the National Economic Council of Honduras, December 1961.
[16] Ibid.

ginning in 1957. In 1960 and 1961, however, it was possible to finance these deficits without significant pressure on the banking system, by means of foreign loans for specific projects and the sale of Government securities to individuals and nonbanking institutions in Mexico.

The structure of expenditures of the Federal Government in Mexico is characterized by high proportions for economic development and social services. In 1960, economic development, including investment in railways, highways, irrigation, and others, accounted for 44 percent of the total, while social services, education, and health accounted for 29 percent. The proportion devoted to national defense in 1960 was 8.7 percent, a ratio which has been declining over the years.

Gross domestic fixed capital formation, including both private and public investment, increased from 14.3 percent of GNP in 1950 to about 15.6 percent in 1960. It is estimated that, in 1961, approximately 36 percent of gross capital formation originated abroad.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure.*—Two specific revenue measures became effective during 1961. The first was a change in the customers duty structure in April to increase sharply duties on various import categories, for goods that are not specifically enumerated, and to reduce evasion. The second 1961 tax measure was an increase in tax rates on the more expensive types of cigarettes.

In December 1961 the Mexican Congress passed a comprehensive tax reform, modifying the income tax and substantially increasing its scope. Other important tax measures affecting expenditures of consumers with medium and high incomes were also introduced. Among these are a new tax on the ownership of automobiles, with rates which vary according to the value and the age of the vehicle. In addition, a special surtax was established on imports of articles that are considered nonessential or are produced in Mexico. The proceeds of this tax will go into a special fund to extend financial aid and credits to encourage exports of manufactures and other products.

The most important income tax reform was the introduction of an overall tax on individual incomes from whatever source, which previously were taxed only under the separate schedules. This will apply to taxpayers who have combined incomes of more than 180,000 pesos (US$14,400) [17] a year, after payment of the tax under the corresponding schedules. This additional tax on overall income will rise from 3 percent for persons with incomes from 180,000 to 270,000 pesos to a maximum of 15 percent on incomes of more than 1,450,000 pesos (US$116,000).

The combined taxes on income cannot, however, exceed 30 percent of an individual's income. Another change was the modification of the progressive schedule of income tax applicable to income from salaries and wages. This is expected to increase the yield of that schedule by approximately one-fourth.

A tax on income from interest on bonds was also established, varying from 2 percent on interest from securities carrying 8 percent annual interest up to 5 percent on income from bonds carrying a 12-percent rate of interest. This source of income will also be subject to the overall tax on income when the individual has other sources of income.

In addition, a 5-percent tax on rental income from real estate was put into effect. Such income is also subject to the overall tax.

A tax on capital gains of individuals was also established with rates ranging up to a maximum of 20 percent on a gain of more than 400,000 pesos realized in less than 1 year. Capital gains will not, however, be subject to the overall income tax mentioned above.

The income tax on dividends on bearer shares of stock was raised from 15 to 20 percent on the appropriate schedule. The rate remains at 15 percent for registered shares or those administered by a credit institution. This not only will provide additional revenue collections, but also will enable the Ministry of Finance to exert better control over personal income information of shareholders who register their stock ownership.

The tax reform included establishment of a system of accelerated depreciation for productive investments of business firms, to encourage establishment of new enterprises as well as investment of profits in machinery and equipment.

[17] One dollar equals 12.50 pesos.

In December 1961, the Mexican Congress passed legislation abolishing the inheritance tax, which in 1960 had yielded about 27 million pesos (US$2.2 million) or three-tenths of 1 percent of total Federal tax collections. It is reported that the reason for the abolition was that the tax had hindered domestic investment and was becoming increasingly difficult to administer.

The yield of the new taxes and adjustments of existing taxes is estimated at 700 million pesos for the year 1962, approximately 7 percent of current Federal tax collections. The revenue effect will be greater in subsequent years, when most of the measures will have their full effect.

(*b*) *Improvements in tax administration.*—Various improvements in tax collection procedures through the years are reflected in the rising ratio of tax revenues to GNP in the last decade, while the tax structure has remained relatively unchanged. The tax reform measures introduced in December 1961 included steps to improve fiscal collections by means of incentives and control measures. In order to encourage taxpayers to declare their true incomes, the system of administrative proof of fiscal declarations was abolished. Under that system, once the taxpayer was qualified, his declaration had to be accepted. This caused a problem for fiscal administration because evasions and maneuvers could not be the object of review. Also, universal qualification was necessarily cursory due to the large number of taxpayers.

In another recent step to improve tax collections, the Secretary of Finance encouraged delinquent taxpayers to put their situations in order by means of special agreements with the fiscal authorities, under which they pay amounts due and the authorities waive the penalties. Under the agreements, individuals who do not have the means are permitted to pay in installments.

Nicaragua

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

There is no capital market in Nicaragua. The rate of gross capital formation is unknown, but indications are that it is considerably lower than the 1950–58 Latin American average of approximately 16 percent of gross national product.

Between 1951 and 1960, annual Central Government tax receipts represented between 8 and 11 percent of the gross domestic product; in 1956, they reached the unusually high level of 14.9 percent. Central Government receipts make up most of Nicaragua's public revenues, with receipts by municipal governments and independent agencies amounting to only about 10 percent of the total.

About 72 percent of the regular tax revenues ordinarly come from customs duties and consumption taxes. In the 1960–61 fiscal period import taxes represented 45.4 percent of tax receipts, consumption taxes 18.1 percent, and direct taxes 15.4 [18] percent. The percentage of export taxes to total tax receipts decreased considerably, from 17 percent in 1955–56 to only 2 percent in 1959–60, due to the drop in cotton and coffee prices.

The income tax, inaugurated in 1953, at present provides about 10 percent of the Government's ordinary revenue. The rates are progressive, ranging from 4 percent on the first 40,000 cordobas (US$5,714) of taxable income to 30 percent on income over 1,500,000 cordobas (US$214,285). The tax is applicable to both natural persons and corporate and other entities; of some 5,000 returns filed, about 4,700 were from individuals. About 25 percent of income tax receipts come from public officials who are subject to a withholding system.

Following a series of fiscal deficits which started in 1955–56, the Government has, since 1959, made considerable use of the credit facilities of the Central Bank. Government expenditures rose 245 percent from 1950–51 to 1959–60 (77.6 million to 274.0 million cordobas). However, the rate of increase in expenditures was sharper in the first half of the decade and fell off in the latter half. This was due to the aforementioned decrease in tax reecipts which started in 1956–57. In 1960–61, Government expenditures were considerably reduced for various reasons which are described below.

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[18] The balance of 21.1 percent includes revenues from taxes on monopolies (1.8 percent), services (12.7 percent), and sundry taxes (6.6 percent). (Report of the Ministry of the Economy to the Administrator, November 1961).

2. Recent institutional improvements

(a) *Modifications of the tax structure.*—Early in 1960 the Government set up a committee, made up of the Vice Ministers of Economy and Finance, the President of the Central Bank, and an expert from the International Monetary Fund, to study fiscal reforms. Upon completing the first part of its assignment, it submitted a report outlining the following suggested improvements (which were contained in a law presented to Congress late in 1961):

(1) Temporary replacement of taxes on agricultural and livestock, lumbering, and fishing activities by a progressive system, including a surtax if the unit price of the product should exceed a given level.

(2) Replacement of the present capital tax law by two new laws: one providing a 1 percent tax on properties appraised at 10,000 cordobas (US$1,430) or more, and the other creating a 0.5 percent tax on the assets of commercial, industrial, and mining companies and a 1 percent tax on personal property appraised at 10,000 cordobas or more and on paid-in capital and reserves of financial institutions.

(3) Changes designed to increase the yield of taxes on transfers of real estate through sale, gift, or inheritance. The tax on sales would be increased from 0.5 to 3 percent of the appraised value, while the tax on gifts or inheritances would be increased from 5 to 34 percent, depending on the value.

(4) Simplification of stamp taxes without reducing their yield.

Based on these recommendations, the Government prepared a tax reform bill which was presented to Congress at the end of 1961. It is estimated that the proposed changes would increase tax revenues by about 10 million cordobas.

(*b*) *Improvements in tax administration.*—The aforementioned committee report highlights the need for a detailed study of current collection methods, stating that "there are groups of technicians who, in a relatively short time, could work out more modern tax administration techniques." It also recommends that the National Bank of Nicaragua be given a more active role in tax collection.

The tax reform bill now before the Congress includes various provisions designed to improve procedures within the General Revenue Department (the tax collection agency).

Panama

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

The Central Government's ordinary income rose from 11 percent of gross national product to 14 percent during the 1950–59 period, while tax revenues increased from 8 to 9.2 percent of gross national product.

Customs duties represent the main source of tax revenues; in 1950 they amounted to 27 percent of all Government receipts, increasing to 37 percent in 1960. Taxes on consumption and sales made up 11 percent of Government receipts in 1950 and 16 percent in 1960. In the same decade, taxes on income and property together increased from 17 to 24 percent of total Government receipts. A significant share of these taxes (12 percent of Government receipts) is paid by the banana companies.

The gross rate of capital formation rose from 11 percent of gross national product in 1950 to 14 percent in 1959, while gross formation of public capital was rising simultaneously from 3 to 4 percent.

Social and educational programs account for over 40 percent of Government expenditures, with debt service and general administration amounting to close to 45 percent, and public works and services to trade, industry, and agriculture, between 10 and 15 percent.

2. Recent institutional improvements

(*a*) *Modifications in tax structure and administration*—Early in 1961, the President of the Republic appointed a commission to study and propose reforms in the tax system. This commission, with the assistance of an expert from the International Cooperation Administration (ICA), prepared a report which was sent to the National Assembly at the end of 1961 as a social reform bill. The bill includes the following:

(i) It requires that joint tax returns be filed by affiliated companies if more than 51 percent of the stock of one is held by the other (the progressive tax is then applied to the overall income);

(ii) It imposes a so-called land control and ownership tax;

(iii) It adds to the current import duty on all imported goods a 1.5-percent surtax based on the f.o.b. value;

(iv) It prohibits the Government from granting tax exemptions to private persons entering into contracts with the nation; and

(v) It taxes the importation and production of liquors and beers and the operation of taverns.

The committee's report states, however, that "before new taxes are levied, the administration and collection of existing taxes must be improved."

Paraguay

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

During the past 3 years, the total tax receipts of the Central Government amounted, on a yearly average, to 9 percent of the gross national product. In 1960, the percentage increased to 15 percent of the gross national product.

Paraguay's tax system is made up of two types of taxes: ordinary taxes in the national budget and special taxes not included in the budget, which are earmarked for financing specific programs.[19]

Taxes on foreign trade and other indirect taxes represent approximately 85 percent of total receipts, while taxes on income and capital make up the remainder. Income is taxable only to the extent that it is received in payment for productive activity within Paraguay. On the other hand, income received for personal or professional services or from pensions or annuities is not taxable.

Most public expenditures in Paraguay are for current expenses of the Government. During the past decade, over 40 percent of total expenditures were for national defense (including appropriations for the Ministry of Government), while 35 percent were for operations of other governmental departments. Of the remainder, the only direct contribution to economic and social development, the major part (between 17 and 20 percent of overall expenditures) were for education and public health. A large portion of the revenues from special taxes, such as import and export taxes, gasoline taxes, and the Government's share of national lottery receipts, have been used for public works and health programs.

2. Recent institutional improvements

(*a*) *Modifications in the tax structure.*—Paraguayan authorities have indicated that they plan to revise the tax structure; they have also stated that they plan to emphasize income and property tax legislation in the future, along with a tax exemption system to provide greater protection to certain selected industries and to encourage imports of capital goods for agricultural uses. Revisions will also be made in tax exemptions now enjoyed by various public and semipublic agencies, and properties whose value has been increased by highways and other improvements will be subjected to increased taxes.

(*b*) *Improvements in tax administration.*—The Paraguayan tax authorities plan to institute certain measures to counteract present widespread evasion and late payment of taxes. Among the measures proposed are: (1) decentralization of collection offices; (2) modernization of equipment; (3) stricter collection procedures, emphasizing collection of taxes in default; (4) closer examination of the real values (on which taxes are based) of imported and exported merchandise; and (5) suppression of smuggling.

Peru

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Receipts by the Central Government have in recent years accounted for approximately 15 percent of Peru's gross national product, while tax receipts amounted to some 12 percent of gross national product.

The Peruvian tax system is highly centralized and extremely complex, largely because of the great number of special taxes, for a multiplicity of funds and special purposes, which make up about 40 percent of the total. Since receipts

[19] Also, there are municipal taxes in addition to the national taxes. In general, receipts from municipal taxes are extremely low inthe interior of the country. In Asuncion, municipal taxes include revenue from commercial licenses, automobile registrations, drivers' licenses, taxes on construction and credit operations, and charges for miscellaneous services, such as water and sewerage.

from these special taxes occasionally cause immobilization of large sums of money which might otherwise be put to more productive use, the legislature has recently authorized the executive branch to transfer funds, pursuant to certain rules and for certain specified purposes. Meanwhile, an overall study is being made to simplify and improve the tax system.

Public receipts in 1960 were derived 59 percent from consumer taxes, 35 percent from income and capital taxes, and the remaining 26 percent from income from Government monopolies and services and miscellaneous revenue; 36 percent of tax receipts were from the income tax, while import taxes made up 18 percent of the overall consumer tax figure.

Recently, close to 25 percent of the Peruvian Government's expenditures have been devoted to economic development, chiefly for public works and development to stimulate industrial and agricultural growth. More than one-half of the budget is allocated for general administrative expenses, including debt service, with the remainder earmarked for education, public health, and welfare. The principal capital outlay in the past few years has been for agricultural development. Funds earmarked for agriculture increased from 2 percent of total public investments in 1950 to 6 percent in 1958.

Contributions of the public sector to gross capital formation have fluctuated considerably during the past decade. In 1956 they represented 6 percent of gross national product, while in 1959 they accounted for less than 4 percent. Private investments have been relatively stable over the last 5 years, accounting for about 20 percent of gross national product. The principal domestic source of investment capital for private business has been retained earnings.

2. *Recent institutional reforms*

(*a*) *Modifications in the tax structure.*—Peru's income tax yield doubled between 1958 and 1960, due principally to recent tax reforms. The 1960 budget showed a surplus which was used for basic infrastructure investments.

Law No. 13,526, which was approved in February 1961 to raise the stamp tax from 0.3 to 2.5 percent of the value of invoices or vouchers on all business transactions, is intended to provide funds for public investment programs. This increase raised the income from stamp taxes from 5 percent of the 1959 budget to an estimated 20 percent of the 1961 budget, and, together with a parallel increase in the yield of direct taxes brought about by a general economic expansion, should enable the Government to attain its goals without further changes in the tax structure. A balanced budget was presented for 1961 without fundamental tax changes.

In 1961 several lesser tax measures were approved to promote agricultural, mineral, industrial, and social development. For example, import tax exemptions were allowed for certain raw materials and products used for the housing construction industry, which industry also received other exemptions from general and special taxes.

(*b*) *Improved tax administration.*—Measures adopted in 1960 and 1961 to simplify administrative procedures and improve the collection of taxes included (*a*) a new system for withholding income tax from the incomes of certain groups; (*b*) provision for advanced payment of corporate income taxes; (*c*) a requirement that payment be made in contested tax cases unless it is specifically deferred by the court; (*d*) a requirement that tax collectors be responsible for delays and negligence which permit the statute of limitations to run on a taxpayer's obligation; and (*e*) a requirement that taxpayers compute and pay (without being billed) their own franchise taxes on commercial, industrial, and professional activities.

Uruguay

A. MOBILIZATION OF DOMESTIC RESOURCES

1. *Background*

Direct taxes represented 31 to 33 percent of total receipts from 1958 to 1960.[20] The major taxes were on consumption and foreign trade. Internal taxes, chiefly those on fuel, tobacco, and alcoholic beverages, supplied 20 to 23 percent of all tax receipts between 1958 and 1960, while sales taxes supplied 15 percent.

The accounting system for the Uruguayan budget, which is approved every 4 years, covers:

[20] Until 1961 there was no income tax in Uruguay; there was only an excess profits tax.

(*a*) The general budget for the Central Government and some decentralized services, representing close to 90 percent of tax receipts but only about 50 percent of all public expenditures; receipts are earmarked chiefly for payment of wages and salaries, amortization of the public debt, and subsidies to the railroads; and

(*b*) The extraordinary budget, including: (1) taxes on imports and exports used mainly to subsidize consumption items, and (2) funds for public works, derived from the sale of bonds and from some special taxes.

Close to half of the expenditures under the general budget are earmarked for wages and salaries, one-fourth are for investments and public debt servicing, 16 percent for education, and the remainder for miscellaneous expenses.

Domestic public debt issues have traditionally been reserved for financing investments and public works. However since the early 1950's they have been used to cover the increasing fiscal deficits. At present, due to the difficulty of selling them, the issues are bought by the social security funds, which represent the largest source of national savings.

2. Recent institutional improvements

(*a*) *Modifications of the tax structure.*—The budget for fiscal 1961 (approved in November 1960) included several tax reforms, the most important being the introduction of an income tax for the first time in the country's history. Other direct and indirect taxes were increased and more than 50 indirect taxes were eliminated; this latter group had brought in close to Ur$100 million [21] (US$9.1 million) annually, but were very complex and costly to collect. It was thus hoped to simplify the system without decreasing overall receipts.

The yield from the new income tax—which became effective July 1, 1961—is not expected initially to be much higher than that from the eliminated taxes, but it should gradually increase. This tax is expected to yield Ur$69 million (US$6.3 million) in 1961, Ur$178 million (US$16.2 million) in 1962 and Ur$230 million (US$20.9 million) in 1963 (approximately 5, 10 and 15 percent, respectively, of total tax receipts). The tax is levied on all income of domestic origin earned by every natural person of whatever nationality, domicile, or residence. It will consist of a 10-percent basic tax and a progressive tax, starting at 5 percent on the first Ur$5,000 (US$455) up to 30 percent on income in excess of Ur$1 million (US$90,900). The income tax principally affects those with high incomes. It is estimated that people earning less than Ur$96,000 per year (US $8,730) will be exempt from paying any income tax.

Entities such as corporations will pay a 15-percent tax on undistributed net profits. Net profits, whether or not distributed, which are earned from financial operations will be subject to an additional tax scaled from 8 percent on a taxable income of Ur$250,000 to 15 percent on the excess over Ur$1 million.

An excess profits tax is levied on that part of net profits, distributed or otherwise, of industrial and commercial enterprises and of corporations, which exceeds 30 percent of the capital of the taxpayer. The tax is applied on a progressive scale running from 40 up to 70 percent (on that part of net income which is in excess of 45 percent of capital).

(*b*) *Improvements in tax administration.*—In November 1960 the General Internal Revenue Administration (Dirección General Impositiva) was established under the Finance Ministry to include all the collection offices which were formerly subordinated to the same Ministry but not coordinated among each other.[22]

The Government intends to supplement these measures with a Law on Financial Accounting and Administration (Ley de Contabilidad y Administración Financiera) to provide "a complete, harmonious, and effective body of rules to regulate the administration, recording, and auditing of public finances." [23]

Venezuela

A. MOBILIZATION OF DOMESTIC RESOURCES

1. Background

Most of Venezuela's tax income comes from the petroleum industry, which contributed 60.5 percent of the Central Government's ordinary income in 1960. The tax paid by the petroleum companies consists principally of royalties and income tax. In 1960, some 53.4 percent (Bs1,603 million) of the total tax receipts from petroleum producers were from royalties and some 42 percent

[21] At the end of 1961 the rate of exchange was US$1 = Ur$10.98.
[22] Report of the Republic of Uruguay to the Administration, December 1961.
[23] Ibid.

(Bs1,260 million) from income tax. Some 69.3 percent of all national income tax revenues in that year came from the petroleum sector.

The high ratio of tax income to gross national product (GNP), nearly 25 percent in 1960, drops to 11 percent if petroleum is excluded. The first coefficient is the highest in Latin America, while the second is one of the lowest.

The Central Government takes in almost all (94 percent) of the tax income. State governments receive only about 1 percent of tax revenues, while the municipal governments obtain approximately 5 percent.

Taxes other than those on the petroleum industry are composed chiefly of indirect taxes which make up approximately 80 percent of total nonpetroleum tax revenue. The main indirect taxes are customs duties and taxes on consumption and exchange transactions. Although there is a high rate on luxury consumption, the tax on basic commodities presents a heavy burden for the vast low-income sector.

The income tax is payable in accordance with various schedules or categories at fixed rates, plus a progressive surtax. There is also a special additional tax on petroleum and mining production, including petroleum royalties. Under the Venezuelan system, there are several exemptions applicable to payment of income tax, principally: corporate dividends; interest on savings deposits of up to Bs10,000 per person; indemnity for employees, such as severance pay, etc., income from new construction during the first 5 years of use of the property; and interest of less than 6 percent on mortgage bonds relating to agricultural or industrial basic commodity production or to the use of local raw materials. There is also a surtax which is applied to all income subject to tax schedules.

The income tax scale in Venezuela is low. Moreover real estate taxes are applied by the municipalities under a system usually based on the income actually produced by the property and not that which the property can or should produce. The municipalities usually levy taxes only on urban real estate and not on farmlands. The taxes apply to urban realty only when the property is rent producing and not when it is merely inhabited by the owner. The general principle for establishment of land taxes is that they be sufficient to pay for the services provided by the municipalities, such as electricity, trash collection, etc. In the Federal district, unimproved real estate is exempt from tax.

In recent years, gross capital formation has amounted to approximately 25 percent of GNP. A large share of this has been investments by the National Government, which have amounted to about one-third of gross capital formation, while private savings have contributed 43 percent, the remaining 20 percent coming from foreign investments.

2. *Recent institutional improvements*

(*a*) *Modifications of the tax structure and administration.*—The Venezuelan Congress granted special powers to the President of the Republic under which (in a decree of July 7, 1961) he made several modifications in the tax system. These modifications mainly relate to increases in rates applicable to income and inheritance taxes and to increased surtax rates applicable to juridical persons and to companies organized abroad. Rates on all tax schedules were increased, with the exception of those covering taxes on the incomes of petroleum companies, which had already been raised in 1958. A new tax rate was introduced for corporate income, representing an increase of almost 100 percent over the previous rate. Taxes on lottery prizes were increased by as much as 100 percent. The same decree increased the inheritance tax, raising it between 75 and 100 percent in the highest categories. The gasoline tax was also raised. According to Government estimates, the net tax changes will represent an increase of about Bs200 million (U.S. $59.7 million) per year in fiscal income.

The decree also introduced various changes in tax administration designed to strengthen fiscal control, combat evasion, and secure better compliance with the legal regulations in effect. Among the new measures is one requiring payment of the income tax within the same period during which income is received.

Administration of the Venezuelan tax system has been improved in recent years through introduction of various procedures for verifying tax declarations and by simplification of collection methods. These improvements increased income tax collections from Bs526.2 million in the 1959–60 fiscal year to Bs596 million in 1960–61.

APPENDIX C

Economic Development in Latin America*

(By Elba Gomez del Rey de Kybal and Milic Kybal[1])

The Latin American countries find themselves in the 2d half of the 20th century, after 150 years of political independence, in a variety of stages of economic growth. This difference in the degree of development is clearly shown by the range of per capita annual income, estimated to vary from $100 to $800.

THE PROBLEM

Why is it that political independence has not gone hand in hand with economic independence? Why is it that more than half of Latin America's 200 million inhabitants live no more than 100 miles from the coast, looking toward the outside world and neglecting the institutions that could have helped create integrated national units? There is a vacuum between the bulk of the population and the classes in power—scant lines of communication exist among them, and there is no consensus about destiny. A lack of social homogeneity is characteristic. To a great extent, the leading groups have a peripheric perspective, looking toward Europe and the United States for their inspiration, and only in limited measure toward their own countries.

Why is it that Latin America, which has not been devastated by wars, and which possesses a fairly well-endowed resource base, has not achieved a greater degree of modernization?

This article will attempt to pinpoint some of the principal factors that limit or retard development in Latin America, and to indicate some of the generally accepted measures that need to be taken to create the conditions for development in some cases or to activate it in others—within the limits of what seems reasonable and feasible.

The different degrees of development and the diversity of the resource endowment—human and physical—among the 20 Latin American Republics make it imperative that the measures taken to promote growth be adjusted to the needs and potentialities of each country or group of countries sharing similar characteristics, such as the Andean, the Central American, or the Caribbean areas.

The general lines of action at the national and international level are already contained in the Act of Bogotá of 1960 and in the Charter of Punta del Este of 1961. President Kennedy's Alliance for Progress advances the former and underlies the latter. Both inter-American instruments recognize the validity of the country-by-country approach, based on long-term plans and financing, accompanied by regional integration, and strengthened by arrangements to ensure greater export-price stability. Furthermore, they call for a mobilization of domestic resources, which implies a reform of agrarian and fiscal institutions.

THE OBSTACLES

A number of factors loom large, actually or potentially, as obstacles confronting economic development in Latin America.

Population expansion

The present high rate of population growth in Latin America has a very great bearing on the economic development of the area. According to United Nations data, the population of Latin America will have an estimated average rate of growth for the period 1950–2000 of 3.2 percent per annum, compared with an increase of 1.4 percent per annum in the United States and Canada during the same period. In other words, Latin America, which has 163 million inhabitants in 1950, will have some 303 million in 1975, and some 592 million by the year

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Mr. Kybal is with the Inter-American Development Bank. Educated at Charles University (Prague) and the University of California, he was previously associated with the Federal Reserve Bank of New York and the United Nations Economic Commission for Latin America.

The authors wish to point out that the views expressed are their own, and do not necessarily reflect those of the agencies with which they are associated.

*Reprinted from the Iowa Business Digest, Fall, 1961. University of Iowa, Iowa City, Iowa. Included in these hearings in connection with the appearance of Mr. and Mrs. Kybal. (See p. 41.)

2000; but, the population of North America will not even double the 1950 mark by the year 2000—from 168 million in 1950 to an estimated 240 million in 1975, and to an estimated 312 million in the year 2000. Unless output increases at a rate faster than population numbers, Latin Ameria will be falling back in the world-wide race for economic advancement.

Inadequate knowledge and use of natural resources

Traditional thinking in Latin America has usually assumed that the region is endowed with a great wealth of natural resources that only needs to be exploited in order for the countries to attain the affluence already found on the North American continent.

Up to now this is only a myth. Indeed, very little has been done even to survey the area. Among various methods, aerial photography has been undertaken on a very limited scale. Only Chile has undertaken systematic surveys of its territory—to a lesser extent Venezuela, Mexico, and Cuba. All in all, it is fairly apparent that while some countries may well have a favorable resource position, others may not be so endowed and may have only a limited resource base.

The exploitation of agricultural land, the main natural resource of the area, has been generally deficient because of an antiquated tenure system and factors of a social nature. The Spanish legal principle that subsoil wealth belongs to the state has probably proven a hindrance to the search for and exploitation of mineral resources, and in some countries this deterrent has been aggravated by expropriations undertaken by their governments. In both areas, and particularly in the extractive (mineral) industries, the scarcity of savings and investment by Latin Americans has been a major cause of their underdevelopment.

The institutional reasons for the lack of exploitation of natural resources, however, appear not destined to be overcome until a fuller knowledge of their presence and potentials is obtained and their development is realistically encouraged.

Deficiency of investment in infrastructure and for productive purposes

Gross domestic investment in Latin America has averaged 17.5 percent of the gross national product for the period 1950–57. In comparison with the United States, where the corresponding figure was 20 percent in 1955, the Latin American magnitude does not seem entirely inadequate. Nevertheless, the amount is deficient when one considers that the Latin American countries are in an early stage of economic development requiring heavy investment not only in economic "infrastructure" projects such as power, transportation and communications, and irrigation, but also in the social field, particularly in conjunction with education, health, and sanitation, and housing. Government investment in social capital, which has its direct incidence on the quality of human resources, has up to now been meager in Latin America. For instance, in some of the more underdeveloped countries of the area, public expenditures on education reach only $2 per capita yearly; and in the more developed countries they reach $12 per capita yearly, compared with an outlay level of about $60 in the case of the United States. Furthermore, in all Latin American countries the whole problem is compounded by the fact that investment is badly needed, alternatively, to provide added employment outlets for a rapidly expanding labor force.

Economists have projected past relationships between investment and output, giving rise to what is termed a capital-output ratio. Although static in nature, the concept at least helps give one an idea of the magnitude of investment needed to yield a given increase in per capita output. The Alliance for Progress which sets for itself as a goal an increase in per capita income of no less than 2.5 percent per year, has not spelled out the magnitude of the gross investment needed to yield this result. Yet, the $2 billion yearly that the Alliance envisages in external aid can hardly be expected to represent more than one-tenth of the total needed—i.e., if the capital-output ratio characteristic of the postwar years continues to prevail. If internal savings and investment are not made in the amounts required for the generation of the projected increase in income, the investment gap then remaining cannot reasonably be expected to be filled by a further expansion of external resources. The inevitable consequence in that event can only be a realized result short of the program's initial goal.

In any case, it appears that the bulk of investment must come from domestic sources, public and private. This has been the experience in the past, and it is likely to be repeated in the future. Experience also tells us that private domestic savings have represented a much greater proportion of total savings than have public domestic savings, and accordingly have played a more important role in the investment picture. Yet, since public investment is very important in the underdeveloped countries (indeed, relatively more significant than in industrialized countries, in part because of the need for infrastructure), the proper exercise of the investment function in this connection deserves special emphasis.

Lack of diversification of production

The lack of diversification in production in Latin America is well known. Many countries in the region derive their foreign-exchange earnings from the export of one or two primary products, and a country such as Mexico or Peru is considered quite diversified because it happens to export four or five main commodities. The remedy for this situation has been sought mainly in industrialization—but since Latin American manufactures are not normally competitive internationally, the drive for industry has led to a substitution of imports rather than to a diversification of exports. Furthermore, raw materials, spare parts, and fuels have absorbed an increasing proportion of foreign exchange—with the result then that an effort to restrict imports is made difficult as resultant shortages in turn adversely affect industrial production and employment within the area.

Vulnerability of export economies

When production is geared to the export market, there are outside forces that will influence or control prices. Their effect depends, among other things, on the proportion of the market shared by the producing country, on the market arrangements arrived at by international negotiations, on the surpluses of the commodity in stock, on the degree of protection of domestic markets adopted by developed countries trying to be self-sufficient in certain commodities, on weather and plant diseases, on competition from new sources of production, etc.

All Latin American countries suffer from one or several of these outside forces which, from time to time, affect the prices of export products. Fluctuations in price and changes in volume have been responsible for sharp reductions in export earnings of the Latin American economies—the most important changes having taken place in the cases of coffee, copper, and wool, the yearly average price of which commodities declined by about 50 percent during the decade of the 1950's. To a lesser extent, fluctuations in price affected also other important export commodities of the Latin American countries, such as cocoa, corn, cotton, lead, beef, nitrates, sugar, and zinc.

Incipient development of an entrepreneurial class

In Latin America, the common situation is that of an outmoded system of business organization: the predominant pattern is one of family ownership of enterprises. An entrepreneur who takes risks and who introduces innovations is hard to find; instead, the old-fashioned firm, directed by the head of a family and little receptive to changes in management or in methods of production, is characteristic. The separation of ownership and management is the exception rather than the rule. There are even some countries where prevailing legislation does not provide for the setting up of corporations (sociedades anónimas) as entities separate from their members.

Prevailing institutions as bottlenecks to growth

The institutional obstacles to economic growth generally regarded as being central are: outdated systems of land tenure, an inadequate credit structure, a prevailing absence of a stable and competent public administration, and insufficient political stability. In addition, some other obstacles are worthy of mention.

Many Latin American countries do not possess a homogeneity of culture—the homogeneity given by a common language, a common religion, and a concept of racial similarity among all classes of society and among all regions of each country. In essence, some Latin American countries are not yet fully integrated in a national sense. Political democracy is difficult to achieve when there is a wide gap between social classes, which situation manifests itself also in terms of serious economic inadequacies within the various domestic economies.

The pattern of land ownership in certain areas of Latin America does not encourage a more rational use of the available land. nor the introduction of better production and conservation techniques. It seems probable that decades will be necessary to remedy this situation—a situation that a redistribution of land cannot by itself remedy.

Commercial bank credit is available mainly to finance short-term transactions—meaning, essentially, transactions in the export sector. To a lesser degree, it is available to supplement business operating capital and for urban real estate transactions. On the other hand (excepting what is made available through governmental credit institutions), there is a great credit shortage in the smaller cities and for small industrial and agricultural undertakings. This situation is aggravated in countries where public confidence in the stability of the currency has been destroyed and where, as a result, savings come to be diverted into nonproductive uses, such as particular real estate holdings and assets held abroad.

The taxation system, as it has evolved in most Latin American countries, is generally not sufficiently equitable, due less to the legislative norm than to its application. At the same time, it has done little to discourage conspicuous consumption and to encourage investment.

The prevailing system of public administration is one of the greatest deterrents to growth in Latin American countries. Most of the countries lack a true civil service, and appointments are typically made on a political or personal basis. When there is a change in government, as is often the case, the whole administrative system is shaken. This hampers the continuity of operations in governments which are greatly in need of well-conceived, well-directed, and well-executed projects. Furthermore, even appointments to technical posts are not generally based on competence and knowledge, but on patronage. In countries that are striving to create a competent administration and that are careful in selecting the most competent administrators and technicians, the situation is complicated by the great lack of trained and capable people in the lower echelons. This is the result of deficiencies in another field: the educational systems, which are not geared to serve the purposes of modernization.

HOW TO OVERCOME SOME OBSTACLES

The obstacles to development cited earlier are present in most Latin American societies. The ways and means mentioned below to overcome such bottlenecks have been proposed from time to time by experts in the area.

Barring devastating wars, the population expansion in Latin America is likely to take place as demographers predict. Under the circumstances, the main task will be to improve the quality of the population. People are not a liability unless they are illiterate, unskilled, undernourished, and diseased. Improving their quality makes them ready to participate as active members of societies. Providing education and training for the population has been one of the traditional roles of governments, but in Latin America this responsibility has sometimes been neglected and, with very few exceptions, no concerted efforts to improve the quality of human resources have been made.

In cases of obvious overpopulation and a very poor natural resource base, recourse to population movements would provide a partial solution. This could apply to population movements within a country and from country to country. There are large extensions of uninhabited lands in Latin America, even as an excessive concentration of population in a few cities is the prevailing pattern. With the exception of Cuba, the Dominican Republic, El Salvador, and Haiti, all the other Latin American countries have less than 50 inhabitants per square mile. The disparity in the ratio of population to arable land, moreover, is even greater. The population pressures are greater in the Caribbean and Central American regions than in South America, and perhaps a workable system of population movements could be achieved.

Insofar as the exploration of natural resources is concerned, aerial surveys would in many cases be the most appropriate method. The information so collected could be used not only for public investment decisions, but should be disseminated in order to stimulate interest in the exploitation of certain natural resources by private entrepreneurs. A development program requires an adequate knowledge of the soil available for agricultural use and of mineral deposits. Such knowledge is also necessary for undertaking agrarian reform in areas where only sketchy understanding now exists as to the prevailing systems of land tenure and utilization, and it is useful also for the tracing of new roads. International aid might be widely used in conjunction with this facet of information gathering.

As long as public investment has a staggering task to perform in the field of education, public health, transport, and communications, it is not realistic to assume that governments can also provide adequate resources for certain other public services, such as power. In this and analogous areas, the main need is for a realistic rate policy by the regulatory bodies that can then make private investment, both local and foreign, sufficiently attractive. This is also a condition for a country to be able to obtain financing from international lending agencies, both for government and for privately owned utilities.

Loans from foreign sources at low interest rates and with long amortization periods have been advocated to help overcome the deficiency of domestic savings and investment. A further and very important source of funds could be the repatriation of Latin American capital that has flown abroad, seeking security and a greater protection from a loss of purchasing power. It is sad to note that no significant national or international effort has been made to tap these potential resources on behalf of their locale of origin, even though in magnitude they are perhaps equivalent to the aid envisaged under the Alliance for Progress. Action aimed at this end should go hand in hand with a genuine effort to remedy the causes of capital flights. Furthermore, the creation of savings and loan associations, credit unions, and cooperatives should be encouraged in order to capture and amass small savings. Finally, the fiscal system should be used to provide incentives for investment and reinvestment, and to finance government investment.

The lack of diversification of production could be overcome, insofar as governmental action is concerned, by a series of measures such as surveys of possibilities of new lines of industrial and agricultural production, and the creation of incentives for their development; encouragement of new ventures utilizing domestic raw materials; adoption of a policy of import substitution, and a change in bureaucratic procedures for the establishment of enterprises—since those applied at present constitute an obstacle rather than an incentive. This policy of diversification of production should be a continuous one—because diversification is needed to overcome the vulnerability now a feature of the Latin American economies.

Another means of stimulating diversification of production is to locate foreign markets for goods that can be domestically produced, and to encourage the establishment of firms with the knowledge that potential markets exist. To this end, the Latin American countries could use to a large extent their embassies abroad, staffing them with technical personnel to advise prospective investors as well as already established entrepreneurs on foreign market potentials. This could well result in a promotion of exports and in an advisory service on new production techniques. The interested governments could also help the domestic producer with technical assistance in order to improve the quality of the product and to make it more competitive. For this purpose, productivity centers could also play a useful role in the training of skilled personnel and in the popularization of efficient administration and production techniques.

Advance in the process of economic integration is also advisable because there is a very great potential in the trade of manufacturers and agricultural products among the Latin American countries. The success of the integration process would depend on the degree of complementarity of the economies grouped together for that purpose, and on the status of institutions, including transport facilities, that can serve to stimulate intraregional trade.

A thorough change in the prevailing institutions which are a deterrent to growth is, perhaps, the most important and the most difficult task to achieve. An honest, stable, and efficient public administration is not created overnight. The accomplishment of this requires continuous efforts: the adoption of a career service based on competence and merit, as well as the training of people for governmental service. An honest and competent public administration can solve several problems that at present afflict the fiscal systems of Latin American countries. For example, very often a more equitable share of tax payments by high income groups does not require an overhaul of the tax structure, but merely a better and more honest system of enforcement and collection.

Reform of the pattern of land tenure is overdue in a number of Latin American countries, especially in those countries where arable land is scarce and is not adequately utilized. The process of ending uneconomical landholding—latifundia and minifundia—will require a great deal of effort on the part of the governments concerned, such as the setting up of technical and financial agencies for the establishment of cadastres, the determination of land productivity for taxation purposes, and the provision of added governmental services as respects the use of better seeds, improved methods of pest control, assistance in marketing, and the assurance of adequate and supervised agricultural credit. Changes in systems of land tenure could be accomplished more speedily in some instances if the governments concerned proceeded piecemeal, or by regions, instead of attempting a comprehensive overhaul in one move.

STRATEGY FOR DEVELOPMENT

In the underdeveloped countries, the process of growth requires that action be taken in each one of the fields indicated above in order to combine resources and skills, and to provide the required institutions. Since talent and resources are scarce, however, a strategy for development must be selected, based on the special features of each country's resource endowment, social structure, culture, and history. The selection of the proper strategy is important not only to obtain the maximum results from the use of a given combination of resources, but to cushion, as much as possible, the impact of modernization upon such societies.

A strategy for development, therefore, requires (*a*) designation of areas to be developed, (*b*) choice of fields of action, and (*c*) selection of methods of operation.

The designation of areas or regions for development within a country should be made according to the probability of success they offer. When resources are scarce, it is not advantageous to devote them to the most backward areas where results are uncertain and require greater efforts. The effect of the development of regions which need only a "push" will spread to the rest of the economy.

The selection of key fields of action appropriate to the conditions of the economy is also essential to achieve positive and quick results. Nothing is more likely to be wasted than small efforts in all directions. In contrast, if efforts are concentrated in establishing the preconditions for growth in selected sectors of the economy, the chances for success are fairly apparent. This does not mean that some needs should be left entirely unattended, but rather that attention should be devoted intensively to key sectors. In some instances, these may consist in a combination of new employment opportunities through strategic investments, institutional changes in public administration and agriculture, and a decisive advance in education and health.

To have deep roots, development efforts require that they be undertaken with the full participation of the population. Consequently, the selection of methods of operation should consist of (*a*) the adoption of a sensible development plan, (*b*) the utilization of foreign technicians when needed and the transmission of their knowledge to their local counterparts, and (*c*) the utilization of local technicians to the greatest extent possible, solely on the basis of ability. In such arrangements, it is important to increase popular participation in the modernization of society—in order to achieve the greater degree of homogeneity essential for a healthy development in the economic as well as social and political spheres.

With resources for development and reform available through the Alliance for Progress, there is a need for "action" programs. The time when efforts to obtain external aid dared end mainly in studies and conferences is over.

(Mrs. Kybal subsequently also submitted the following statement for the record in connection with her testimony:)

WHY MORE TAXES—MOBILIZING FOR THE ALLIANCE

(By Elba Kybal) [1]

Basic to the concept of the Alliance for Progress is the task of mobilizing the national resources of the Latin American countries. This is the job of the governments and investors of each country, assisted by foreign aid in the form of loans, and is based on a principle already accepted by the American family of nations, that foreign aid will represent only the additional amount necessary to close the gap unfilled by national investment. Foreign aid will probably not amount to more than 15 percent of the total gross investment in the region.

Thus, it is anticipated that the individual efforts of each country will provide the bulk of the investment capital needed to achieve an increase in the rate of

[1] Elba Kybal, an Argentine economist in the Pan American Union Department of Economic Affairs, prepared this article in cooperation with the personnel of that department.

growth. In most instances, the tax system is the most suitable instrument for this purpose.

THEORY AND PRACTICE

In accordance with the Alliance for Progress, fiscal policy in Latin America should be directed first toward obtaining more investment capital, and secondly toward making the tax systems more equitable. But we must not lose sight of the inflationary pressure in several nations of the hemisphere, which requires a policy of caution in regard to expenditures. This use of fiscal instruments differs from that found in developed nations, where the principal concern is to compensate for economic cycles and regulate demand and employment.

The real impact of the increase in tax burdens is therefore a consideration of great importance in the fiscal policy of Latin America. The dilemma here is how to mobilize national resources for development without having the burden fall heavily on the poorer classes, in the form of sales taxes, which are often resorted to because they are simple to establish and administer.

There is a limit to each country's capacity to be taxed, of course, but the high standard of living that we see the more privileged classes in the hemisphere enjoy demonstrates that great amounts of capital and income are not subject to the full tax burden that they could bear. To remedy this siutation it is necessary to improve the administration of the tax programs, or the tax structure, or both.

The capital and income of the wealthy classes of Latin America, with the exception of those of an emerging but relatively small class of entrepreneurs interested in expansion and development, do not generally serve as funds for productive investment. In fact, the professional class and most businessmen prefer, for various reasons, to build up their bank accounts and savings accounts abroad. Therefore, levying taxes on the income and capital assets of the wealthy classes would not mean that the Government would be absorbing funds that would otherwise have been available for productive investments within the country. Quite the contrary; the amount this group spends on consumer goods, which is often considerable, would be restricted, while investments in the public sector would increase.

In economically developed countries, a tax structure that relies heavily on indirect taxes can serve to increase the total investment, because the income obtained from the taxes can be used for investments by the Government. The consumption that is restricted by indirect taxes in these countries is generally marginal consumption. These taxes do not have a great effect on food, education, health, and housing, but instead tend to limit expenses for vacations, entertainment, and the possible savings of the large and prosperous middle class that constitutes the principal part of the population in these countries. On the other hand, in underdeveloped countries "belt tightening" is a literal rather than a figurative expression. This is why the tax system must levy the burden on the groups best equipped to bear it, and do it in the fairest way possible.

In Latin America today, this is easier said than done. But we must not forget that fiscal policy is not concerned only with the tax structure; another essential factor is public spending. It is possible that a sound policy of public spending would reduce the resistance from the wealthy classes. Today there is often no assurance that the public spending policy will be the one that is needed to achieve an increase in the development rate, and it is possible that the funds obtained from higher taxes may not be devoted to government investments that will create jobs and stimulate private investment, but instead will be expended in ways that are sometimes ostentatious or unnecessary. This situation has made cynics of the taxpayers, who will do anything to evade their taxes, encouraged by the existence of a fiscal administration that is often inefficient or corruptible. Their patriotism has not been stimulated by a sincere, honest effort on the part of their Government to promote development by means of a sound policy of spending.

The acceleration of development requires a community of interest, with all sectors of society contributing their share. If the high-income groups saw that their tax money was being well used by the authorities, it is probable that their resistance to paying higher taxes would decrease. If stronger penalties were imposed on those who failed to pay their taxes and these penalties were strictly enforced, and if patriotism were effectively equated in the public mind with compliance, the desired mobilization of national resources for development could be obtained.

FACTS AND FIGURES

The generalizations often made concerning the impact of taxes in the Latin American countries are confirmed by statistics. The tax systems of 14 countries for which statistics are available are regressive, because they are based in large part on indirect taxes. Half of them obtain more than 50 percent of their revenue from indirect taxes, and in two of these the percentage reaches 70 and 85 percent. In the other half of the countries, indirect taxes provide more than one-third of the revenue, except in Venezuela, which is in a special position because it receives a predominant proportion of its income from direct taxes on petroleum.

If we study the figures for the last 5 years, we can see that in 7 of the 14 countries examined the proportion of indirect tax income to total revenue decreased or remained fairly constant (Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Panama, and Venezuela), but in the other 7 countries (Argentina, Brazil, Chile, El Salvador, Haiti, Mexico, and Peru) the percentage increased. We might conclude from this that there is a tendency in some cases toward regressive tax structures, but this cannot be said without some qualificaion. On the one hand, it is possible that in some cases the tax base has become broader and, with a rise in the economic level of the people, the number of taxpayers and therefore the amount paid in taxes has increased. On the other hand, if, instead of comparing the figures from the last 5 years, we were to compare the most recent figures with those of prewar days (1938), the comparison would offer a somewhat more encouraging picture for Argentina, Colombia, El Salvador, Haiti, Honduras, Mexico, Panama, and Peru.

In some cases these proportions are slightly smaller than those generally given, because in computing the indirect taxes export duties have not been included. They were not considered because the payment of these taxes in the Latin American countries where they are levied is borne, in the final analysis, by the producer, and so they resemble a tax on income. For example, in the most typical case, that of coffee, the export duties paid by the exporters have probably been passed on to the producers in the form of a lower price for the product, because it is impossible for the exporter to pass the tax on to the consumer abroad. On the basis of a similar analysis, in 1958 Peru reclassified export duties as income taxes.

Another burden levied upon income and which has the characteristics of an income tax is that resulting from the use of differential exchange rates when the government applies a lower exchange rate for producers who export their products than the one prevailing for other transactions. This practice, however, is being used less and less. It was not possible in all cases to determine exactly to what extent export duties or preferential exchange rates acted as direct taxes. Finally, there are cases like that of Brazil, where the power to tax exports is in the hands of the individual states and not the Federal Government.

Another aspect of the problem is the fact that the income received by the Latin American governments represents a very small proportion of the total national income. This proportion varies from 8.1 percent in Mexico to 19.4 percent in Peru. This points up the fact that there is still an untouched tax source that can be tapped to promote development.

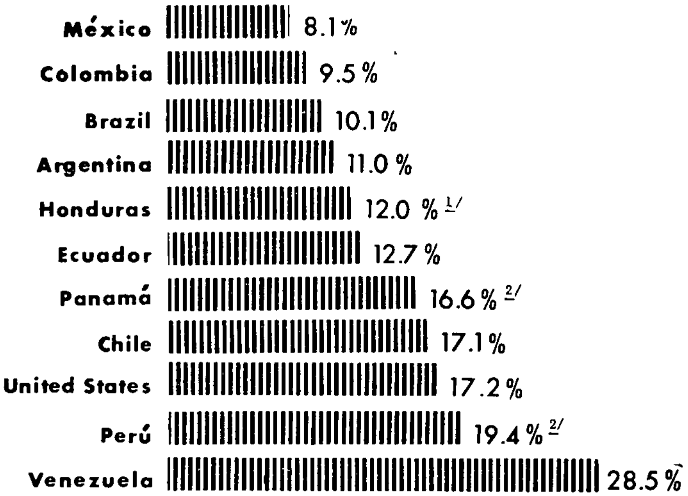
The accompanying chart, however, shows only the central government's income as compared with the total national income. When we take into account the taxes imposed by all levels of government—Federal, State or provincial, and municipal—the relationship can be very different. For example, in such countries as Ecuador local government receipts are as great as the receipts of the National Government; in Brazil, the combined revenue of the states and the Federal District represents half of that of the National Government; and in Haiti local tax revenues are insignificant. In the United States, Federal taxes account for almost two-thirds of the total tax yield.

Another encouraging sign is the fact that ever since Uruguay adopted an income tax in 1961, all the Latin American countries have been making use of this form of taxation. The hardest step, the first one, has been taken. There remains the task of improving income tax administration, and in some cases expanding the tax base and making the tax more progressive.

Finally, in the difficult area of taxes on land—especially on land that is not being properly used—progress has not been great so far, but it is probable that developments will soon occur that will make it possible to establish this type of tax where it does not exist, and improve its structure where it exists in name only. Faced with the possibility that an agrarian reform might be adopted, the landowners would probably offer less resistance to the less painful alternative of accepting a tax on uncultivated lands or on those not used as productively as possible.

National efforts to mobilize resources within the countries are being complemented by the work of organs of the inter-American system. The conference on tax administration (Buenos Aires, 1961) and the one to be held soon in Chile on tax policy, sponsored by the Organization of American States, the Inter-American Development Bank, and the Economic Commission for Latin America, within the framework of the Alliance for Progress, will lead every country to take a thorough look at the situation and try to utilize its tax system as effectively as possible, as a necessary factor in supporting development. In this way the countries will comply with the Declaration to the Peoples of America signed in Punta del Este in August 1961, in which they promised, among other things, "to reform tax laws, demanding more from those who have most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while at the same time promoting savings and investment and reinvestment of capital."

FEDERAL GOVERNMENT RECEIPTS AS PERCENTAGE OF TOTAL NATIONAL INCOME, IN 11 COUNTRIES, 1959



1/ 1957

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Prepared by the author, based on data from *United Nations Statistical Yearbook, 1960.*

APPENDIX D

AN ANALYSIS OF VENEZUELAN AGRICULTURE*

(By Raymond J. Penn)

The agricultural portion of this report is presented in three sections. The first two—some observations (1) on the general agricultural situation and (2) on the reforme agraria—furnish some of the guidelines and criteria for programing U.S. aid. The third section contains more specific areas where the United States might be of assistance to agricultural development in Venezuela.

No attempt was made to make a detailed statistical analysis of all of agriculture and of the agrarian reform program. Numerous reports are available and were used. Although in some areas additional basic analysis is needed it can only be gotten by a more thorough investigation over a longer period of time than was available on this mission.

Instead this report is an attempt to get a broad perspective of the agricultural situation by asking a number of people questions about the nature of the agricultural problems and their hopes for the future. Fortunately it was possible to talk with many people including Government officials, research workers, teachers, owners of large haciendas, campesinos, officials of campesino federations and syndicates. An attempt was also made to evaluate possibly pat statements of problems which sometimes are published in official documents without adequate test. Additional information should certainly be expected to modify the positions taken in this report.

AGRICULTURE

1. The policy that greatly increased numbers of people can be productively employed in agriculture should be reconsidered. Agricultural production has been only a small part of the total production of Venezuela in the past. Several factors have combined to give the impression that there is an unlimited market for agricultural products and that any number of people can be accommodated on the land. Venezuela has imported a large amount of its food products in the past. With the pressure on foreign exchange it appears to be wise policy to encourage domestic production. However, even if nearly all domestic needs were to be produced in Venezuela, the number of people productively employed in agriculture would not be materially increased. Nor would it be large compared to nonfarm employment. Look for instance at the way poultry and egg production has expanded in 2 or 3 years to where domestic production can supply the domestic market. A few over 100 small farmers in one project supply seven-eighths of the rice produced in Venezuela.

Although domestic demand may be substantially increased as more of the population comes into the market economy, this demand can be met with no more people on the land than are there now. In fact it is the usual history of countries as they develop that fewer people are needed on the land. The attempt to hold the population increase on the land may well develop a long-range poverty problem in agricultural areas, and the costs might be greater than developing nonagricultural employment.

2. The soils and agricultural resources of Venezuela do not compare with the pampas of the Argentine, the Nile Delta, or the Corn Belt of the United States. Hence, Venezuela should probably not expect to be a major exporter of agricultural products. It is of course possible that new knowledge (research) on tropical agriculture may change this situation.

There are several areas where agricultural development should be considered.

(*a*) It would be wise to explore possibilities of increasing the livestock industry in the llanos. Basic research knowledge is needed on pastures, pasture management, increasing the calf crop, breeding, ranch management, processing, and marketing. Substantial investments would be needed in livestock and production facilities as well as in processing and marketing.

The livestock enterprise in the llanos is extensive and its exploitation should probably be by ranchers with large operating units. Small units should probably not be encouraged in the llanos except along the main highway and on the best soils of the upper llanos where irrigation and drainage are available.

(*b*) The lowlands in Zulia State appear capable of further development. The climate is hot and humid. The soils are said to be good. Drainage is a major

*Included in conjunction with his testimony in these hearings. (See p. 29.)

problem in the use of this area. Information on water management is needed so adequate surface drainage and dikes can be installed. The cost will probably be high per unit of land reclaimed. The jungle growth will invade the land in 1 or 2 years unless there is constant care (disinvestment takes place rapidly). Reclaiming from the jungle growth was estimated to be as much as $100 per acre.

This was an area with much spontaneous settlement and perhaps more could be encouraged. There was almost continuous settlement for several hundred kilometers along the Pan American Highway even though the road was not opened until 1956 and malaria was not brought under control until about 1943. Bananas and plantains appeared to be a major crop for the small settlers. Possibilities of expanding these and other tropical crops should be investigated, as should the marketing system. A good marketing cooperative might have some real values.

(*c*) The area around Maracay and Valencia could probably expand in fruit and vegetable production. This is an area of major population pressure, of rapid industrial development, and reasonably good soils. Fruit and vegetable production can be on small units. Here the subdivision of large haciendas could result in increased production. Better technical information is needed. Information is needed on varieties, standardization of product, soils, insecticides, as well as marketing.

The campesinos' market of Maracay is a start in marketing the campesinos' fruit and vegetable crops. Additional markets will be needed in the Maracay and Valencia area and also in other parts of the country.

(*d*) Rather substantial investments have been made in the past in irrigation projects. There is probably a place for some additional irrigation development but more attention needs to be given to the quality of the soils and to the adequacy of the drainage.

3. A void in local organization and government is created when you move away from the large hacienda type of organization. The large land owner provided stability, order, and what community services were available. Without him some other local organization must be developed. Community development programs, integration of Government programs at the local level and in some cases cooperatives are urged to give form and force to local organization. It is hoped that the local organization wil exercise local control and in addition be the device to harness the power of group desire for economic development.

Actually, however, the campesino federation and the syndicates have taken over the most active role in local organization. In filling this void they have become a very powerful political as well as economic and social force. Political leaders understand their force, but many others do not understand them and fear this new kind of bargaining group. The United States needs to actively work with this group. The Communists understand this power too and are working hard to make inroads into the campesino federations and syndicates.

4. Venezuela is substantially ahead of most Latin American countries in its research program and in the number of trained personnel available. There are many qualified and well trained people. However, some problems were indicated.

(*a*) The salary scale of research workers at the experimental stations was said to be about one-third less than the university teaching counterpart. The experiment stations are under the jurisdictional budget of MAC. This difference has in part caused a substantial turnover of personnel and the lack of espirit de corps.

(*b*) Agronomos are scarce and have good alternatives. Hence it is difficult to get them to acept a scholarship for much less than full salary. This limits the staff training program.

(*c*) The training program should bring the student into closer contact with the rural people and the rural community. Political affiliation should not affect job opportunities. The instructors in ag econ (dina furiati) and in research methods (doctora giaronimo) at Central University are arranging to take their classes int othe rural community for study during vacations. This should be encouraged.

(*d*) The peritos schools, one of the main sources of extension technicians, should be improved and supported. In some cases more staff is needed and the staff should be encouraged to spend full time on the campus.

The students who receive the entire 3-year education program free should participate in the work of the school—milk the cows, work with the chickens or hogs, detassel corn, and clean their rooms and help with their meals.

The curriculum should be revised and upgraded to permit some credit if at a later date advanced training is in order. Also some work on community organizations and public programs could be included.

(c) Some place must be found for fairly independent inquiry into social and economic policy questions. The Ag Econ Division of MAC is doing a good job but their policy research should be given additional support.

5. Several recent changes have been made in the administration of the public agencies responsible for agricultural programs.

As of July 1, 1961, the Ministry of Agriculture announced a new organization. The Extension Service is set up under a separate director. He will have charge of the 136 extension agencies and the 5V youth program and also the vocational agricultural schools. This change in organization was designed to increase the effectiveness of the extension program.

Under consideration but not yet in effect is a proposal to change the office of agriculture reform coordinator which is attached directly to the Minister into the Agricultural Planning Office. This change could help give the agrarian reform program a broader base.

Early in 1961 the top administrative management of IAN and BAP was changed.

As a part of the land reform program BAP is to make crop loans to campesinos. The previous administration of BAP had loaned about Bs. 500 million in 2 years. Evidently the idea of repayment of the loan was not considered. Even though BAP buys the crop at fixed prices and deducts for the loan the repayment rate is only 10 to 15 percent. The new administration is trying to change this policy and should be encouraged.

The change in IAN administration was also intended to bring about a reevaluation of the agrarian reform program.

AGRARIAN REFORM

Agrarian reform in Venezuela as in other Latin American countries has become a major goal of social revolution. At the heart of the change is the acquisition of a piece of land by the landless farm laborer—the campesino.

Ownership is critical. In a country that has only partly emerged into the market economy, ownership of land carries with it the ownership of government—the right to tax, the right to enact and enforce police regulations, and the right to judge. In addition, decisions on investments of social capital—education, transportation, hospitals, power projects—appear to be the prerogative of land ownership.

So to the campesino, ownership of land is both the symbolic and the real source of a new kind of life. It gives him food to stay alive, but it also gives him the right to build his own house in which to raise his family. It gives him, too, the right to tax himself to build a school.

We know that in a market economy just owning land will not necessarily result in increased security and improved living conditions. Taxation, improved markets, credit, and investments in education, health, and housing are also necessary.

The Venezuelan agrarian reform law appears to give sufficient authority to permit a many-sided attack on the problem of incorporating a large number of additional people into the market economy. It should be judged not alone by how much land has been given to landless people or how it has affected production, but also on whether it has changed the structure of the economy or has resulted in more investment in the human resource.

1. IAN and BAP are the two public agencies most immediately concerned with administering the agrarian reform program.

IAN buys, develops, and subdivides the land. It furnishes the project administration.

BAP furnishes credit to the new settler generally in the form of a crop loan at 150 to 300 Bs. per hectare of crop.

2. Until 2 years ago the land program of the Venezuelan Government was primarily that of developing new land for settlement. El Cenizo, Turin, Guarico, and Yumare are illustrations. The investment in irrigation and facilities was generally large compared to the number of farm opportunities developed. In some cases the soils were not adequately surveyed to determine their capability for irrigation.

One government was usually unwilling to follow the plans and development programs of the previous government. Hence some projects have had several major changes in program. This lack of continuity has resulted in unnecessarily high cost projects. These settlement projects did not have much of an impact on the structure of the rural economy except perhaps for the small increase in the number of middle-class farmers.

3. A large number of large landholdings and haciendas have been subdivided since the new agrarian reform was passed March 5, 1960. It has been said that 38,000 families have been settled on over 1 million hectares of land—nearly all in the last year and a half. It has also been said that there is urgent need to settle 300,000 more families.

It is desirable at this time to evaluate the agrarian reform program. The Government is in the process of making an evaluation. But first how does the program work?

The key to understanding how it works is an understanding of the campesino federation.

(*a*) The campesino federation decides what land it would like to have IAN purchase and subdivide and then assigns members to "invade" the property.

(*b*) Once the land is invaded a judge is called in to determine whether the land meets the criteria of the law (not fully utilized, etc.) so that IAN can buy the land.

(*c*) If the answer is "Yes," then a formal request is made by the campesino federation to IAN to buy the land: a copy of one of these requests is attached to the original copy. It was given to me at a local campesinos meeting where 200 members were present.

(*d*) IAN buys the land and often employs an officer of the federation as local IAN administrator. The federation and administrator decide who gets the land and whether to split it into parcels or operate it as one unit.

(*e*) IAN often makes tractors and other equipment available to get the land ready and to plant and harvest the first crop. In some cases the credit received by the campesino is paid directly to the machine operator for taking care of the crop. In these cases the campesino does not perform much work on his land.

(*f*) BAP makes a crop loan to the campesino usually from Bs. 150 to Bs. 300 per hectare. It is made generally by quarters for specific crop jobs—planting, cultivating, harvesting, etc. The bank has insufficient funds since the previous administration loaned out much of the capital and since the crop loans are often considered a grant and not repaid. The loans are crop loans. When funds are short, loans are not available for livestock or other items requiring longer repayment periods. In spite of the fact that BAP buys the crop at fixed prices and deducts the loan, only 10 to 15 percent of the BAP loans have been repaid.

(*g*) IAN gives the titles to the land to a junto for 2 years (the junta is probably controlled by the campesinos federation or the syndicate). Supposedly after 2 years, and if the campesino works his land well, he will get title to his land. Sufficient time has not passed for many titles to have been granted. In one case a campesino's land was taken from him.

(*h*) Some cooperatives have been established. We saw one in sugarcane, a chicken farm, and three dairies. The three dairies started with good livestock and good pasture. The herds were being liquidated rapidly, and the pastures were returning to jungle. Two of these dairies were owned by ministers under the former dictator, which may account for some of the desire to liquidate. The production cooperative does not appear to be an effective device at this stage of development, particularly since the campesino is so interested in owning his own land.

4. The campesino federation and the syndicates play the major role in the agrarian reform law. As would be expected, the success of the program depends on the responsibility of the federation and how well it represents the interests of the community. A visit to the homes of a number of campesinos and to a local campesino meeting with the president of a state federation demonstrated that the program will work successfully if the campesino federation does a good job.

However, the power of the campesino federation is large not only in the local operation of the land reform law but also in national politics. Its power can be abused and there are indications that the Communists are attempting to infiltrate some locals.

The National and State Government should exercise more control over local groups who abuse the power they have in the agrarian reform program.

(*a*) More definite criteria should be established to guide the decision on which lands should be subdivided.

(*b*) The Government must somehow use its power to withhold funds, and its police power, to prevent irresponsible invasions. Otherwise no one can be secure in his expectation to use the land, not even the campesino on 5 hectares.

(*c*) IAN should probably not employ as administrators any of the invading group.

(*d*) An integrated community development program with all agencies cooperating should be a condition of subdivision. Technical assistance, plans for water, schools, etc., should be a part of the asentamiento program.

5. Although it is too soon for many of the land titles or contracts to be given out to individuals, there was some indication that prompt title distribution was not being encouraged. The individual campesino with title to the little piece of land is not receptive to communism. The intent of the agrarian reform law is to give the campesino a piece of land. The United States should urge in every way possible the granting of title or contract for titles as soon as possible.

SUGGESTED AREAS FOR UNITED STATES-VENEZUELAN COOPERATION

The following important criteria should guide U.S. participation.

Does the U.S. participation result in greater investment in people—education, health, a higher standard of living?

Does U.S. participation result in a stronger and more responsible local government or community organization which will continue to function in the future?

1. *A pilot-supervised credit operation*

The attitude is quite generally held that credit is a grant. Previous operations of the BAP and IAN may be partly responsible for this attitude. The new administration of the BAP, however, realizes that this attitude should be changed if credit is not to be greatly reduced or to dry up entirely. BAP is trying to change this attitude and the United States should help them do it.

It is my feeling that this will be a major change and will cause considerable political pressure. About the only way it can be done is with the support of the local campesino's organization and a strong community program including technical assistance.

The type of credit is now predominately a loan on the crop. A more flexible authority is needed so that loans can be made for livestock, land improvements, machinery, etc., which require a longer repayment schedule.

The necessary conditions seem to exist around Maracay to establish a pilot project. The president of the Campesino Federation of Aragua State, S. Juan Hernandez, understands the problem and is cooperating with the Bank. The local campesinos' federation is active, responsible, and wants a different kind of credit. They are working on their parcelas, want and need technical assistance, and have a local market in operation. The local director of the Bank, Sr. Pinto, is interested in the program.

CBR has had some experience in Venezuela with supervised credit. This experience should be used in designing the proposal.

It is recommended that BAP institute a loan program in which the loans will be based upon the needs of the individual campesino and will be made after a production plan has been made out including plans for repayment of the loan. This means the BAP will have to employ additional technicians who can help the individual campesino with technical problems of the farm and the home and can help make out the loan plan.

It is further recommended that in the same area there be established a community development committee through which all public agencies integrate their programs (this may already have been done). Such a committee should be encouraged to improve education, housing, health, etc., on a self-help basis.

It is further recommended that titles to the land be cleared up as rapidly as possible, corner posts be set, and the titles or contract for title given to the campesino soon. Some of the investments in land will not be made until the land title is secure (one campesino visited would not build his house until he had title).

This project could be limited at first to several local federation areas around Maracay and it could begin at once. I suggest the United States grant funds which will be needed for the beginning pilot project in excess of what the BAP would have put in the area.

2. The United States should help strengthen the expanding extension service

This is a long-range proposal and involves both training technicians and expanding the employment opportunities for the technicians trained:

(*a*) For a while at least the greater part of extension personnel will be trained in the vocational agricultural schools.

These schools could use additional staff housed at the school, equipment, books, and visual aids.

Some connection with research projects might raise the subject matter content of the program.

The curriculum should be reconsidered to see that it contains the type of training necessary for work in local rural communities. It should contain some work on marketing, farm management, the use of credit, public programs and community development.

Since this education is free the students should work on the farm and take care of their living quarters. This is an important part of education. I would urge the extension service to continue the boarding school operation but have the staff located at the station.

Some weight in student selection should be given to whether the prospective rural student should have an opportunity to overcome the somewhat poorer elementary education he received. Also, to the extent it is possible, some preference should be given those who are most likely to return to work in the rural community.

(*b*) Training will be of no value if there are not jobs for the graduates. It is suggested that extension undertake a program with both the agronomos and the peritos similar to that used by Mr. James Yen. The essential features are: any graduate could have a job if he would go back to his rural community or to an asentamiento: a 6-month training program beyond his regular course, particularly to study community development and ways of being helpful in coordinating public programs. Equipment, visual aids, etc., would be needed to carry out the program.

It is suggested that the United States underwrite the training, employment, and equipment costs of this program for 2 years.

3. *Aid Venezuela in developing the major research organization for tropical agriculture*

Research is emphasized, rather than teaching and resident university work, because there is a real need to greatly expand the basic research into problems of tropical agriculture. Professional training can best be done in connection with ongoing research. Teaching will follow too. But the pressure of teaching should not draw off resources from research. We must remember that Venezuela has a good start on this project. Some of the things that might be considered for U.S. participation:

(*a*) A staff training program and scholarships. Venezuela has encouraged professional training in other countries but it has been costly. It was suggested that the United States might expand its training assistance program. I would suggest that in any scholarship program developed, the rules be flexible so that they could be adopted to Venezuelan conditions and also to the needs of the individual staff member to be trained.

(*b*) The program of research consultants should be expended. Research consultants could help plan research projects, and guide the project for a while during which time Venezuelans would be training to take over the research. For some projects a consultant might be needed for only a few months to help start the project. It might be necessary to return for an occasional seminar as the project develops. For other projects the consultant might have to take an active research role in Venezuela for several years. (*c*) Young research technicians, both Venezuelans and those from other countries, should be encouraged to do research on tropical agriculture in the Venezuelan Experiment Station. The United States should underwrite the employment of a number of beginning research technicians. This would be an important way to train future research leaders and also it would make possible a continuing effort from any investment in consultants. Young people with their energy and idealism are more often than not working at the frontiers of knowledge. (*d*) The administration of the agriculture research program is, of course, a Venezuelan matter. The present organization with responsibility with the research director of the Ministry of Agriculture need not limit the research development.

Branch stations or at least experimental areas may be located in several areas of the country.

Close working relationships should be continued with the resident staffs of the universities. Salary scales and facilities should be comparable. Interchange of research and teaching personnel should be undertaken. Efforts should be made to build up procedures which would help maintain continuity of the research, even though the administration or the Government would change.

(*e*) Research in agricultural economics and sociology is now being done in the Ag Econ Division of MAC. Much good work has been done in this division. It has a very active training program and has employed consultants from other countries and has used those available from international agencies.

Research in the economics of resource development, local fiscal policy and taxation, agricultural development and community organization should be substantially supported. Questions of policy and policy decision are most difficult to do research on, but the United States should encourage and support any efforts made in this direction by Venezuelans. Paragraphs (*a*), (*b*), (*c*), and (*d*) of this section apply also to research in agricultural economics and sociology.

4. The major emphasis in the previous proposals is on strengthening local organization and on community development. There are, however, several other items that might well receive attention in connection with community development.

(*a*) One of the necessary ingredients of local self-help programs is to have a little bit of money to work with and the authority to collect it. If the only source of funds for schools, housing, etc., is from the Central Government, the community is encouraged to wait until the Central Government acts. Local governments should have the authority to tax and to use some of the money for investment in community projects. This authority to tax and spend funds is a most important force in community development. Moreover, adequate property taxation is a necessary part of the agrarian reform program. It encourages fuller use of the land resources and it directs investment into community projects.

The initial activity in this area should be a thorough study of local taxation and fiscal policy. There was not time to make such a study as part of this report.

(*b*) Even though the administrative overhead of both BAP and IAN is large and both organizations are exploring ways of reducing personnel, they should consider employing persons who can give not only technical assistance in agriculture and in homemaking, but also can help in community development. The United States could well support the employment of technical personnel particularly if there are trained personnel available for assignment in a community. Universities as a part of their research and training programs have participated in planning community and urban development projects. This should be encouraged.

(*c*) The idea has been proposed in IAN that some substantial effort be directed to what has been called spontaneous or voluntary settlement. The idea is to encourage voluntary settlement in areas of good soils, around existing communities, along roads, or in areas where people want to live. Some of the community services may be available such as roads, schools, electricity, etc. Materials and plans and technical advice may be made available for the new settler to build a home or the school, or a water system. Land for a home can be granted the settler in the new community. Some land for agricultural production should be available, too. The land along the Pan American Highway was settled in this way as were many of the settlements along the main highway east of the mountains. A little investment of this type might help a much larger group of settlers than would be helped by the same investment in a more formal project.

The idea should be explored and encouraged.

APPENDIX E*

POSSIBLE U.S. GOVERNMENT ACTIONS TO STIMULATE THE CONSTRUCTION OF PRIVATE HOUSING IN LATIN AMERICA—INTERNATIONAL BASIC ECONOMY CORP.

This document is devoted to exploring possible ways and means the U.S. Government can stimulate the construction of private housing in Latin America. Private housing is taken to mean housing for those who can save sufficiently to be able to make a minimum monthly payment against a mortgage. Private housing is distinguished from public housing and aided helf-help housing, which are to be provided through direct Government financing, for those who cannot save and pay against a mortgage. The dividing line between these two types of housing is not precise, as the price of the house is less important than the amount of the downpayment, the term of the mortgage, and the interest rate. For example, the monthly installment payable on a $3,000 house on which 10 percent has been paid down and which carries a 20-year mortgage at 12 percent per annum, would be approximately $25 per month. This installment will require an annual disposable income of $1,200 a year. However, if the interest rate is lowered to 6 percent and the downpayment is raised to 20 percent, then the monthly payment can be reduced to $17 per month, which would require an annual disposable income of only $850 a year.

There is no question as to the real and urgent need for both private housing and public housing. This document is designed to demonstrate that the great social, political, and economic needs for private housing for the lower-middle and middle classes can be solved within the framework of joint private and public initiative emanating from both the United States and Latin America.

Cooperative housing institutions offer a great opportunity to bring together the talents and financial resources of Latin Americans and North Americans to solve the critical shortage of private housing. Cooperatives, in the housing field, are generally of two types: building cooperatives and financial cooperatives.

Building cooperatives are well known in several Latin-American countries, where the laws allowing "propriedad horizontal" and "condominiums," are being taken advantage of quite actively. Unfortunately, this construction has been limited almost entirely to building for the upper and upper-middle classes due to the lack of financial resources available for mortgages. Hence, the basic problem facing both private and cooperative builders is the same, that of finding adequate mortgage facilities to allow them to enter the low-cost housing field.

Financial cooperatives are also well known in many countries in Latin America. Employee, trade union and business associations have sponsored credit union programs which have been in existence for some time. In addition, publicly and privately sponsored savings and loan associations for building have come into existence in a number of countries such as Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Panama, and Venezuela. These institutions such as the CORVI in Chile or the Caixas Economicas in Brazil are going concerns but without the resources to meet the demand.

The savings potential of each country would have to be analyzed to determine if these mutual institutions will become capable of meeting the financial requirements of the national housing needs. However, it is crystal clear that they cannot begin to do so, in any country, in the near future, unless they are to receive massive injections of technical assistance, seed capital, and outside investment. It is equally clear that the basis for success exists in the current awareness of the need by both public and private Americans. Banking circles in many countries have been willing to undertake this new responsibility for the management of mutual savings institutions and the organized private credit union groups have been quick to take advantage of changes in the law in individual countries which have enabled them to start cooperative financial associations for housing.

It is clear that the greatest single stimulus available to those who wish to solve the housing crisis is the desire of the individual to own his own house. What then is missing to enable this desire to become a reality?

The missing elements in Latin America today can be briefly listed as, a commitment by the building industry to enter the low-cost housing field, a lack of the saving psychology in many Latin American countries, a lack of technical financial know-how, and a tremendous lack of capital. There are many things

*Included in conjunction with the testimony of Rodman Rockefeller in these hearings. (See p. 65.)

the U.S. Government can do with the cooperation of the Latin American countries to begin to supply the missing elements.

The building industry of Latin America has been unable to build for the middle-class and low-income groups for several reasons. It has not had the experience in mass production method. It has not had an effective demand which can only be supplied by mortgage financing and it has been able to make a much higher rate of return in commercial and luxury housing construction. The U.S. Government can encourage Latin American governments to grant tax concessions for private construction in the low-cost and medium-cost fields. The U.S. Government can encourage Latin American governments to simplify their building codes and modernize their construction techniques. Most important of all, the U.S. Government can directly qualify the building industry as an economic industry eligible for medium-term industrial credits from such institutions as the Inter-American Development Bank, the Development Loan Fund and the Export-Import Bank.

There is much that can be done to stimulate the saving psychology. This natural human instinct has been deadened by inflation, by political cynicism, and by the lack of concrete material benefits for which to save. The U.S. Government can encourage Latin American governments to grant tax advantages to savings income, to grant deposit insurance comparable to the U.S. practice, and in the case of inflation-conscious countries, to undertake to maintain the value of savings deposits through a "cuota de oro" system. The cuota de oro system has been successfully initiated in Chile where savings for housing has increased 100 percent over 1960. Lastly, and most important, the U.S. Government can stimulate the construction of demonstration projects to physically display the house toward which the average person may save.

The U.S. savings and loan industry has during the last 3 years become increasingly conscious of the need and the opportunity to provide financial technical assistance to the private and public groups in Latin America who are attempting to start cooperative financial ventures. In many ways, this interest has predated the interest of the U.S. Government in such ventures. This interest should be encouraged and the U.S. Government, through the Housing and Home Finance Agency, could undertake a permanent technical assistance program to assure the success of the individual cooperative housing enterprises. It is particularly important that the banking systems of the Latin American countries be shown the economic feasibility and desirability of undertaking a role in the private mortgage field through these cooperative vehicles.

The greatest need and the greatest role to be played by the U.S. Government is in the organization, stimulus, and provision of seed capital and investment to the cooperative financial housing institutions. The Development Loan Fund has already undertaken an admirable program of seed capital loans to central governmental Home Loan Bank Board type institutions. These loans have had an immense impact in stimulating the beginnings of a permanent cooperative savings and loan industry. However, there is a distinct limit to the DLF resources and it is immensely important that there is no break in the continuity of the development of this industry. The U.S. Government lending institutions and the international lending institutions must continue loans to the Federal and State home loan banks on a matching basis. In addition, the U.S. Government should encourage the development of certain key private associations who may already be prepared to finance demonstration projects by granting direct loans to such cooperative associations.

The use of the local currencies generated by the sale of surplus agricultural commodities should be revaluated to determine if a major portion of these local currencies should not be devoted to housing. Housing, as an industry, requires relatively little foreign currency. Hence, the Public Law 480 funds are peculiarly well adapted to this financial need, although almost none of them have been so used to date.

The number of houses needed throughout Latin America clearly demonstrates that the U.S. Government cannot undertake the financial commitment to finance them even with the aid of international institutions. The U.S. Government must undertake a program to stimulate private international investment in mortgages in Latin America. This stimulus can best be accomplished by the creation of international institutions to funnel private long-term investment capital into the high-yield mortgages which will be forthcoming from Latin America. The first of these institutions is already being contemplated, the International Home Loan Bank, as proposed by Senator Smathers. This entity would be a channel for investing a specified portion of the resources of American savings and loan associations, whose total assets now equal $75 billion.

There are, however, certain basic obstacles to the entrance of foreign investment capital into Latin American mortgages. There is first of all, the credit risk, complicated by the risk of expropriation or war. Secondly, there is the risk of devaluation of the currency. We feel that if these two risks can be overcome that there is available a major amount of dollar and other hard-currency international capital available for investment in Latin-American mortgages. The U.S. Government has been willing to grant insurance against credit and war risk for a number of years. It would be relatively simple for the U.S. Government to transfer to either the Inter-American Development Bank or the proposed International Home Loan Bank the responsibility and reserves for such insurance for mortgage financing. For instance, it would be quite possible for the international entity to sell debentures, the proceeds of which would be invested in local cooperative institutions, which would be guaranteed against these risks.

The problem of insuring the exchange risk is a more difficult matter. If the above-mentioned international entity were to sell hard-currency debentures it would, of course, run the risk itself. It is suggested that this risk could be undertaken by the international entity if the following schemes were instituted. The primary cause of the devaluation is inflation. Therefore, the cuota de oro system successfully instituted in Chile, under which the housing savings accounts and the mortgages are adjusted in value according to the index of salaries and wages in the individual countries, could be instituted. The funds invested by the international institution could also be designated in cuotas de oro and the individual governments could contribute to a reserve fund which would act as the insurance reserve to back up the value of this private money designated in cuotas de oro. Under such a system, the risk of inflation in a given country would be spread throughout the Americas, which obviously would put the responsible government under pressure to resist inflationary practices. The U.S. Treasury would not be directly behind the insurance as the international entity would maintain these separate reserves. An examination of the possibility of using Public Law 480 funds as a means of beginning this insurance reserve is suggested. In addition, the possibility of using a portion of the authorization for the so-called all-risk insurance contained in the 1961 foreign aid bill should be examined.

In summary, we feel that United States and other investment capital is prepared to enter the market for private Latin American mortgages if the institutional means can be found to prepare the way. This capital is essential if the housing crisis is to be resolved in the near future. The United States has successfully developed the means of sustaining a successful private housing industry which contributes more than $15 billion per annum to the U.S. national income. These means and techniques can and must be exported to Latin America.

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