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ECONOMIC POLICIES AND PROGRAMS IN SOUTH AMERICA

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

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CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

JANUARY 24, 1961.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the Joint Economic Committee, and other Members of Congress, is a report, "Economic Policies and Programs in South America," submitted by the Subcommittee on Inter-American Economic Relationships. It is believed that this report will be helpful to members of the committee and others who are concerned with obtaining a broader understanding of the economies of our South American neighbors.

The report, of course, does not necessarily reflect the views of any other members of the subcommittee or the full committee who did not participate in the study.

Sincerely yours,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JANUARY 24, 1961.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report, "Economic Policies and Programs in South America," which has been submitted to the Subcommittee on Inter-American Economic Relationships by Representative Martha W. Griffiths, Representative Thomas B. Curtis, and me. The report presents observations we have made and materials we have collected in connection with and as a result of a series of conferences held in six South American countries, November 4–21, 1961. These conferences were arranged by two members of the Joint Economic Committee staff who visited these countries for that purpose in September and early October.

As noted in the foreword, this trip was undertaken under a general directive to the subcommittee from the full committee, as part of the Joint Economic Committee's program for the year. Representative Griffiths and I are members of the subcommittee. Representative Curtis, the ranking minority member of the Joint Economic Committee from the House, accompanied us in response to a general invitation extended to all members of the full committee to share this firsthand experience.

The subcommittee has requested the printing of this report as a part of its program of studies. It should be noted, however, that by this action members who did not participate directly in the study indicate neither their approval or disapproval.

In response to our general directions the program was planned and organized by John W. Lehman, deputy executive director, and William H. Moore, economist, of the committee staff. They also assisted with preparation of this report.

Sincerely yours,

JOHN SPARKMAN,
Chairman, Subcommittee on
Inter-American Economic Relationships.

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ECONOMIC POLICIES AND PROGRAMS IN SOUTH AMERICA

FOREWORD

The foreign economic policy and relationships of the United States have a direct bearing on the stability and growth of our domestic economy. In recognition of this fact the Joint Economic Committee or its subcommittees have conducted a series of studies of the relationship of the U.S. economy to the economies of other nations, including on-the-spot studies in Western Europe and statistical comparisons with Soviet Russia. Early in 1960 various members of the committee felt that a study of the trade and investment problems of the developing countries of Latin America should be the next step in this program of studies. These nations, whose importance to us is of great significance, somehow have tended to receive less attention than the more highly developed Western countries in the urgency of the postwar decade.

The American States have reached a stage in their historic evolution in which the solution of longstanding social and economic imbalances seem to require new methods of analysis and administration if these countries are to grow, as is their natural bent, along Western democratic lines.

The Act of Bogotá approved October 11, 1960, by a special committee of 21 nations, proposed new and broad measures for social improvement and economic development in a pan-American framework. The signing in February 1960 of the Latin American Free Trade Agreement looking toward the ultimate development of regional trade had also raised additional questions involving inter-American trade and investment.

In its annual report, 1961 (H. Rept. 328, 87th Cong.) the full committee accordingly established a Subcommittee on Inter-American Economic Relationships and stated:

> This subcommittee is asked to examine the economic interrelationships between Latin America and the United States with particular reference to long-term trade potentials, mutually advantageous development of economic resources, and economic stabilization mechanisms. The subcommittee plans to hold on-the-spot discussions in Latin America with key Government officials, labor and business leaders, and experts from academic life, as in the committee's 1958 study of "Economic Policy in Western Europe."

Developments in the Latin American field were further dramatized by meetings at the ministerial level of the American nations at Punta del Este, Uruguay, in August 1961. Out of these meetings came the Alliance for Progress, the so-called Charter of Punta del Este, establishing a mutual understanding among the nations of North, South and Central America, implementing the March 1961 proposals of the President of the United States for a program of self-help in a specific and detailed program for social progress.

In keeping with the full committee's directive and sparked by the urgency of the developments implicit in the Alliance for Progress, the subcommittee, after extensive study and an exploratory and planning visit by the staff, held on-the-spot inquiry in South America in November 1961. Under the chairmanship of Senator Sparkman, accompanied by Representative Martha W. Griffiths and Representative Thomas B. Curtis, the subcommittee visited seven cities in the six countries of Venezuela, Brazil, Uruguay, Argentina, Chile, and Peru.

Other countries—Bolivia, Colombia, Paraguay, Ecuador, and the emerging nations of the Northeast—were not visited, largely because of time limitations, compounded by the problems of efficient scheduling of international airflights. In general and comparative discussions we heard much of these countries, which only added to our regret at not being able to visit them at this time. In this report we have not commented on that information specifically, in the hope that an opportunity to verify it will come to committee members at another time through further on-the-ground discussion in not only South America but Latin America as a whole.

Following a carefully prearranged schedule of conferences with persons selected as especially able to present the subcommittee with a well-rounded view of the problems, we conferred with over 300 South American residents, largely nationals of the countries involved, but including also, in addition to embassy staffs, a substantial number of American businessmen, bankers, and investors of varied and long service in South America.

It would be impossible to list all of these persons who gave of their time—and of others who added to our knowledge through less formal contacts—or to express adequately our appreciation of the cooperation, understanding, and good will which they manifested toward us and the United States generally. Presidents of nations, cabinet ministers, members of parliaments, civil servants, economists from the universities, joined labor leaders and businessmen in efforts to provide the best and most accurate picture possible within the limits of close schedules and broad interests.

Generally suggestive of our lines of inquiry is a list of questions used in these discussions. These questions were in no way inclusive or exclusive but ~~used largely as a frame of reference.~~

Commodity and trade problems

What steps are being taken, or planned, to reduce dependence upon a few primary commodities?

What are the hopes for and obstacles to international commodity agreements affecting them?

How will the Latin American Free Trade Association affect tariff levels, exports and imports between your country and (1) others in the Common Market, (2) the United States?

Domestic investment and growth

What are the chief present deterrents to private domestic investment—to the investment of external capital?

What are the present attitudes and policies toward foreign private investment?

How can the private sector, especially small business and diversified agriculture, best be stimulated? Credit assistance? Technical assistance?

What, if any, projects for investment are currently pending before external financing agencies such as World Bank, Inter-American Development Bank, Export-Import Bank? How satisfactory are these sources?

Economic and social reforms

What, if any, economic and social development programs seem most important from the standpoint of political stability, and preventing trends toward extremes of the "right" or "left" in your country?

What is being done currently (and planned)—

(*a*) In the field of agricultural reform and land tenure?

(*b*) By way of improving tax legislation and administration?

(*c*) To increase government revenues and restrain inflationary pressures?

Mutual cooperation

In what areas do you think that the United States and multilateral financing and assistance agencies should put their greatest emphasis?

What administrative or other problems have you encountered in dealing with the United States and the multilateral aid organizations?

Our report, based upon a short, although intensive stay, must necessarily be somewhat impressionistic. Among us, interests, weights assigned to issues, and individual conclusions drawn from the evidence, of course, differ. We feel, nevertheless, that in an area of such growing importance as Latin America, even our inadequate impressions may add to the better understanding of needs, hopes, problems, and mutual commitments under the Alliance for Progress.

The report is arranged in two parts. Part I presents our general impressions and comments and part II is made up of a series of individual country summaries. The latter are based in part on materials assembled prior to our visits, as well as information obtained in the various countries. In presenting the country summaries particularly we have tried to select and organize the materials in a way which we hope will be helpful to other members of this committee and of the Congress who may be visiting some of these countries or otherwise in need of a quick review of their economies.

It should be noted that we have not attempted to discuss or analyze the profound political problems which also confront the leaders in the countries we have visited. We have tried to confine ourselves to the economic analyses with which the subcommittee is charged, although we are fully aware of the gravity of the social and political situations, particularly as they may limit the choices for economic action.

Besides acknowledging our obligation to our many friends in South America, we would not want to close this introductory note without specific reference to the advice and help which we have received from Raymond F. Mikesell, W. E. Miner professor of economics, Institute of International Studies and Overseas Administration, University of Oregon, and Mr. Pat M. Holt, consultant to the Foreign Relations Committee, U.S. Senate, currently on study leave in Bogotá, Colombia.

PART I—SOME COMMON PROBLEMS

Introduction

As the country-by-country discussions of the countries visited by the subcommittee which are presented in part II amply remind one, South America is not merely a land mass or continent but a varied group of nations—some of them large, some of them small, all with long and proud traditions.

Indeed, anyone who has visited several South American republics is certain to be struck by the great diversity of economic and social conditions between the countries themselves and among regions within the same country. Some countries or regions have per capita incomes comparable to the less opulent nations of Western Europe, while others have incomes that rank among the lowest in the world. Some South American countries suffer from severe population pressure—pressure not so much in terms of density as in many other underdeveloped countries but, in terms of rates of increase which outrun gains in productivity and development. Other countries have vast unsettled and uncultivated land resources. Some are populated almost entirely by people of European origin, while in other countries indigenous Indians or Negroes make up a large share of the population. Some countries have achieved a fairly high state of industrial development, while in others the process of industrialization is just beginning. This diversity is carried over to the social structure. the character and stability of governments, and, indeed, language and cultural patterns differ widely between countries and from region to region.

Although few educated Americans would deal with the problems of, say, France, Germany, and Greece as a unit simply because they are all on the same continent, there has been a rather general tendency to treat South America and indeed all of Latin America as a single entity and to suggest the same programs and policies for countries as different as, say, Greece and Burma. Yet the kinds of economic and political policies which are appropriate for a country like Uruguay, which has a relatively stable government and which appears to have had reasonable economic stability. are quite different from those of, say, Argentina which, while it may have a higher level of living, at least, until recently, has had greater instability.

In emphasizing the differences among South American countries, we should not lose sight of several important characteristics and problems that they have in common—from the richest to the poorest. While diversity makes generalization dangerous, our discussion based on the review of the six countries will deal with the following general areas: (1) commodity and trade problems; (2) agricultural problems and land-use reform; (3) policymaking and economic development; (4) Alianza para el Progreso—the Charter of Punta del Este; and (5) some concluding observations.

Commodity and Trade Problems

Each of the Latin American countries is heavily dependent upon exports of a relatively few primary products; one market, the United States, consumes nearly one-half of these products. In recent years the degree of dependence on a few commodities has been increasing and there have been substantial annual price and volume variations which have had a marked effect on foreign exchange earnings. In addition, Latin America's share of the world markets for some commodities has been deteriorating relative to that of Africa and Asia. Commodity stabilization schemes have been employed to a limited extent and with little success.

Degree of dependence upon primary commodities.

In 1960 nearly 80 percent of Latin American exports were accounted for by 20 primary products. Petroleum leads the list. In 1957, 26.8 percent of all Latin American exports was accounted for by petroleum, mainly from Venezuela with smaller amounts from Colombia and Peru. Coffee, with Brazil and Colombia in the lead, was second with 19.3 percent, sugar third with 9.8 percent.

For the five leading products, the proportion of total exports has increased from 37 percent in 1937 to more than 60 percent in 1955–60. Much of this is attributable to petroleum, the share of which in Latin American exports has nearly tripled while the share of coffee has doubled in the same period (11 out of the 20 Latin American republics produce and export significant quantities of coffee).

The degree of dependence upon primary commodity exports in the countries visited is even more pronounced when examined on a country-by-country basis, as is illustrated by table 1. Venezuela, for example, exports petroleum and little else. In most years, petroleum's share is in excess of 90 percent. As a percent of total exports, coffee accounts for 57 percent in Brazil, copper 69 percent in Chile, wool 55 percent in Uruguay. The most diversified country visited was Peru, which depends upon cotton and minerals for more than 40 percent of export earnings. Not only are primary products strongly represented in total exports, but nearly all Latin American countries have, it should be noted, a high ratio of exports to gross national product.

Table 1.—*Exports of 15 primary commodities as a percent of total exports, 6 South American countries, 1959*

[Percentages]

	Argentina	Brazil	Chile	Peru	Uruguay	Venezuela
Cacao		5				
Coffee		57				
Copper			69	8		
Cotton		2		22		
Hides	7				10	
Lead				7		
Meat	26				19	
Nitrates			8			
Petroleum				5		87
Silver				7		
Sugar				12		
Timber				13		
Wheat	13				3	
Wool	12				55	
Zinc				5		
Total primary commodities as percent of total exports	58	64	77	79	87	87

Source: International Financial Statistics, February 1961, pp. 40–41.

Customers for Latin American primary commodities are also highly concentrated. The United States is the principal buyer, having purchased about 45 percent of Latin American products in recent years. We buy no wheat, very little meat, and few hides, but for most products U.S. imports constitute a substantial share. The United States buys 67.1 percent of all Latin American coffee, 38.2 percent of the petroleum, 40 percent of the sugar, and 48.7 percent of the copper. Western Europe is the next most important purchaser, with about 30 percent of Latin American commodities being shipped there. The United Kingdom alone takes nearly 10 percent.

Trends in commodity trade

Between 1937 and 1957, the volume of world exports increased by 77 percent, but the exports of Latin America rose by only 18 percent. If petroleum, primarily from Venezuela, is excluded, Latin America's export volume actually declined during this period. Over the period from the late 1920's to the middle 1950's, Latin America experienced a decline in its share of total world exports in products which in 1955–57 constituted more than 75 percent of the exports of the area.

In addition to these long-term adverse trends, foreign exchange earnings have been highly variable on a year-to-year basis. Annual losses or gains of 25 percent or more in total exchange earnings are quite common for Latin American countries. Uruguay's exchange earnings, for example, declined by nearly one-half between 1956 and 1957 and well over one-half between 1956 and 1959.

Trends in primary commodity prices

Some, but not all, of the instability of exchange earnings is a result of changes in primary commodity prices. The aggregate index of export prices for Latin American products has been steadily declining since 1954 and is now only about three-fourths of what it was 7 years ago. The most precipitous declines were in 1954–55 and 1957–59. It may be noted, however, that most raw material prices had been pushed up substantially as a result of the Korean war, particularly in the period 1950–52, so that the declines in the last decade are reductions from alltime highs.

Hardest hit has been Brazil, whose export prices at the end of 1960 were only slightly more than one-half what they were in 1954. Export prices of Uruguay's wool were only 35 percent of the 1951 level in 1959, although in 1960 they recovered to about 47 percent of the 1951 level.

Causes of primary commodity problems

The principal commodity problems from which Latin American countries suffer include (*a*) too heavy concentration in a few products; (*b*) the downward trend in prices during the past decade; (*c*) short-term price and volume fluctuations. Each problem is unique and requires special measures for its solution.

On the supply side of the market, natural disasters, such as crop failure, storms, and diseases, can cause a serious disruption of the market and loss of foreign exchange earnings. On the other hand, unusually favorable weather can result in a bumper crop, a drop in export prices, and a loss of foreign exchange. It is probable, however, that causes other than natural ones account for most of the instability of primary commodity markets.

The relationship between the price of primary commodities and the quantities that producers are willing to sell is extremely inelastic in the short run. By this is meant that almost regardless of price, producers will produce the same quantity of the primary commodity. Once the crop is in, the producer sells for whatever he can get. Even a sharp decline in price will not deter him, since he must get what he can. The same proposition is true, to a lesser degree, for noncrop primary commodities, such as minerals and metals. What this means is that the volume of exports is not determined particularly by current price and that foreign exchange earnings are determined by the amounts consumers will pay for the volume produced in response to the price in a previous period.

A period of high or rising prices of primary commodities frequently leads producers to believe that by expanding their planting they will be able to sell more. Depending upon the period it takes to bring the new capacity into operation, substantially larger supplies will come on the market at a subsequent period. If demand has remained the same, the price will fall and possibly earnings also. In Latin America this is precisely what has happened in several instances. Encouraged by the high prices of the early 1950's, producers expanded coffee plantings and opened new mines in the expectation that the high price would continue. Demand has increased somewhat, but not nearly enough to absorb the vastly increased quantities Latin American producers can put on the market.

On the demand side, the relationship between price and the quantities consumers are willing to buy is also inelastic in the case of many primary commodities. This means that a reduction in price does not result in sufficient additional demand to increase total earnings. Thus, should supply be increased against a fixed demand, exchange earnings may deteriorate. Furthermore, quantities consumed of some primary products are extremely sensitive to the business cycle. Business fluctuations in the United States and Western Europe greatly influence Latin American exports.

In some cases acceptable substitutes for primary commodities have reduced the demand for Latin American exports. Synthetic fibers have made substantial inroads into the world markets for cotton and wool, hurting such countries as Brazil, Peru, and Uruguay. Aluminum and polyethylene can substitute for lead as insulation, and aluminum is frequently an acceptable substitute for copper. Synthetic chocolate is already in use and synthetic coffee may be developed commercially in the near future.

In addition, Latin America is not the only supplier of the primary commodities in which it concentrates. Africa and Asia both produce nearly all of these products in large quantities, and in recent years have been enlarging their relative share of the market. Of great consequence also for primary producers has been the trade policies of the buyers. In many cases protection in the industrial countries inhibits the expansion of primary commodity exports.

Impact of U.S. trade policy

The commercial policies of the United States have an important effect upon exports of Latin American primary products both to the United States and in some cases to third markets. The United States maintains protective duties and/or import quotas on a number of agricultural products in which domestic U.S. producers are in competition with Latin American exporters. These commodities include sugar, cotton, wool, tobacco, edible nuts, meat, linseed oil, canned fish, wheat, hides, and skins. The United States also protects its domestic minerals industry, particularly petroleum, lead, zinc, and copper.

Agricultural commodities.—With respect to agricultural commodities it is necessary to distinguish between two types of impact. In the case of those commodities in which the United States is a net importer, for example, wool, sugar, edible nuts, and linseed oil, customs duties, subsidies to local producers (in the case of wool), and import quotas restrict the U.S. market either directly or indirectly by maintaining domestic production at a higher level than it would otherwise be.

For commodities such as cotton and wheat, in which the United States is a substantial net exporter, the impact of U.S. policies is largely upon the exports of individual Latin American countries in third markets. The United States is selling cotton and wheat at prices well below the artificially maintained domestic prices. U.S. exports of both commodities would be far lower in the absence of export subsidies, assuming no change in the domestic support prices. Thus the exports of Argentina, Brazil, and Peru, among others, tend to be affected by U.S. policies.

Sales of cotton and wheat for local currencies under the Public Law 480 program present a somewhat different problem. In theory, at least, these exports are supposed to represent imports of the recipient country over and above normal purchases. A number of Latin American countries have been beneficiaries under the Public Law 480 program, while others, including some of the beneficiaries, are convinced that their markets in third countries have been affected by such sales.

Minerals production.—Lead, zinc, petroleum, and copper are the minerals most affected by U.S. policies. The first three have been subject to import quotas as well as customs duties. While there is no import quota on copper, in 1958 the United States reinstituted a 1.7-cent duty on copper which had been suspended since 1947. There are also customs duties on several other minerals imported from Latin America, including manganese, mercury, bauxite, and tungsten, but their restrictive effect is probably slight. There are no duties on such important minerals as iron ore and tin. U.S. Government stockpile purchases have also been employed from time to time to support domestic production of minerals.

There can be little doubt but that the imposition of quotas on lead and zinc in September 1958, limiting U.S. imports to 80 percent of the annual average for commercial imports during 1953–1957, is having a restrictive effect on imports of these commodities from Latin America, particularly Peru among the countries visited. A complicating factor in measuring the magnitude of the restrictive effect relates to the volume of sales for the stockpile or under terms of barter agreements.

The establishment of mandatory quotas on petroleum imports in March 1959, and of voluntary quotas, which were only partly effective, in 1957 and 1958, has had an impact on U.S. imports of Venezuelan oil. The impact has been mixed, because the quotas apply to individual companies and there have been shifts in imports as among various foreign sources. During the first 3 months that mandatory

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quotas were in effect, total U.S. imports were below the total quotas, although imports from particular countries were probably restricted.

Venezuela has stated, however, that it is not so much opposed to the import restrictions as such, since they tend to uphold Venezuelan prices at the U.S. level, but rather to the manner in which the quotas are assigned and particularly to the exemption of overland Mexican and Canadian imports. Venezuela would prefer quotas assigned to the foreign country as a whole rather than on a company basis, a system which would assure its share in the U.S. market. There is some evidence to indicate that U.S. companies tend to favor cheaper oils from the Middle East over imports from Venezuela when their imports are limited. The present situation may simply reflect a general oversupply and the actual impact of the quotas may in fact be relatively small.

Impact of West European trade policies

Import restrictions and other interferences with international trade by the United Kingdom and continental Western Europe affect mainly the agricultural exports of Latin American countries: wheat, meat, bananas, coffee, cocoa, sugar, and tobacco. There are in general three types of measures currently or potentially restrictive to Latin American exports. First are the import duties, quotas, and domestic subsidies on agricultural commodities produced within Europe, including wheat, meat, and sugar. Second are the revenue duties on commodities of importance to Latin American countries, including duties on bananas, coffee, cocoa, and tobacco. The combined incidence of revenue duties on tobacco, for example, ranges up to several hundred percent in some cases. Several West European countries have quite high duties on coffee and the European Eco omic Community (EEC) common customs tariff on coffee has been established at 16 percent. In 1957 the total fiscal incidence of revenue taxes on imports of green coffee in Germany, France, and Italy was over 70 percent. The abolition of revenue duties on imports of green coffee in Germany and Italy could increase import demand by nearly 20 percent.[1]

Finally, it must be noted that British and EEC import duties and quotas discriminate against Latin American exports. Commonwealth products enter the United Kingdom either duty free or at preferential rates. Thus, Commonwealth countries supplying sugar and meat to the United Kingdom have a preferential tariff advantage. The EEC tariff and quota preferences will affect several Latin American exports, including coffee, cocoa, bananas, sugar, tobacco, meat, and grain. Of special concern to Latin America is the preference given to certain African territories or countries associated with the EEC. These areas are already strong competitors of Latin America. Their bananas, cocoa beans, and coffee will eventually come into the Common Market free of duty, while Latin American countries will pay a common tariff of 20 percent on bananas, 9 percent ad valorem on cocoa beans, and 16 percent on coffee. Brazil, Colombia, and others fear a serious loss of export markets in Western Europe.

Despite continued restrictions, imports are admitted much more freely into Europe at present than was the case during the earlier postwar period. Many countries have reestablished free commodity

[1] See "Trends in International Trade," General Agreement on Tariffs and Trade, Geneva, 1958, p. 111.

markets in internationally traded products. Bilateral trade and payments agreements, except with the Soviet bloc, have been largely abandoned and much of the trade formerly in the hands of state trading enterprises has now been returned to private hands.

Imports and the balance of trade

South American imports come primarily from the industrialized countries of North America and Western Europe. About one-half comes from the United States and Canada, 30 percent from Western Europe, and 5 percent from the United Kingdom. There is considerable variation from country to country. Argentina, for example, obtains over 40 percent of its imports from Europe and less than 20 percent from the United States, whereas Chile gets more than one-half of its imports from the United States and 30 percent from Western Europe. Two-thirds of Brazil's trade is divided evenly between the United States and Western Europe. Paraguay and Uruguay acquire about 20 percent of their imports from the United States and both rely heavily upon the Latin American and West European markets. Venezuela looks to the United States for nearly 60 percent of its imports and to Western Europe for about one-third. One-half of Peru's imports are from the United States and one-third comes from Western Europe.

The bulk of South American imports takes the form of capital goods, industrial raw materials, and petroleum. For most countries the demand for imports has tended to grow much more rapidly than export earnings. This is partly a consequence of internal inflationary policies which have increased the demand for imports while discouraging exports. However, there are structural factors in the trade position of a number of South American countries which have made it difficult to achieve both a high rate of development and balance of payments equilibrium.

The temptations of noneconomic production

The capital-goods import/primary-commodity export pattern gives promise, indeed, of a continuing and deepening dilemma for Latin American trade policy. Development in these countries requires increased imports of capital goods, and as the development process progresses, it leads to increased demands for fuel, raw materials, and consumer goods, many of which must also be imported. Yet the problem of increasing capacity to import (i.e., of increasing exports) is not an easy one. Most Latin American countries, as already noted, are overly dependent on a single export commodity (oil, coffee, minerals, etc.). The easiest way to increase exports would be to concentrate on production of these commodities, in which Latin America has a natural advantage. Yet this has its drawbacks. It increases the already too great dependence on these commodities, and it could well lead to self-defeating drops in world prices.

Latin America thus not only needs to increase exports but to diversify exports. This is not easy to do. Except for the commodities in which it has a natural advantage, South America is still basically a high-cost producing area. The fields in which expansion is easiest are likely to be those in which there is already a glut on the world market. All of this has led to a trend in South America to seek the same balance of payments results, not by increasing exports but by substituting for imports. There are cases, as for example the Brazilian automobile industry, in which this policy may have advantages; but the policy can easily get out of hand and lead to all kinds of noneconomic production. For example, although we did not visit, we were told that Colombia is now growing a part of its own wheat, at costs from two to three times that of the world price meanwhile missing a bet on the production of tropical fruits for export.

Need and evidences of improving financial management

While the temptation to favor the production of domestic substitutes for imported commodities as a means of dealing with their trade balance problem has lead to continued use of tariffs, quotas, and import prohibitions, most of the countries have undertaken monetary reforms designed to improve their balance-of-payments position and to enable them to rely less upon exchange controls and import quotas than has been the case in the past.

Progress in this direction, while insufficient, tentative, and always at the peril of backsliding, is, nonetheless, heartening in showing a courage of purpose.

Various of these countries have, in the past 5 years, as is well known, gone through degrees of inflation, currency devaluations, and internal political unrest, in several cases involving a major reorientation of policies. In the face of these headline crowding events the trend toward some basic financial improvement shows through in other hopeful ways. Estimated gold reserve and dollar holdings of the several countries, although admittedly low, have been maintained throughout the period at surprisingly constant levels (except in the case of Venezuela there was an upward thrust connected with the Suez crisis). In some countries, notably Argentina and Peru, the relative stability of reserves is in part a reflection of an attempt at financial discipline. In other countries measures to improve external financial relationships have been undertaken, but it is as yet too early to find clear evidence of their long-run effectiveness. Such efforts, where undertaken, are nonetheless noteworthy and deserve watching, since the quest for external financial responsibility, and the interest rates and austerity measures taken to preserve it, may sometimes be at the cost, if not the cause, of some internal unrest (table 2).

TABLE 2.—*Estimated gold reserves and short-term dollar holdings of 6 South American countries*

[In millions of dollars]

	Dec. 31—						Sept. 30, 1961
	1955	1956	1957	1958	1959	1960	
Argentina	509	360	263	203	393	419	445
Brazil	466	549	456	463	478	481	551
Chile	139	137	115	140	228	180	178
Peru	127	119	88	96	110	114	123
Uruguay	281	259	235	262	242	231	229
Venezuela	668	1,058	1,554	1,213	939	796	846

Source: Federal Reserve Bulletin.

Recent progress toward stabilization and the turn toward "sound" economic growth policies is even more striking in view of the extent to which foreign exchange restrictions and multiple foreign exchange rates have been reduced or eliminated. A little over 5 years ago, at the end of 1955, all six of the countries visited had dual or multiple exchange rate systems of differing degrees of complexity. By mid-1961 Argentina, Brazil, Chile, and Peru and Uruguay had substantially given up exchange controls and gone over to a single free rate.

Although one may properly say "substantially eliminated" there are still a few important vestiges of the once widespread direct controls. Chief exceptions are administered rates on coffee and cocoa exports in the case of Brazil and the continued use by Argentina and Uruguay of a few specific commodity import and/or export surcharges supplementing the single rate. These selective import an l export taxes apparently stem, however, not so much from a failure to recognize the virtues of free exchange but from the fact that alternative sources of government revenue are not and have not been quickly developed to offset the loss of revenue from penalty exchange rates.

Meanwhile, somewhat as an offset to these vestigial exchange restrictions, Peru, joining such countries as Belgium, France, West Germany, United Kingdom, Sweden, and Saudi Arabia, on February 15, 1961, formally accepted the obligations of article VIII of the International Monetary Fund Agreement, thereby becoming one of 21 nations of the world who have agreed to eschew discriminatory currency practices or restrictions on transfers without consultation with and approval by the Fund. "This progress in the exchange system," according to IMF reports, "was made possible by the improvement that has resulted from the stabilization program Peru is following."

All in all memories die hard of the era of widespread Latin American reliance on administrative interference to influence the internal economic situation through the exchange system. The extent to which such restrictions have been eliminated is not always fully appreciated. Notwithstanding the continued limited use of taxes on imports and exports, international trading with, and in, Latin America, have, it appears, become vastly simpler and less subject to sudden changes of policy and ad hoc patchwork changes in the exchange pattern.

It is clear that the region as a whole, after long experience with many types of restrictions on foreign trade and payments and manipulations of exchange systems, has decided to adopt a substantially more liberal attitude toward international economic relationship and to rely upon sounder and more basic domestic measures as the principal instruments of economic policy.[2]

Intra-Latin American Trade and the Montevideo Agreement

The Latin American free trade area, LAFTA, along with the Act of Bogotá and the Alliance for Progress, is one of the most important concrete cooperative efforts undertaken by a group of Latin American countries in modern times. Nine countries—Argentina, Brazil, Chile, Columbia, Equador, Mexico, Paraguay, Peru, and Uruguay—have already ratified the Latin American Free Trade (Montevideo) Treaty and others are expected to do so in the near future. The treaty, which was formulated in February 1960, is a product of several years negotiation and study by the signatory countries under the general direction

[2] F. d'A. Collings, "Recent Progress in Latin America Toward Eliminating Exchange Restrictions" Staff Papers, IMF, May 1961, p. 286.

and sponsorship of the United Nations Economic Commission for Latin America. It grew out of the conviction on the part of leading Latin American economists, businessmen, and politicians that Latin America's economic growth, particularly in the industrial field, depended heavily on the opportunities for regional specialization and trade. It has long been recognized that the narrow markets of individual countries represent a severe limitation on the achievement of more advanced stages of industrialization, particularly in the capital goods and durable goods industries fields. Moreover, it is believed that at least a partial answer to the problem of expanding exports of Latin American countries is to be found in specialization and trade within Latin America itself.

Unlike the European Common Market and the European free trade area, the Montevideo Treaty does not provide for an automatic reduction in tariffs and other barriers to trade within a given time period. Although article 2 of the Montevideo Treaty does provide that the free trade area "shall be brought into full operation within not more than 12 years from the date of the treaty's entry into force," its actual application to individual commodities is to be determined by negotiation among the member nations.[3] Thus significant reductions in barriers to trade in manufactured commodities within Latin America must depend upon the outcome of reciprocal negotiations, perhaps not unlike those which are conducted within the framework of the GATT.

The LAFTA organization must be considered not only as a mechanism for reducing trade barriers and broadening the markets for Latin American produced goods, but also as a means of cooperative planning of development, particularly in the capital goods field. Many industries in Latin America are not likely to be competitive in any case, and there is a strong desire on the part of the members of LAFTA to achieve a kind of planned complementarity in certain industrial sectors. Doubts may be legitimately raised regarding the desirability of such arrangements, since they may constitute, in fact, government-sponsored cartels. On the other hand, the internal economies of Latin American countries are not generally competitive for a large range of industrial products, while the prices of agricultural and other primary commodity products are frequently controlled and subject to various forms of regulation. Hence, it is doubtful if the LAFTA agreements will make Latin American economies any less competitive than they are now, and in the case of many commodities where production and trade are not subject to regional control arrangements, the reduction or elimination of trade barriers will very likely increase the degree of competition within Latin America.

The achievement of the free trade area goal for the LAFTA members depends upon the solution of a number of problems in addition to those concerned with the negotiation of reciprocal tariff reductions and joint planning in certain industries. For example, much of the existing trade among the countries of South America is financed under

[3] Article 5 of the treaty provides that "each contracting party shall annually grant to the other contracting parties reductions in duties and other charges equivalent to not less than 8 percent of the weighted average applicable to third countries, until they are eliminated in respect to substantially all of its imports from the area * * *." However, a careful examination of the formula to be used for calculating the reduction in the weighted average of restrictions applicable to intra-LAFTA trade (protocol No. 1 of the treaty) reveals that countries need do little more than reduce their restrictions on the commodities that they are already importing from other members in substantial volume. Since there is relatively little trade in manufactures among Latin American countries at the present time, little or no weight is given to these commodities in the formula until they are actually traded.

bilateral payments agreements rather than with convertible currencies. There are differences in views as to how intra-LAFTA trade should be financed, but the recent exchange reforms of the major countries point to the financing of trade on a convertible basis. However, there is a lack of credit facilities, both short and medium term, for the financing of trade within Latin America. Producers of capital goods, such as Argentina and Brazil, are fearful that they will not be able to compete in Latin American markets with United States, European, and Japanese exporters because they are unable to provide comparable credit terms.

Another problem concerns the ability of some of the less industrialized countries, such as Peru and Uruguay, to compete with the more industrially advanced countries. The former are fearful that a free trade area will mean a retardation of their industrialization programs while foreign and domestic capital will be drawn to major industrial centers, such as Sao Paulo and Buenos Aires. It is for this reason that they have proposed the establishment of a development corporation which will give special attention to the financing of industries in the less industrially advanced members of LAFTA.

Impact of LAFTA on U.S. exports

What will be the effects of the creation of a Latin American trade preference area on U.S. exports? There seems little doubt that it will change the composition of U.S. exports to the area, since through increased pecialization and trade LAFTA members will be able to become self-sufficient in a larger number of products than would otherwise be the case. On the other hand, Latin America's need for capital goods imports, certain raw materials, and even agricultural commodities will continue to expand and the total volume of their imports will be limited only by their export earnings and capital inflow. Their exports of traditional commodities are not likely to be affected by the free trade area, and indeed, the existence of the free trade area may assist these countries in developing new export lines which they can sell in world markets. The opportunity to sell in a broad Latin American market will moreover undoubtedly attract a greater volume of foreign capital, just as the creation of the European Common Market has attracted capital from the United States.

Agricultural Problems and Land Use Reform

The profound significance of agriculture to South American countries (as well as to "developing" countries generally) is apt to be only remotely appreciated by people of the United States where a half century of declining farm population and a generation of persistent farm surpluses have conditioned our national thinking and policy.

The position of agriculture in the economy

In spite of rapid urbanization and industrialization during the postwar period, most of the people of Latin America still live in rural areas and about half the labor force is engaged in agriculture (table 3). A large part of the rural population operates an agricultural economy on a relatively simple, nonmechanized level and largely under traditional systems of land tenure. Even in Argentina and Uruguay, where only 25 percent and 22 percent respectively of the labor force is engaged in agriculture, agricultural products constitute the vast bulk of the foreign-exchange-producing exports.

TABLE 3.—*Agricultural labor as a percentage of total labor force, 6 South American countries, 1950*

Argentina	25
Brazil	61
Chile	30
Peru	60
Uruguay	22
Venezuela	41
Latin America as a whole	53

Source: "United States-Latin American Relations," compilation of studies prepared under the direction of the Subcommittee on American Republics Affairs of the Committee on Foreign Relations, U.S. Senate, Aug. 31, 1960, table II-1, p. 585.

In spite of the large proportion of the people in Latin America engaged in agriculture, in many countries agricultural output is inadequate to support the food requirements of the people with the notable exceptions of Argentina and Uruguay.

At the same time, there is little doubt that for most Latin American countries agriculture has represented a relatively neglected aspect of their development. Large areas of cultivable land are either not being used at all for productive purposes or are being used ineffectively. South America, it is said, has more than four times as much cultivable land per capita as Asia and 50 percent more than Europe. However, output per worker and per acre in South America is only a small fraction of that for the United States. For example, production per agricultural worker in the United States in terms of wheat units in 1952–54 was 4,220 as against 450 in Brazil and 250 in Peru.[4]

In spite of this poor record, there has been a rather definite tendency during the postwar period for agricultural output in Latin America to continue to lag behind the rate of growth in other sectors of the economy.

Role of agricuture in development

Given this set of conditions—(1) agriculture as a major source of employment, (2) low calorie national diets, and (3) lagging agricultural productivity—it is not surprising that the visitor to Latin America hears much of what is termed "the need for agrarian reform."

But there is still another aspect of Latin American agriculture—perhaps economically the most important, although less apparent. (*a*) Agriculture, as the dominant sector of the economy, shou d make a net contribution to the capital required for overhead public investment and expansion of secondary industry, and (*b*) increased exports of agricultural products offer in the earlier stages of development the most promising means of increasing foreign exchange earnings.

Although U.S. history of the 19th and early 20th century affords the near perfect case study, this capital "generating" role of agriculture is likely to be forgotten, since we have largely outgrown that phase of "adolescence" which, however, still confronts much of Latin America.

The problems of economic development wherever confronted is largely—although of course not entirely—a problem of capital accumulation. The very size of the capital demands for further development and diversified growth in Latin America places a great present burden on agriculture. Because agriculture is the principal existing

[4] See United Nations, "Productivity of Labor and Land Use in Latin America in Agriculture," Economic Survey of Latin America, 1956, United Nations Economic Commission for Latin America, New York, 1957, p. 170.

industry, it must be looked to to provide the domestic savings needed for expansion not only in food and fibers themselves but for investment in other nonagricultural directions.

While presenting a seeming paradox, the fact is that, even though agriculture may be expected to represent a declining sector in the more industrially developed countries of tomorrow, as a means to an end it nevertheless warrants substantial expansion of productivity and output today. Only in that way can it perform its role as a major source for capital formation and earn the foreign exchange required to buy outside machinery and technology.

In some cases, as Venezuela and Chile, petroleum and mineral exports do offer alternative sources of needed foreign exchange thereby aiding in financing expansion, including governmental development expenditure on education, roads, and utilities. But in other countries visited, Peru and Uruguay, for example, improving farm output offers more certain returns sooner.

Ironically, part of the difficulty in South America may have arisen from governmental policies which have tended to emphasize urban construction and rapid industrialization over basic agriculture. There has, for example, been a failure to channel investment funds into agriculture and into rural areas, to provide adequate credit facilities and technical assistance for improving crops and production methods, and to take measures designed to increase the cultivable area and reduce soil erosion. It is commonly asserted, moreover, that much of the responsibility for the lagging condition of agriculture is to be found in the forms of land tenure.

Causes of lagging agricultural productivity

Before taking up the problem of land reform it may be well to summarize, accordingly, some of the complex social, economic, and legal elements which contribute to the agrarian problems.

1. *Subsistence agriculture.*—Except for a few export crops a system of subsistence agriculture, based on a choice of crops for family consumption rather than for their market value, is quite widespread. Maize and beans are the characteristic crops, although rice is important in Brazil. Not only does the subsistence type of agriculture fail to provide an adequate diet and a satisfactory living standard for the mass of rural dwellers themselves, but it has failed to produce a sufficient supply of adequate low-cost food for the major urban centers. As a result, much of the agitation against the prevailing agricultural pattern comes from the rapidly growing cities where industrial workers and the middle class are faced with persistent food shortages, high cost of staples, and low quality of goods. This agitation, rightly or wrongly, tends to be directed against the incumbent political regimes.

2. *Traditional agriculture.*—The traditional agricultural system is characterized by lack of change from the past. The agricultural methods employed today in much of Latin America differ little, if at all, from those employed in the colonial period. (Newly settled areas in southern Brazil, Uruguay, and Argentina are exceptions.) A low level of technology prevails. Large numbers of workers paid low wages are used rather than machines. Innovations are rare; tradition delimits the few choices available to the rural population. Mechanization would make much of the rural population superfluous and new land or urban jobs would have to be found for them.

3. *Large landholdings.*—Much of the best agricultural land in Latin America according to statements, materials, and general conversation, is controlled by a relatively small proportion of the population. While much of the commercial agricultural production comes from these large landholdings, these properties apparently produce well below their potential. They are operated by some form of tenancy, by wage laborers, or by a combination of tenancy and wage labor. In contrast to the North American pattern of commercial farming efficiency, the shortcomings of the subsistence and traditional agriculture carry over and apply to the large landholdings, as well. The technological level is low and most of the workers and tenants support and feed themselves by falling back on subsistence agriculture. Frequently the best land is used for the landowners' crops and the workers left to grow their own food on the poorer or more remote parts of the property. Administration of the properties is left in the hands of managers and foremen. As long as the property provides an income sufficient to enable the absentee landowners to enjoy the life of the capital city, there is little incentive for them to concern themselves with the detailed operation of the property, whether it be livestock raising in the more temperate regions, or the plantation growing of cotton, cane, or coffee in the tropical parts of the continent.

4. *Social structure.*—In the Indian and mestizo regions of South America there remain vestiges of the communal organization of society with large numbers completely outside the market or even a barter economy. Under the communal social structure the product of individual efforts are diffused to the group as a whole. At the same time, the system provides a form of social security to individuals, so that even the more adventurous are reluctant to break with the system. Attempts to improve agricultural technology and increase production are thus handicapped by the prevailing social structure.

5. *Lack of education.*—The rural population in most of the Latin American countries lives largely in a preliterate, tradition-dominated folk culture except possibly in parts of Chile, Argentina, Uruguay, and southern Brazil, where the best that can be said of rural education is that it is poor to negligible.

6. *Lack of functioning local government.*—The Government tends to be highly centralized in the capital cities. Rural populations have, as a result, little experience in local government; they await action by the central authorities even on local problems. The prevailing social structure, the lack of adequate sources of local government revenues, and the lack of education combined with an undernourished and apathetic population has thus thwarted the rise of local leaders and left the bureaucratic centralized system, drawn heavily from the relatively better educated urban populations, to deal with the rural problems.

7. *Inadequate health facilities.*—The death rate has been declining as better health measures have been introduced into the rural areas. The birth rate, however, has not declined and is now two or three times as great as the death rate. This has meant inadequate diets where agricultural production has not kept pace with population increases. Some of this population has moved to urban areas, generally forced to settle into urban slums on the outskirts of the major Latin American cities. Meanwhile, the level of living has continued to decline in many rural areas.

Channels for improving agricultural productivity

What can these countries, with the aid of the United States and the aid of each other, do to improve agricultural productivity and output? The listing of the problems suggests the variety of attack called for.

What is needed is increased agricultural productivity, and still more increased agricultural productivity.

1. *Technology and education.*—The most obvious, and immediately fruitful, way in which agricultural output may be increased is probably through improved technology. Elements include education directed at improved farm practices, research to broaden the range of more productive animal and plant varieties and strains. Recent history with hybrid seed in the United States, the spectacular expansion in sugar yields in Taiwan, and the prewar increase in output of silk in Japan as the result of selection and breeding of superior races of silkworm illustrate the possibilities in this direction.

While outlays on irrigation are likely to be relatively large, and the gains from land ownership reforms slow depending upon public acceptance, the gains from educational developmental services or unconventional inputs are relatively quick and sure. Backward agriculture can, for example, profit by the immediate exploitation of existing technologies already familiar in the more advanced countries. A second factor is that moderate increases of inputs of agricultural education, advice, and technology, help to conserve for nonagricultural expansion those types of capital resources, such as cement, which can be available for alternative uses.

In the underdeveloped areas, farming practices and animal husbandry are often noticeably primitive even to the nonprofessional eye. The United States, with its long tradition in agricultural extension work, might share the fruits of our own research and experience in this field with the hope of more immediate and certain results per dollar of aid and assistance outlay than in many other more dramatic types of project expenditures. The broad social returns from agricultural research and extension make this a preferred type of expenditure for governmental spending. While aggregate costs of technology and education, are relatively low, the private benefits are seldom a sufficient reward to the individual producer. This is accordingly, a field in which Government must undertake the major responsibility.

2. *Expand cultivable acreage.*—The visitor to South America, especially one who travels by air, must be impressed by a condition, the mere statement of which seems to present something of a contradiction. On the one hand, there are vast unused lands and vast underused lands—granted that much of these under prevailing conditions may be economically unusable at all. Not far away there are likely to be small irregular contour plots under unbelievably rugged, sturdy, row-crop cultivation or in another direction great delta expanses ranking with the world's fertile best. Better and better farming of these terrace tracts and delta fields is one way of improving agricultural productivity.

But a second way to expand agricultural output is by increasing the area available for cropping through reclamation and extending the irrigated, cleared, or drained acreage.

Short distances from Lima, for example, are luxuriantly green cropping of irregular, 1- or 2-acre, plots in an area marked on travel maps as an extension of the "largest dry area on earth." With sand dunes suggesting the desert on one side of the highway, the other may be marked by irrigated spots giving the appearance of thriving botanical gardens. Along this narrow coastal desert, irrigated, commercial crops such as cotton, sugar cane, and rice occupy much of the area. But with the characteristically large landholdings goes control of the bulk of the water rights. Many small properites exist alongside the larger ones, but have difficulty getting sufficient water. Here much could be done to improve irrigation systems and, of almost equal importance the allocation of water, but tradition and the power of large landowners are major obstacles.

In other less arid, even humid, areas all over South America, there is considerable cultivable land. The greatest problem in the settlement of these lands is accessibility. More rural roads are necessary although they must frequently cross great masses of the mountains and "badlands" to reach the urban or coastal markets.

Related to the problem of communication, there is also the problem of getting people to move into areas where they must adapt to a new environment—for example, from a tropical forested lowland into the cool highlands.

Back of the coastal area of northeast Brazil, for example, is an area of grasslands or scrub forests, sparsely occupied by people raising cattle. Here the rural people find life particularly hard. In the northern part of this area there are recurrent droughts which have caused famine, starvation, and mass exodus. Here it is reported that individuals have walked 1,000 to 1,500 miles to end up in the slums of the larger cities.

This reference to the possibilities of irrigation, roads, or mass resettlement as land reform measures is not to suggest that it would be wise or profitable to allocate presently limited resources to developing any or much of these particular unused areas. It does suggest, however, the nearness and variety of possibilities for improving agricultural productivity with resultant gain in national diets and foreign exchange potentials from presently undeveloped lands.

3. *Improve tenure patterns.*—This brings us to the third, most misunderstood, and hence controversial, category of proposals for South American "land reform." It is frequently asserted, and even more frequently taken for granted, that an essential first step in increasing agricultural productivity and output of food and fiber for consumption and export in most of these South American countries lies in changing the landownership patterns.

While the distribution of land to landless farmers may have justification on the grounds of equity and establishing the basis for free democracy, as land reform, the program ought not rest exclusively on these grounds. It would be the hope and expectation of such measures that greater efforts will be applied to the land if the operator or cropper, feeling a personal interest in the output, responded with increased drive and husbandry. In Japan and Taiwan, agrarian reforms, for example, are said to have resulted in substantial increases in productivity when the worker could feel the rewards of his own efforts accruing to himself rather than to an unknown, unseen, absent plantation owner. Nearly all of these South American countries recognize such opportunities and are now either engaged in or programing changes in the pattern of landownership. As is generally known, these plans have been accepted as a part of the Alliance for Progress as internal measures of self-help.

The danger is that the illiterate, or semiliterate, cropper on hearing of those plans will assume that he is soon to be freed from his traditional quasi-feudal role and have for his very own a plot in an Elysian field. There are apparently many others in North America, as well as in South America, who similarly interpret these programs to be synonymous with expropriation and in some measure the punitive breaking up of absentee-owned large landholdings.

The possibility of misunderstanding and misgivings may arise out of (or at least not be allayed by) the necessarily broad words of the Charter of Punta del Este (of which the United States is, of course, a cosigner). High among the purposes and fundamental goals for the present decade the charter lists:

> * * * programs of comprehensive agrarian reform leading to the effective transformation, where required, of unjust structures and systems of land tenure and use, with a view to replacing latifundia and dwarf holdings by an equitable system of land tenure so that, * * * the land will become for the man who works it the basis of his economic stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity.

The nondiplomatic reader, laying aside the dictionary after an effort to be sure precisely what it is that is to be "replaced" is not likely to speculate further about the words "where required," or the "who" and "criteria" of the implicit decision-making process. (The omitted phrase, incidentally, refers to "the help of timely credit and technical assistance" as aids toward the stated ends and thus does little more than underscore the determination to "replace existing systems.")

It is too soon to say much about the form, or ultimate success, of measures undertaken to implement this promise of the "alliance."

In Venezuela, for example, a program is already underway involving a current year's budget of approximately 560 million bolivares ($130 million) to be raised in part by the issuance of 200 million bolivares of bonds. The new law, looking toward early resettling of 300,000 farm families on tracts of their own, contemplates the eventual distribution of 76 million acres. The first land was given out in April 1960 and during the first 9 months almost 3 million acres were parceled out to nearly 35,000 farmers.

Venezuela is particularly fortunate in having a large public domain to parcel out, although much of this land is of doubtful value. Extended periods of drought characterize the bulk of the land available for distribution. Irrigation will help in some areas but irrigation is, of course, costly. Venezuela is fortunate also in having one of the better highway networks in Latin America (built from the profits of the oil industry) to aid in the settlement of the new landowners and to make it possible to market their produce.

While the government now owns enough public land for the immediate program, and the reform not directed at large landowners, it is conceded that private land expropriation may be called for if necessary to fulfill the "social function' of efficient and full use. If expropriation should be called for the law provides that public taking would move in the following order against: (*a*) unused land; (*b*) land indirectly developed in the owners' permanent absence, through temporary tenants, sharecroppers, or squatters; (*c*) land kept idle for 5 years; (*d*) farming land used to a disproportionately large extent in the raising of livestock.

Only land suitable for cultivation is to be distributed with the size of the plots depending upon the number of dependents of the beneficiary and the potential productivity of the land. Payments start 3 years after the farmer receives title to the property. The farmer whose output has been higher than the predetermined average during half of the period allowed for the total payment of his obligation will be rewarded with the cancellation of the balance. Other special inducements are offered for efforts to conserve natural resources, and for above-normal production.

This Venezuelan land reform is said to be the most ambitious attempt by a South American nation to remake its agricultural economy. In other countries visited, there is much interest and discussion—in some cases at the legislative level—as to what is expected of government and landowners under the alliance. The charter itself recognizes that conditions and needs will vary from country to country. Largely as the result of events in Castro Cuba, the specter of widescale and uncompensated expropriation has unfortunately been read into the alliance program and one of the conditions of U.S. aid.

The concept of agrarian reforms

As a result of our South American conferences and study, it seems to us that an official clarification of the meaning and objectives of "agarian reform" in the context of the Alliance for Progress, especially the role of the U.S. Government as a participant is not only in order but imperative. It is not for us to determine the content of such a clarification statement. It should cover at least the following points:

1. The primary objective of agrarian reform measure should at all times be increased agricultural productivity, recognizing that equity and the fostering of a free democracy may often be substantial contributors to that end.
2. Land reform is, thus, not exclusively a tenure problem but a problem of improved farming practices generally.
3. The major step in improving farming practices must come through rural education, research, and extension services aimed at improving such things as breeds, seeds, storage, and marketing.
4. Especially designed credit institutions to serve the production and landownership needs of local farming are likewise integral parts of productivity reform.
5. Land reform would include real estate tax reform, since a good real estate tax system is the cornerstone of land use and the corrective of underutilization, bad practices, inadequate local revenues to support the government facilities basic to local development.
6. The objective of land tenure changes is not to be punitively directed against large landholdings or absentee landowners as such; on the contrary, existing property rights under law are to be respected.
7. The programing and administration of agrarian reform is, and must remain, an internal matter for each of the several nations.
8. Certainly the United States is not pressing for any preconceived patterns of land tenure or agrarian reform; least of all can it undertake unilaterally to assure individual croppers of its support of ultimate landownership, no matter how seemingly meritorious cases may be.
9. With the objective of increased productivity clearly in mind, programs adopted should give full weight to the hope and belief that

now landless laborers and heads of families may respond with increased effort and drive to tenure reforms which will assure that the rewards of his own efforts will accrue to himself rather than to an unknown, unseen absent plantation owner.

10. The interest of the United States in specific measures is limited to that of 1 among 20 participating countries engaged in a mutual and cooperative effort to bring a better life to all the peoples of the continent.

11. As a first step in land reform and possible redistribution, the respective participating countries should look first to public lands and lands not presently under appropriation. To this end (1) an accurate survey of acreage and usability of the public domain, (2) an appropriate adaptation of the U.S. provisions for land grants in the aid of schools and colleges dating back to 1859, and (3) the so-called homestead acts dating back to 1891 are recommended for consideration.

Policymaking in Economic Development

Role of private enterprise

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. If formalizing the role of government in economic decisionmaking is to be our recommendation, it would not be surprising if the developing countries turned to the Soviet's example as notorious practitioners, and hence best equipped advisers in that line. We ought, in short, to be wary of trying to fight communism on the world stage by turning to socialistic and authoritarian instruments in the developing nations.

Perhaps this is a point at which to comment also on the role of American businessmen in Latin America. We met and talked with many of them as individuals and representatives of U.S. enterprises and banks. Some of them had been in Latin America for two or three decades. Even in some quite out-of-the-way places, judging from brand names in show windows, one must remark on the missionary work and pioneering salesmanship of American firms. We, of course, had no time or occasion for detailed study of their place or acceptance in the Latin American world community.

We did have the impression, however, that the classes which some of them sponsor for (or require of) employees in the study of the English language, and guidance given in American business techniques and methods are apparently extremely welcome to the point where employment by an American firm is deemed a distinction and opportunity by clerks, busboys, drivers, salesmen, and resident managers alike. The substantial role that private investment and private initiative can have in serving diplomacy and the alliance for progress must not be overlooked.

Having said this much about private enterprise as an ideal and preferred approach in inter-American economic relationships, we must add two points: (1) that the path of private enterprise has difficulties, and (2) that building the necessary infrastructure for progress does, in the nature of things, call for a substantial measure of government programing in areas where private enterprise is not well adapted.

Outlook for private investment

(1) Direct private investment in the Latin American Republics accounts for over 40 percent of all U.S. direct private investment outside of Canada and for about three-fourths of U.S. direct private investment in the less-developed areas of the world. The value of this investment rose from $4.4 billion in 1950 to $8.4 billion in 1960. While in 1959 investment in petroleum accounted for nearly $3 billion of the total, U.S. direct investment in manufacturing has been growing—increasing from $780 million in 1950 to $1.6 billion in 1960.

Direct foreign private investments constituted the major source of external capital for Latin America during the 1950's and made a significant contribution to Latin American growth. The unique contributions of direct investment in providing technical and managerial skills and in discovering and producing petroleum and minerals for sale in world markets are essential to Latin America's economic progress over the next decade. Fortunately, the present governments of the leading South American countries, particularly Argentina, Brazil, Chile, and Peru, greatly appreciate the benefits of foreign private investment and have undertaken measures to make such investment more attractive. Especially heartening is the renewed flow of foreign private capital into Argentina following the Peron regime during which foreign capital was much more anxious to get out of the country than to come in.

The flow of foreign capital to Venezuela has, however, declined substantially in recent years, largely as a consequence of the world petroleum surplus. Except for investment in mining in Chile and Peru, foreign investment in Chile, Peru, and Uruguay has, moreover, been limited by the narrowness of the domestic market. The elimination of trade barriers among the LAFTA countries may, of course, make investment more attractive in this type of situation. Granted that while U.S. investments have shown a steady increase, the annual additions have been relatively small—$100 or $200 million per year (table 4). In virtually all Latin American countries there are large-scale opportunities for profitable investment by U.S. business firms, and an increased flow of such investment would have a multiple effect upon their economies. It would, nevertheless, be unfortunate if the Alliance for Progress overestimated the hope that the Latin American investment climate will suddenly become vastly different than it has been. The notion that private foreign investment may fill a large part of the expanded needs of the alliance program tends to neglect the characteristic instability of economies in their present stage in Latin America, the institutional changes needed to pacify social tensions, and the inherent drawback, to private venture when confronted by the chaotic behavior of economies undergoing rapid institutional change.

TABLE 4.—*6 South American countries—Value of U.S. direct investments, by years, Dec. 31, 1950–60; by industry, Dec. 31, 1960; by source of additions, year ended Dec. 31, 1960*

[Millions of dollars]

	Argentina	Brazil	Chile	Peru	Uruguay	Venezuela	Total, South America
Value of direct investments:							
1950	356	644	540	145	55	993	2,957
1957	333	835	666	383	57	2,465	5,200
1958	330	795	687	409	51	2,658	5,396
1959	366	828	729	428	45	2,690	5,582
1960	472	953	738	446	47	2,569	5,745
By industry, 1960:							
Mining and smelting	—	10	517	251	—	—	910
Petroleum	—	76	—	79	—	1,995	2,576
Manufacturing	213	515	22	35	20	180	1,079
Public utility	—	200	—	19	—	32	545
Trade	21	130	12	42	4	165	426
Other	239	23	188	20	23	197	208
Source of additions, 1960:							
Capital outflow	70	83	2	7	—	−150	27
Reinvested earnings	36	39	7	11	2	59	163

Source: Survey of Current Business, August 1961.

Nature of investment needs in development

(2) The second consideration which tends to limit the reliance that can be placed on external private investment is more or less inherent in the stage of national development today facing most of the Latin American countries. At this point in time, their demands are primarily for the so-called infrastructure of roads, streets, schools, law enforcement, potable water supply, sewage disposal and health services and the like, without which private industry, commerce, banking and urban living cannot effectively move ahead. The great, and understandable emphasis which the Alliance for Progress places upon social and longrun development programs, coupled with the limits on resources which can be allocated to the development objective, of necessity, cuts out a large role for public action, government-to-government aid, and loans by quasi-governmental to public agencies.

National planning organizations and their functions

Virtually every Latin American country, accordingly, has some kind of government planning organization which operates either at the ministerial level or sometimes reports directly to the President. These organizations are usually established by law, but they differ greatly as to actual functions and effectiveness in influencing investment decisions and governmental policies. Some are little more than committees with no technical secretariat. In other cases the plans and recommendations are not based on adequate statistical information and surveys. In still other cases there is little relationship between the planning function and policy decisions actually determining investment.

Without concerning ourselves with the technical details of economic development planning, it is clear that Latin American governments and those external agencies that are seeking to assist them must have some guidelines on which to base their decisions with respect to a wide variety of measures which will influence and promote economic development in both the private and governmental sectors of their economies. Most Latin American governments are, therefore, engaged in

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preparing or revising both overall plans and plans relating to specific sectors of their economy. Thus, for example, the World Bank has sent a special mission to Chile at the request of the Government to review the 10-year program for the development of Chile which has been prepared by the Chilean Development Corporation (Corfo).

In spite of the existence of plans and surveys in the past, investments which have been made by the Government or by the private sector with financial and other assistance from the Government have often been misdirected in the sense that some sectors of the economy have been unduly expanded while others have been starved. We have noted that, in some cases, agriculture has been neglected while high-cost heavy industry has been promoted. External funds from foreign lending agencies have tended to be concentrated in the public sector, which usually includes power, and transportation, while the dynamic private industrial sector, and especially small industry, has been relatively starved for capital. For example, the recent World Bank mission report entitled "The Economic Development of Venezuela" recommends a 40-percent reduction of investment in basic services, such as transportation, power, and communications (as compared with 1954–55), and a 25-percent increase in Government expenditures to assist agriculture and industry, with special emphasis on agriculture.

There is no doubt that more and better planning at both the overall and the individual economic sector level, as well as the individual project level, is needed in Latin America, but all the plans in the world will be of little value unless the various departments of the governments and the external assistance agencies actually implement them and employ them as a guide to their operations. We already know enough about the economies of these countries to identify a large number of specific projects that need to be worked up to the point where they could be submitted for external financing. In the private sector there are undoubtedly many good projects that could rather quickly be implemented if the financing could be found for them. Administrative procedures, moreover, must be designed so that the plans which are formulated become the basis for actual investment decisions. This implies a far greater coordination of the activities of the various foreign external financial and technical assistance agencies at the country level than we have seen in the past. This coordination cannot be achieved by committees of heads of agencies meeting in Washington; it must take place in the developing countries themselves.

Parenthetically, it is only fair to add that we did hear complaints to the effect that the foreign assistance agencies and banks were often guilty of bureaucratic delays and "niddling," that is to say, an overcautious and trifling appraisal of bold and big plans. The political and developmental urgency which leads some authorities to the view that time has already (or is about to) run out, in keeping Latin America on western paths makes the risk of delay even greater than the risk of possible error simply because a proposal could stand more—and more—refinement, polishing, and documentation.

The plans themselves provide guidelines and assist in determining investment priorities, but they cannot be considered as fixed. They also provide a means of checking for consistency and balance. Without seeming to deprecate overall plans, it should be emphasized that greater attention needs to be paid to sectoral studies and to the immediate preparation of high priority projects for the individual sectors, such as transportation, power, and agriculture. In addition, there is an urgent need for specific project preparation in the areas of social development, such as slum clearance, education, and agrarian reform.

Social development programs

We shall not undertake here to draw any sharp distinction between economic development in the sense of expanding and improving the productivity of a nation's resources for larger output on the one hand, and social development which includes more immediate improvement of living conditions, education, better governmental administration, and rural reform measures on the other. No sharp line can indeed be drawn between economic development and social development and reform, since in many cases social development may be either a precondition or a consequence of an increase in total output per capita. Thus education and training will in the longer run tend to increase productivity and output, while it is at the same time an important element of social welfare. In addition, the outlays for education that a country can afford are closely related to its productivity and total output per capita.

Anyone traveling in Latin America is immediately struck by the enormous contrasts of wealth and poverty, by the existence of great cities whose core of modern office and apartment buildings is ringed with a broad area of slums. These shanty towns frequently lack sewerage and electricity, and a dozen or so huts must share a single outdoor water tap. But where serious efforts have been made to deal with the problem of slums by the construction of apartments for workers, new slum areas are created at an even faster rate by the influx from the rural areas of people who occupy vacant lots and fields near the city and create new slums with any materials that lie at hand.

The vast and swiftly growing metropolitan areas of Caracas, Rio, Montevideo, Buenos Aires, and Lima are constantly being fed from the rural areas where living conditions may be no worse, and perhaps better, but where the peasants lack even the hope of a better life for themselves and their children in the absence of education, employment opportunities, health facilities, etc. In other words, social development in the great metropolitan areas may be a never ending and perhaps self-defeating task unless progress is made in the hinterland to make life there more attractive.

Latin American governments are faced with something of a dilemma in the allocation of their limited capital resources as between economic and social development. It would do little good to provide housing and decent living conditions for the poor unless there were jobs to employ the workers and a level of output to sustain and expand social services. Basically, it is impossible to maintain a higher level of living and social services for both the urban and the rural population without increased productivity and output in industry and agriculture.

Nevertheless, political demands for social development are very strong and much more could be done in this field if the governments were better organized to undertake the task. Unemployed workers and local materials could be used to produce better housing and public buildings such as schools and hospitals. Changes should be made in the education system to equip those fortunate enough to obtain a secondary or a college education to expand educational, health, and other social services. The system of taxation could be revised in Latin American countries for acheiving a more equitable distribution of income, while at the same time providing larger funds for investment in economic and social development and for improved government services. An important function of the new U.S. and multilateral aid programs will be to assist and encourage governments to undertake vital social development programs and to mobilize more of their own resources for these purposes.

ALIANZA PARA EL PROGRESO— THE CHARTER OF PUNTA DEL ESTE

The ministerial level conference of the Inter-American Economic and Social Council held at Punta del Este, Uruguay, during August 1961, grew out of President Kennedy's "Alliance for Progress" message of March 1961, and the response of Congress in appropriating $500 million for the Inter-American Fund for Social Progress. The Conference was also a logical development making more explicit and laying the groundwork for the implementation of, the Act of Bogatá of October 1960.

Significance of the charter

The real significance of the Punta del Este Conference can only be determined by the actual experience of the Latin American republics working in cooperation with the United States and various regional and other economic assistance institutions for promoting economic and social development. Certainly development is not something to be "launched" and achieved alone by conference resolutions or even by pledges of economic assistance.

However, there are a number of outstanding features of the charter which constitute a new departure in U.S. policies toward Latin America and which go beyond the pious resolutions for inter-American cooperation found in earlier agreements, by providing specific institutional arrangements and procedures for implementing the objectives of the charter. Without attempting to review all of the provisions of the charter, we shall note briefly in the following paragraphs those elements which are of special significance for U.S. policy or which constitute new specific measures for implementing economic and social development programs.

Goals for progress.—The charter goes into considerable detail in setting forth specific targets for economic and social development in Latin America. These targets include, among others:

(*a*) The achievement within a reasonable period of time of a minimum rate of growth of 2.5 percent per capita for individual countries;

(*b*) The elimination of illiteracy and, by 1970, assurance of access to 6 years of primary education for each school-age child;

(*c*) An increase in the life expectancy at birth by a minimum of 5 years, to be achieved by specific health measures such as the provision of adequate water supply and drainage to not less than 70 percent of the urban and 50 percent of the rural population;

(*d*) A number of specific objectives in the field of agrarian reform, such as the effective transformation, where required, of unjust structures and systems of land tenure and use by an equitable system of land tenure;

(*e*) Reform of tax laws, demanding more from those who have most, punish tax evasion severely, and 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; and

(*f*) Achieve balanced diversification in national economic structures, both regional and functional, making them increasingly free from dependence on the export of a limited number of primary products and the importation of capital goods while attaining stability in the prices of exports or in income derived from exports.

Establishment of specific economic and social targets will perhaps provide a basis for judging the degree to which countries have undertaken adequate self-help measures. Specific targets also provide standards for evaluating applications for external assistance in the field of social development. But the listing of these and other goals of similar order "enlisting the full energies" under a Multilateral agreement (with the United States as one signator) "to work toward their achievement in the present decade" makes the undertaking no less formidable nor will it soften the blow in event of any "short fall."

United States assistance.—The U.S. Government made specific pledges of assistance subject to the undertakings of self-help measures by the Latin American recipients. For example, the charter states that—

> The United States, for its part, pledges its efforts to supply financial and technical assistance in order to achieve the aims of the alliance for progress. To this end the United States will provide a major part of the minimum of $20 billion, principally in public funds, which Latin America will require over the next 10 years from all external sources in order to supplement its own efforts.

The charter also states that "the United States will provide from public funds, an immediate contribution to the economic and social progress of Latin America, more than $1 billion during the 12 months which began on March 13, 1961, when the alliance for progress was announced."

These specific pledges of aid over a 10-year period go a long way toward meeting the demands of Latin American countries for a kind of Marshall plan for Latin America. Yet the alliance for progress program is not, and cannot be, a program similar to the 4-year program for European recovery. The reason is that in the case of Western Europe the basic economic and social conditions for meeting, and even exceeding, the economic recovery goals were already present; the provision of U.S. aid simply eased the process and speeded the outcome.

In the case of less developed countries, external assistance cannot summarily assure successful economic progress. Even the ability to make productive use of a given amount of assistance cannot be determined in advance. Thus, while much of the Marshall plan aid to Western Europe financed broad shopping lists or consisted of general external purchasing power, the bulk of our aid to Latin America must take the form of carefully supervised assistance for specific projects formulated in relation to overall development programs.

Review of programs.—The charter established procedures for the review of development programs of individual countries by independent experts drawn from a panel of nine high level experts nominated jointly by the Organization of American States, Inter-American Development Bank, and the United Nations Economic Commission for Latin America. Each government, if it so desires, may present its program for economic and social development for consideration by an ad hoc committee composed of no more than three members drawn from the panel of experts, together with an equal number of experts not on the panel. This committee will study the country's development program in consultation with the interested government with a view to possible modifications, and "with the consent of the government, report its conclusions to the Inter-American Development Bank and to other governments and institutions that may be prepared to extend financial and technical assistance in connection with the execution of the program." The government will, however, have full freedom to turn to other channels or sources of financing if it chooses.

While this voluntary system of review may lead to better planning and may, in some cases, provide a mechanism for bringing pressure on governments to undertake economic and social reforms as a condition for obtaining external assistance, the procedure falls short of full coordination of the activities of external assistance agencies at the country level. Moreover, a review of broad economic and social development programs is by no means the same as a review of the underlying projects to be financed. The failure of the charter to deal adequately with the urgent problem of coordination of external assistance activities at the country level may well prove to be a major weakness of the alliance for progress program.

Implications to U.S. foreign policy.—Many clauses and commitments of the charter have important implications to the established foreign and economic policy of the United States as one of the contracting member countries. Implementation of the charter in some cases may, indeed, call for more or less basic reorientation of certain domestic policies. The charter, for example, endorses the principle of international commodity agreements involving the cooperation of both producer and consumer countries in stabilization programs so that, as a party to the alliance, the United States has in effect agreed to join an international coffee agreement which would include consumers as well as producers.

One other example of the ramifications of the charter undertakings, in this case to U.S. oil conservation and import policy, will suffice to illustrate the broad problems involved. It is agreed that "Importing member countries [of which the United States is clearly one] should reduce, and if possible eliminate, as soon as feasible, all restrictions and discriminatory practices affecting the consumption and importation of primary products, including those with the highest possible degree of processing in the country of origin, except when these restrictions are imposed temporarily for purposes of economic diversification, to hasten the economic development of less developed nations, or to establish basic national reserves."

Extent of the mutual undertakings

What, then, must be our thoughts about the task undertaken in the "Alianza para el Progreso" and formalized in the Charter of Punta del Este? As our on-the-spot study progressed and we went from country to country and conference to conference two aspects of the alliance and its implications seemed to build up.

(1) *Obligations on the part of Latin America.*—There is apparently much too great a disposition on the part of many influential Latin American residents—including some North American businessmen—who tend to overlook the mutuality of the obligations undertaken. This manifests itself in an immediate and absorbing turn of the conversation to inquiries as to just how soon U.S. public and institutional loans and grants may be expected. Before the U.S. taxpayer gets disillusioned by the outstretched palm, our friends in the alliance must be reminded again and again that this is a unique cooperative self-help program in which a common interest in world security is involved and some contributions expected of all.

Misgivings inevitably arise both as to the capacity and willingness on their part to do the things necessary to bring to pass a social revolution of the magnitude proposed. Latin American initiative is being given a short time to achieve by peaceable and democratic means what amounts to a profound upheaval of a traditional social structure. Ambassador Stevenson (Look magazine November 22, 1960) puts it this way: "They will have to take bold, brave, difficult steps to achieve better land use and distribution, better housing and better education at all levels. They will have to clear away the ghastly slums that surround every city. They will have to reform tax collection, cut corruption, reduce the waste on arms, and increase the rate of savings, and they will have to narrow the gap between the rich and the poor."

Can and will they do these things? Time will provide the answer. Meanwhile let us look at the other side of the contract.

(2) *Obligations on the part of the United States.*—Let us take for granted that the United States can somehow afford and certainly will not unilaterally welsh on its promise of huge financial assistance in the form of grants and loans on flexible terms.

Our uncertainties are of a different order. Do we have the technical know-how and organization to help the alliance countries follow through on their programs and not be satisfied with a succession of studies and planning surveys? Will our private enterprise graciously accept the competition of these nations in the domestic and world markets as they succeed in passing out of the class of primary exploitable raw material sources into diversified, industrialized nations, processing their own primary products intent upon the highest possible degree of industrialization? Will we conform to the spirit as well as the words of eliminating "if possible" all restrictions and discriminatory practices affecting the importation of such things as wool, meat, and meat products?

Will we know how, in all of our sincerity and zeal, to avoid falling into a paternalistic behavior pattern or attitudes of superiority which seek to bind Latin America to us by ties of dependency, thereby encouraging if not meriting the cries "Yanqui, No"!? Will we, above all, have the diplomatic insight and skills to make sure that we are supporting the governments best calculated to advance the alliance and not dissipating our resources in supporting traditional elites or shoring up precarious governments simply because they are in power?

Can and will we do these things? We certainly will if the American people are (or can be) convinced that the cold war is serious and that a continent of Cubas in the Western Hemisphere is unthinkable.

Some Concluding Observations

The foregoing observations are prompted by realism and the belief that success of the alliance depends on recognizing rather than ignoring the difficulties which, understandably, the high words of the charter surmount so easily.

A broad public awareness of several other general points will, we believe, contribute to the success which is so imperative of itself.

Risk of premature discouragement

Both the Latin American countries embarking on expanded and ambitious programs of economic and social development and the United States, as an interested and sincere supporter of these aims, must guard against premature discouragement and program-destroying doubts. There is always the danger that good and worthy programs have or can be oversold to the point where unrealistic expectations as to the speed of accomplishment set the stage for disillusionment. Both the process and the gains of land and fiscal reform, of industrialization, and of economic development, for example, are likely to take place at a pace which may well test the patience of all. In undertaking such programs, we need to brace ourselves against failure, or, even worse, the feelings of frustration which are likely to arise in the course of any ambitious long-run program such as these are.

Risk of expecting the impossible

We in the United States must take care today in not appearing as parties sponsoring programs if we are likely to be blamed for their failure tomorrow. We risk losing more than we gain, for example, by promising assistance, subject to stipulated conditions—no matter how meritorious those conditions may seem—if the conditions cannot or will not be achieved. After all, part of today's world problems arise from Communist propananda. Propaganda we may be sure is certain to make the most out of any evidence of failure or "short-fall." When we offer easy dollars—long-term loans at zero or near zero interest rates—for programs of social improvement, we risk weakening the cause and need of tax reform and enforcement aimed at collecting greater public revenue in support of programs from those Latin American nationals able to pay. To what extent are we committing ourselves in such internal matters as land tenure reform? In view of the sorry history of international commodity stabilization agreements, to offer another example, we had best be quite wary that the United States is not put in position of going along at the risk of being charged with their possible, if not probable failure.

Delicate position of middle-of-road government

We in the United States need to appreciate and sympathize with the delicate position of the middle-of-the-road governments with which we must deal.

By and large, South American countries are governed by middle-of-the-road governments which are seeking to follow a path between the forces of the extreme left that desire a revolution along socialistic or Cuban lines, and the traditional elites, some elements of the military, the large landowners, and business groups that dislike social reforms of all kinds. The existence of democratic progress in these countries depends upon the success of moderate governments in dealing with the aspirations of the great mass of people for both measurable econnomic and social progress over the next 5 to 10 years. Failure in this endeavor will almost inevitably mean a dictatorship and military rule either by the right or the left. It is important, therefore, that we use our financial and technical assistance to move governments along this middle path.

Paradoxically, moderate governments, seeking to steer a middle course between these two opposing forces, are not necessarily secure since middle-of-the-road need not represent the position of a majority of the electorate. For this reason, a rather precarious balance of power tends to prevail which could well be upset by violent revolution from either direction.

One example will illustrate the paradox as well as the problem. Consider the consequences of stabilization efforts.

It has become obvious to most responsible political and business leaders in South America that steady economic progress and sound development planning are impossible in an atmosphere of chronic inflation, exchange instability, severe balance-of-payments controls, and large deficits financed in large part by short- and medium-term borrowing. The basic steps which had to be taken include: (*a*) The balancing of the internal budget, the deficits of which constituted the primary engine of inflation; (*b*) the exercise of monetary restraint including the restriction of central bank credits; (*c*) special actions to stop wage-price spiral; and (*d*) the substitution of unitary realistic exchange rates for the complex of multiple rates and balance-of-payments restrictions in imports.

In the past 2 years in most of the leading South American countries middle-of-the-road governments, dedicated to sound principles of finance and development policy, have shown remarkable success in programs designed to achieve internal price stability and a closer balance of their international accounts. But success has often been at the expense of alienating important economic interests in the country.

Halting an inflation which has gone on for a number of years at a rapid rate inevitably means taking measures which may for a time affect adversely the relative economic welfare of certain groups while improving the lot of others. For example, stemming the rise in wages and reducing swollen government payrolls either by pay cuts or discharging workers alienates industrial workers and an important section of the middle class. At the same time that wage increases are curtailed, the cost of living inevitably continues to rise for a time, as price controls are lifted, subsidies removed, and exchange rates allowed to find equilibrium levels. While farmers may be benefited, the benefits of the increased prices of agricultural commodities may not be immediately passed on to tenants and farmworkers.

This dissatisfaction must be overcome by soundly based social reforms which will improve the lot of both the urban worker and the peasant. Otherwise, in the next elections leftist extremists may overthrow progressive, middle-of-the-road governments.

It is because most South American governments are under the control of moderates who maintain such a precarious balance of power that emphasis on social programs inherent in the Alianza para el Progreso is so important over the next few years. At the same time, fundamental economic development which will provide the basis for expanding output must not be neglected, else the social reforms and better living conditions achieved for the masses cannot be sustained in the face of a rapidly rising population.

Insistence on agrarian reform, better and more equitable taxation, efficient and honest administration, and economic stability as a condition for United States and multilateral aid will not be easy. Frequently there will be a temptation to shore up existing governments by providing large amounts of budgetary support or balance-of-payments loans, while relieving them of the political embarrassment and dangers of adopting or pushing through their legislatures sound economic and social programs. Such a policy has in the past, and will in the future, prove to be shortsighted. In pursuing such a policy, we not only identify ourselves with the government in power, but we will be delaying the kind of progress which is necessary for long-run political stability.

Human resources—Both the End and the Means

One of the area's tightest limitations is the great lack of education of all kinds.

No visitor to (or student of) South America can indeed fail to be impressed by the enormity and urgency of what must be the basic task of all national development programs—the development of human resources. The high rates of illiteracy in most South American countries are well known, but even these conceal the fact that many of those who are literate are just barely that, and no more.

We have pointed specifically to the fundamental role which education has to play in the area of improvement of agricultural productivity. Because we have emphasized the need for education that setting makes the issue no less pressing in the urban areas or among the 40 percent of the population under 15 years of age, or among the adult Indian and mestizo population. There is nothing wrong with these people, but obviously a great deal wrong with a social system when such potentially "rich" human resources are neglected and ignored.

Basically the problem of the countries of South America is to mobilize their rich human and material resources for economic and social progress over the next generation. The limitations are many, but they can and are being overcome.

Argentina

Introduction

Argentina has one of the highest gross national products per capita, the most miles of railroads and highways, the most radios, the most telephones, the largest number of bank deposits, and the highest percent of literacy of any of the countries we visited; indeed Argentina, by all such measures, leads all South American countries. Yet Argentina is at present recovering from an economic situation characterized by more than a decade of budgetary deficits, inflation, chronic foreign trade deficits, depleted foreign exchange reserves, and deterioration of her industrial plant in general. We are impressed, however, that Argentina is now definitely in a period of recovery and with the character and extent of that recovery and the economic base from which it proceeds. Unemployment is at a minimum and the economy of the country is moving forward.

Argentina, with a land area roughly equal to that of the United States east of the Mississippi River, has a variety of topographical and climatic regions—from the subtropical lowlands of the north to the towering Andean mountain wall in the west and the bleak Patagonian steppe in the south. The heartland of Argentina is, of course, the rich, temperate plains area known as the pampa, which fans out for nearly 500 miles from Buenos Aires in the central east. A quarter of Argentina's approximately 21 million people live in and around Buenos Aires, one of the world's largest cities.

Argentina gains its international livelihood from agricultural exports, grains, vegetable oils, meat, hides, wool, and dairy products; with livestock and livestock products accounting for half of the agricultural exports. Argentina has an estimated 41 million cattle, 47 million sheep, 3 million hogs, and nearly 5 million horses.

Until recent years Argentina, with a few exceptions, has had only light industry and a consequent need to import most basic materials such as steel, petroleum, and chemicals. At the time the present Government came into office, 20 percent of Argentina's export earnings were going for oil and oil product imports costing $250 to $300 million. In July 1958, a new policy was announced encouraging the participation of foreign private investors in the development of Argentine petroleum resources, under contracts with the state oil agency. As a result of this policy, within the short period of 3½ years Argentina is very close to being substantially self-sufficient in oil. It even is expected that Argentina will be in a position to export oil in 1964.

Progress is being made in other basic industries besides petroleum. The steel industry has recently increased its capacity, byproduct gas is increasingly being utilized and the electric power network is being expanded.

Principal manufacturing industries, largely concentrated in the area around Buenos Aires, include meatpacking, other food processing, machinery manufacturing and assembly plants, tanning and leather goods industries, oil refineries, textile, chemicals, pharmaceutical, and cement plants. There is a growing automotive industry in and around Cordoba.

Argentina has over 90,000 miles of roads, about two-fifths of which are part of the national highway system. An estimated 68 percent of the total mileage, however, consists of unimproved roads. The 27,000-mile rail network is made up of broad, narrow, and standard gage trackage. The condition of the railroads, particularly the age and type of equipment and general operating inefficiencies, is of great concern to the Government. This is doubly true since the Government owns all the railroads.

GNP and rate of growth

Argentina has the second highest GNP per capita of any South American country, estimated at nearly $533 for 1961 (appendix, table 1). During the Peron regime the economy stagnated, agriculture deteriorated, and inflation was rampant. The official cost-of-living index, using 1943=100, rose more or less steadily to 1610 at the end of 1958. In 1959 the index rose an added 101.6 points. Earnings from the exports of farm products repeatedly failed to cover the cost of imported fuel, machinery, and raw materials. The consuming needs of a rising population, which had doubled since 1920 and many of whom had moved to urban centers, were reducing the amount of exportable surplus of foodstuffs relative to increasing home consumption. With stagnating agriculture and lack of basic industry, the economy overall grew very slowly during the 1950's.

Monetary and fiscal policies

With the cost of living rising at a rate of over 100 percent a year and foreign exchange reserves melting fast, the first task of the new Government was to begin a program of economic stabilization designed to halt economic deterioration and at the same time providing a basis for sound expansion. Federal expenditures were reduced and the Government sought to limit the rise in wages in the face of a continuing rise in the cost of living resulting from the removal of subsidies and allowing the peso to go to the free market rate. In spite of substantial opposition, including strikes in various industries and the political unpopularity of the economy measures, the Government stood firm and the stabilization program appears to have paid off. The external value of the peso has held steady for 2 years. The cost of living has risen by only 18 percent during the year ended September 1961. Between the end of 1958 and the first quarter of 1961 Argentina's official gold and foreign exchange reserves rose by some $560 million. The value of Argentine exports rose by about $100 million, or by some 10 percent, between 1958 and 1960, while imports declined in spite of the increase in domestic investment but exports were down in 1961 and imports increased greatly.

A major cause of Argentina's chronic problems of inflation and deteriorating foreign exchange reserves had been budgetary deficit financing. Income taxes, while not very progressive according to U.S. views, constitute a larger proportion of tax revenues than in most South American countries. The revenue side of the budget has not been the major source of difficulty. The budgetary deficits primarily reflect operating deficits and investment programs of state enterprises. In spite of efforts to curb Government expenditures, the deficit for the fiscal year just ended was still substantial, and there was a serious problem of financing it without further retarding the achievement of monetary and price stability. Prospects are reasonably favorable that the budgetary deficit in the current fiscal year will be somewhat less and financed by noninflationary sources. There have been favorable developments in tax collections and in the markets for Government securities and a vigorous effort now being made to eliminate the heavy losses of state railroads and other enterprises.

One of the real problems in cutting down the losses on Government enterprises has been the difficulties in limiting wage increases at all, let alone relating them in any way to changes in productivity. Wages in spite of the austerity program rose about 25 percent in 1960. Curtailing inefficiencies in Government-owned enterprises has been equally difficult, particularly the reduction of excess workers on the railroads.

Argentina's stabilization program and economic reforms were made possible in part by special financial assistance from the U.S. Government, foreign private financial agencies, and international institutions. In December 1958, Argentina, after consulting with the IMF, decided upon certain economic reforms. These reforms included the termination of deficit financing through the central bank and a limitation on the amount of central bank credit available to the commercial banks. To assist this process of stabilization $329 million in economic stabilization assistance was provided from the IMF, U.S. Government agencies, and private banks. The following year an additional $300 million was extended to Argentina by the IMF, the U.S. Treasury, and European and U.S. banks. Much of this indebtedness was short term, resulting in heavy external payments which totaled over $200 million for 1960 and about $279 million for 1961 and $317 million for 1962. Recently the IMF has agreed to refinance these payments over a longer period of time. During 1960 private capital inflow amounted to some $325 million.

The achievement of relative internal price stability and the introduction of a free unitary exchange rate has set the stage for sound long-range development by Argentina which will enable that country both to raise living standards and to achieve a long-range balance in her international accounts.

It is the hope of the Government that this increased prosperity, with its greater opportunities for both labor and business, also will add to the political stability. And political stability, of course, is essential if there is to be continued opportunity for economic development.

Special commodity problems

Argentina is one of the few South American countries with a ratio of exports to gross national product of less than 15 percent and thereby is less vulnerable to the vagaries of weather and world markets. But maintaining and increasing her exports is still a key factor in Argentina's program of stability and development.

With the assets of the deep, rich soils of the pampa and her excellent river and harbor facilities, Argentina can probably produce and market meat and wheat cheaper than any country in the world. This, in spite of the fact that, according to many of the persons with whom we talked, Argentina has hardly made a beginning on the use of modern farm technology.

The handicaps that Argentina faces in the retention and expansion of the export of meat and meat products are much the same as those which we discuss in the section of this report on Uruguay; production problems and restrictions by the United States and Europe. In the case of Europe, these restrictions have taken the form of tariffs to protect their own expanding cattle production and, in the case of the United States, the restrictions are those which we impose on imports of beef from countries where hoof and mouth disease occurs.

There has been an additional handicap of heavy taxes imposed by Argentina on agricultural exports to raise revenue. A retention of 10 percent is still levied on most agricultural products other than meat. Meat producers pay 4 percent tax on sales.

The wheat problem and the U.S. relationship to it are quite different from the problems with meat. The United States, as one of the other two great exporters of wheat, competes with Argentina for the world markets. Two important points about this relationship were made to us. One, the necessity for consultation with Argentina on significant moves by the U.S. Government in the international wheat markets, including also actions to be taken under the food for peace program. There was special criticism of the barter arrangement which permits a U.S. firm to sell wheat from U.S. stocks to another South American country and to be paid in manganese which it then sells to the U.S. stockpile.

The second suggestion was that if there is to be a food for peace program, Argentina as an exporter of food products might play a direct role in the program. It was pointed out that such a proposal had been discussed in the U.S. Congress and that a bill looking toward the establishment of a pool of food products under U.N. control had been introduced by the chairman of this subcommittee. Financing of such Argentine participation would, however, pose a problem at this time since Argentina needs all the foreign exchange it can gain from its food products.

Imports, exports, and trade policies

Argentina's foreign trade as we have noted is based on agricultural exports. It had gotten badly out of balance during the first part of the 1950's. In 1959 under the stabilization program, imports shrank and left a small export surplus. In 1960 and 1961 there were trade deficits of $170 million and $450 million, respectively, due to the heavy imports of machinery and vehicles being used to build basic industry and, in 1961, to a decline in exports of grains because of poor crops caused by bad weather.

Argentina's principal imports are fuel, iron and steel, lumber, raw materials, such as chemicals and jute, for local industries, vehicles, and motors and machinery not locally manufactured. Imports of fuels are declining and will decline still more as local petroleum production expands. Imports of vehicles, motors, and machinery increased substantially in 1960 no doubt reflecting in large part imports of plant, equipment, and materials in connection with new investment projects. High duty surcharges severely restrict imports of most nonessential commodities and of goods produced locally. These surcharges are scheduled to be merged, after modifications, with existing obsolete customs duties into a new tariff schedule.

About one-half of Argentina's trade is conducted with Western Europe. Trade with the Western Hemisphere is about 50 percent of the trade with Europe. This trade with Western Hemisphere countries is again about equally divided between the United States and Canada, on the one hand, and Argentina's Latin American neighbors on the other. Normally Argentina tends to have an export surplus with Europe and an import deficit with the United States. During 1960 Argentina imported $327 million from the United States and exported $90 million to the United States.

Because of exemptions from surcharges, the greatest market for U.S. imports has been in machinery, motor vehicles, and petrochemicals. Some of these exemptions have also included raw materials and components by foreign and domestic firms whose investments are approved by the Argentine Government under its development laws. Export opportunities in furnishing equipment and supplies for road construction, railroad rehabilitation, electric power expansion, waterworks, and sewerage systems and housing development should become increasingly more favorable as the Argentine Government's programs in these fields are implemented.

Development policies and programs

The outlook for industrial development and economic growth generally in Argentina has been so improved in the last 2 years that a representative of an American industry with substantial investment in Argentina was moved to say, on the basis of his company's experience, that he believed Argentina was on the verge of a real period of economic "takeoff."

His assumption seems to rest on several factors; the stabilization efforts of the Government, the demonstrated willingness of private capital to respond to the encouragement it has been given, and the confidence that either public or private support can be had to develop the infrastructure to support a growing economy and meet social needs. These developments would include improved transportation, increased power facilities, extended sewer and water facilities, improved housing, more schools, and extension of training programs.

Industrial production which declined in 1959 under the impact of stabilization measures, turned up in the latter part of 1960, and has continued to rise to the present time. The level of the production index is now at or somewhat above 1958. Reports from individual producers bear out this indication of a gradual improvement in industrial output and consumer demand. Moreover, the signs seem to point to further improvement in industrial activity in the future. Foreign investment approvals for industrial undertakings have been registered at a rate of about $100 million annually during the last 3 years. The timelag between investment approval and startup of the factories has delayed the impact of these investments but their effect should be more forceful as time passes. Complementing the foreign investment and strengthening the basis for future growth have been programs of domestic manufacturers for plant modernization. These programs have been stimulated by elimination or deduction of surcharges on many capital goods imports and by heightened market competition following the 1959 recession.

Development of Argentina's oil industry to a point of self-sufficiency has been discussed in the introduction to this section. The Argentine Government also places much emphasis upon the development of a national steel industry to make the country as nearly as possible self-sufficient in steel products and provide the keystone for the nation's industrial maturity.

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According to the Government's forecasts, which are of an optimum nature, within a few years Argentina will have an annual consumption in crude steel equivalent of 4 million tons, nearly twice the consumption registered in recent years. To promote the development of the industry the Government as the major investor has been constructing an integrated steel mill at San Nicolas scheduled when fully completed to have an annual crude steel capacity of 2 million tons. It also, in June 1961, offered special important tax privileges for private investments in integrated or semi-integrated steel mills.

In addition to the SOMISA plant at San Nicolas, ACINDAR, the largest private steel company, has an approved project for a 600,000-ton integrated mill. SIDERCA is building a 150,000-ton electric furnace and several other programs are in negotiation. There seems little doubt that Argentina will register a sizable growth in steel production capacity in the next few years, although the total capacity achieved may fall short of the Government's 4-million-ton goal.

In iron ore production Argentina has thus far made only limited advance. Argentina now mines about 120,000 tons of iron ore yearly, all of which comes from the Province of Jujuy. In November 1960 the Government signed a contract with an international consortium for the exploration of the Sierra Grande iron ore deposits of Rio Negro Province and for exploitation of the deposits if as much as 80 million tons of mineral are verified. The exploration is still in progress.

Other basic industries scheduled for expansion include electric power and coal, although the latter is losing significance with the rapid development of the petroleum industry. Both in steel and in electric power, the Government has announced its intention to offer shares—now held largely by the state as a result of the Peron administration's acquisitions—for public subscription. This attempt to convert such state-owned companies back to private enterprise has not yet been tested.

Very high among the economic development priorities of the Argentine Government is roadbuilding. Little new construction has been done during the past decade, and deterioration of the existing roads has continued apace. Argentina now has 17,000 kilometers of paved highways. A 10-year national highway improvement program is to be carried out during the period 1959–69 at an estimated cost of 56 billion pesos. The program fixes a goal of a federal highway network of 40,000 kilometers of paved roads.

The Argentine railroads, nationalized in the 1940's, are badly deteriorated. The Secretary of Transport estimates a 13.2 billion peso operating deficit and 5.4 billion peso capital budget deficit for fiscal 1961. A railroad reform policy was announced on May 20, 1961. In broad terms the reform calls for the gradual elimination of the railway deficit through programs for an increase in labor productivity and elimination of redundant personnel, suspension of service on uneconomic branch lines, denationalization of subsidiary railway services such as station restaurants, overhaul of the administration of railway workshops, and sale of excess railway real estate. Concurrently the national railway administration is developing plans for the replacement of outdated rolling stock and the improvement of tracks and roadbeds. A reorganization of the administrative offices of the six companies forming the national railway network and of the Secretariat of Transport in the Ministry of Public Works and Services rounds out the reform program.

The Government's economic stabilization and development program envisages an expansion of agricultural, as well as industrial, production, and, in particular, an increase in production of meat. Agricultural land tenure in Argentina either takes the form of huge cattle ranches or tenant farms where wheat and corn are produced. The farms are divided into tenant holdings of 200 to 1,000 acres and the standard of living is much higher than in most farming areas in South America. There are some small individual holdings, particularly around the city of Buenos Aires and the provinces of Cordoba and Santa Fe in the northern part of the pampa. These properties are not small in terms of many other countries but vary anywhere from 100 to 2,000 acres.

The problem in Argentina seems to be in the type of land utilization rather than in land tenure. The pampa is an extremely large fertile area with adequate precipitation to support a much more intensive agriculture. The present tendency to raise beef cattle and sheep on the best agricultural land of the nation appears to some to be an uneconomical use of the land. It has been suggested that cattle ranching might be pushed farther to the periphery of the country where the land is not as suitable for intensive agriculture. But movements of population have been in the opposite direction.

The overall concern is for raising the general efficiency of agriculture by whatever methods seem best. Assisting in one phase of this is a small technical program under AID commonly called, Operation Beef. Expansion of agricultural production also has been impeded by the heavy taxes which were imposed on agricultural exports. Recognizing the adverse effect of these taxes on production as well as exports, the Government has promised to eliminate them as soon as possible, and in fact, they have already been reduced substantially.

Argentina has established a Federal Council of Investment whose function is to make studies and recommendations with respect to development programs in the public sector and to provide technical assistance to the provincial governments. It also assists in the organization and financing of development corporations. Argentina does not yet have an integrated overall development plan, but in July established a National Development Council to make studies, establish goals and review economics. For example, the United Nations Special Fund in cooperation with the World Bank is currently conducting a survey of transportation in Argentina, out of which will come a plan including specific projects for the development of Argentina's transportation system.

Financial and technical assistance

As is noted in the discussion of the stability program, the United States and a number of international organizations have assisted with that program.

The United States also is assisting directly with Argentine development. The Export-Import Bank in recent months has agreed to loans of $40 million for roads, $10 million for housing, and $10 million for relending to small and medium businesses (supplementing an earlier $10 million credit for the same purpose).

The Development Loan Fund is currently considering applications for loans for highways which may total $40 million. It has expressed willingness to consider a loan of about $12 million to help support the establishment of a savings and loans system to finance housing in Argentina.

According to official Argentine sources, proposals for capital investments in Argentina from abroad totaling $383 million, exclusive of oil investments, were approved by the Government from May 1, 1958, through June 30, 1961. Of these, slightly under 50 percent represented proposals from the United States. The proposals in question consist predominantly of manufacturing projects and exclude those under the petroleum program.

It is anticipated that the World Bank will provide credits for refinancing of the greatly needed Dock Sud power project to provide a 600,000-kilowatt plant to relieve the power shortage in the Buenos Aires area.

Pending, too, is the final consideration of the El Chocón hydroelectric project in the south in Patagonia which received so much attention in the U.S. press when it was the subject of discussion between President Frondizi and President Kennedy. This multiple-purpose flood-control and hydroelectric project is being considered for an area which is now thought to be underpopulated, in order to provide a base for opening the area for development. Principal industries now in that region are now sheep ranching and oil. The project is currently being studied by an IDB-financed consultant group.

During the current year the Government has issued a series of decrees intended to stimulate investment in certain areas and in specified industries. The first two, relating to the steel and petrochemical industries were followed by measures applying to the cellulose and paper industries, Patagonia and Tierra del Fuego, and northwest Argentina. The decrees offer special tax privileges for investments, tax-free importation of machinery and equipment, and in certain instances low-priced supplies of raw materials.

The U.S. technical cooperation program, in addition to the cattle breeding project mentioned earlier, is working in the fields of business administration, scientific training and education, and civil aviation safety.

Brazil

Introduction

Brazil, which is 90 percent the size of the United States and occupies one-half the land mass of South America, is so vast that it is really two countries—and those divide further in terms of economic regions. Almost all of the population lives in one-half of Brazil, in the area which includes the northeast, and the central and southern coast and uplands. The rest of the country, particularly the Amazon Basin, which has 30 percent of the land area, and some of the western portion of the eastern states, is largely empty of population.

Northeast Brazil, where 21 million people live, is, in part, a semiarid scrubland area, plagued with periodic droughts. The coastal area' however, where cacao, cotton, sugarcane, and tobacco are grown, is humid.

In the central and southern coast of Brazil and in the uplands are the most fertile lands; from here come the coffee, cotton, fruits, and livestock that form the basis of the country's agricultural economy. Here also are the principal mineral deposits, notably the large iron reserves which it is estimated can supply Brazil at its present rate of ore consumption for 700 years. Here are the manufacturing centers and the large cities, including Rio de Janeiro and São Paulo, each with over 3 million residents.

Brazil's population, estimated in 1961 at 70 million, is increasing at a rate of about 3 percent a year. At this rate of increase, in 30 to 35 years Brazil could be expected to have a population of over 200 million.

Brazil's resource base is mixed and shows the effect of the historical pattern of its economic development. This development has been characterized by a series of waves of prosperity based on the exploitation of some raw material. Its gold and diamond mines are no longer of significance and its agricultural base has been weakened by crops which have put a heavy burden on a somewhat limited soil base. With a total land area close to that of the United States, Brazil has much less usable agricultural land. We were told, for example, that the soil of the Amazon Valley, which would seem to offer a potential for agricultural use, would disappear in 1 year if the trees were cut down, because of the thin, acid character of the soil and the rainfall which averages 79 inches a year.

Brazil also lacks fuel. In spite of this, and its heavy dependence upon foreign sources for its basic requirements of industrial raw materials and machinery, industry has had such a spectacular growth since World War II that the country is largely self-sufficient in many finished manufactured goods. Brazil's economy still lacks the required heavy industry to support these finished goods manufacturers. This has led some persons to characterize Brazil as a Detroit grafted on a plantation economy. The emphasis upon industrialization at the expense of agriculture and export trade has, of course, weighed heavily upon foreign exchange earnings. There have been some recent improvements in basic industries, particularly the production of machine tools and certain chemicals. Last year Brazil produced over 2 million tons of steel and they expect to add 1½ million tons to their capacity this year. Brazil had little auto industry a few years ago but they are now producing motor vehicles at a rate of 160,000 a year, with 55 percent Brazilian-made components.

The economy still depends upon its agricultural exports for over two-thirds of its foreign income. Coffee accounts for about 65 percent of foreign currency income. Cacao, coffee, sugar, iron ore, lumber, and manganese ore are the other leading exports, the last three of these products accounting for 10 percent of the value of all exports.

One of the handicaps to economic development which Brazil faces is a weak transportation and communication system. There is a fairly dense rail network in the São Paulo and Rio-Minas Guais area but little elsewhere. While there has been a rather large roadbuilding program in recent years, there is need for rural roads for transporting commodities produced in the interior to coastal markets. As recently as 1955, it was estimated that Brazil had less paved highway mileage than the single small State of Vermont.

GNP and rate of growth

Per capita gross national product has grown rapidly since World War II but is still estimated as low as $268 for the country as a whole (appendix table 1). The regional differences reveal why, important as this growth is, it has had little direct impact on many of the people. It is estimated—with all the usual warnings for such statistical adjusting—that per capital GNP in the States of São Paulo and Guanabara is about $600, or roughly the same as in Italy. In the northeast, per capita GNP is in the range of $100 or less, or more like India, Pakistan, and some parts of Africa.

Monetary and fiscal policies

We arrived in Brazil at a time when the transition from the Quadros government to the parliamentary system under Goulart and Neves was still full of uncertainties. The Congress had not yet been presented with the Prime Minister's recommendations for economic policy, although President Goulart had stated his views and there was a general understanding that the policy objectives and most of the economic programs would be similar to those under the Quadros government.

That government had inherited a condition similar in many respects to the one found by President Frondizi in Argentina in 1958. Not only had the cost of living been rising at rates of 30 to 50 percent per year, but Brazil had accumulated a very heavy burden of short-term indebtedness. As in the case of Argentina, Brazil's inflation was generated in very large measure by substantial governmental deficits financed through the Bank of Brazil. One significant difference in the Brazilian situation, however, was that while Argentina had been stagnating under the policies of the Peron regime, Brazil had continued to grow at a relatively high rate in spite of the inflation.

The Quadros government took steps toward the creation of a free exchange market and greatly simplified the multiple exchange rate system. Measures also were taken to reduce the budgetary deficit to an amount that could be financed from available domestic, non-inflationary sources. Bank of Brazil credit to the private sector was to be maintained within levels compatible with domestic price stability. The reduced volume of Government expenditures, the proposed credit restrictions, the gradual elimination of subsidies, and the establishment of a realistic exchange rate were expected to achieve both price stability and a greater degree of external equilibrium.

However, as in the case of Argentina, Brazil was still receiving substantial emergency external assistance in order to carry out her stabilization program. Brazil's precarious external debt position, in which short-term foreign exchange obligations at the end of 1960, plus annual amortization of long-term debt, amounted to well over half of her annual anticipated earnings from exports in 1961, made it necessary for her to obtain new credits and a refinancing of a substantial proportion of her indebtedness so as to reduce this burden. To this end the United States agreed to make a substantial part of the total outstanding debt of Brazil to the Export-Import Bank ($540 million) repayable over 20 years by rescheduling payments of approximately $305 million, including the postponement to later years of the repayments of principal due during the rest of 1961 and 1962 and the first half of 1963; and to provide new credits of $338 million, $168 million from the Export-Import Bank, $70 million from the U.S. Treasury's Exchange Stabilization Fund, and $100 million from the new aid program. In addition Brazil entered into a 1-year standby arrangement with the IMF for the equivalent of $160 million and arranged a rescheduling of payments to be made to the Fund against previous drawings totaling the equivalent of $80 million. Under the arrangement with the IMF, which was tied to the package assistance from the U.S. Government, Brazil agreed to certain financial reforms necessary for the internal and external stabilization of her financial situation. These arrangements with the Fund and with the U.S. Government have been supplemented by the renegotiation of maturities on some $300 million of Brazil's medium-term indebtedness to European private and governmental creditors, as well as by new credits from Europe of $110 million. Most of this financial assistance to Brazil from the United States and other sources, which totals well over a billion dollars, was to repay or reschedule past debts rather than for increasing imports for promoting development.

The problems of the new parliamentary government have been further complicated by a rapid rise in the cost of living and a deterioration of the cruzero during the uncertainties of adjusting to the change in government. The difficulties of controlling inflation in a nation which has been living with actual interest rates on business loans of 25 to 30 percent and more are staggering indeed. To be sure, the legal rate is 12 percent but only by paying fees and commissions beyond that is it possible to borrow money—and then only by shopping around among a number of lenders. The chronic sources of inflation are the forced-draft industrialization program, a continuous budget deficit, and a weak foreign exchange position. Under the prevailing conditions, commercial credit—particularly the lending activities of the Bank of Brazil—has also contributed.

A large part of the budget deficit can be accounted for by the deficit in the Government-operated railroads and merchant marine.

Brazil's system of taxation is exceedingly complex. In the past the vast bulk of the Government revenues has come from indirect taxes, with income taxes on corporations and individuals constituting less than one-fourth of total tax receipts. Although taxes on individual incomes are progressive and rise to a maximum of 50 percent for the highest bracket, the fact that such a large proportion of the Government's revenue comes from indirect taxes would indicate that the tax system, as a whole, is not very progressive.

Perhaps the most encouraging comment we heard was that public opinion might now finally be more prepared than in the past to accept the kind of steps which would have to be taken to check inflation. In the period 1950–60 it was assumed by many Brazilians that inflation was the price of progress, but now more and more people are becoming aware of the real difficulties involved in trying to grow in that manner. Whether this observation is correct may be crucial in the year to come.

Special commodity problems, exports and imports

Crucial, too, is the dual question of the future of the coffee-oriented portion of agriculture and the need for changing the overall pattern of agricultural land use. Coffee accounts for about 60 percent of Brazil's exports and over 60 percent of her convertible currencies, so that the country's economic welfare is tied closely to the fluctuating world market for that commodity. Exports dropped from 16.8 million bags in 1956 to less than 13 million in 1958, a drop which was aggravated in terms of loss of income by a substantial reduction in prices. However, the country embarked on a vigorous program of promoting coffee exports and succeeded in bringing exports for calendar year 1959 up to an estimated 17.4 million bags, the highest figure in 11 years. Exports in 1960 were expected to approximate the 1959 figure but were down slightly. Prices meanwhile have been relatively stable. This is due in large part to Brazil's policy of withholding 50 percent of its exportable coffee crop from the world market, an activity which has entailed large monetary outlays to finance such stockpiling, and thereby has aggravated the inflation. Stocks held by the Government have been at the level of about 40 to 50 million bags since 1959. Despite the burden of these large stocks, no adequate or effective measures for curtailing the production of coffee are being taken.

Brazil has played a leading role in formulating agreements with other Latin American coffee-producing nations for cooperative efforts to avert a collapse of coffee prices by agreeing to export quotas. To this end Brazil and other countries entered into the International Coffee Agreement in 1959. The solutions most commonly proposed for the coffee problem start with the continuation and expansion of such agreements and include further development of the consumer market—possibly by agreements in countries which now have high tariffs on coffee. There seems little chance of developing nonbeverage uses.

Total exports by Brazil in 1960 were valued at $1.266 billion. Imports totaled $1.462 billion. Coffee exports accounted for $713 million and the next largest exports were cocoa beans at $69 million and sugar at $58 million. Iron ore is the largest nonagricultural export and in 1960 Brazil exported $54 million of ore. The United States is Brazil's best customer, accounting for $563 million of her exports.

The United States is also Brazil's principal supplier, providing $443,124,000 of Brazil's imports, as against $136 million for West Germany, the second biggest supplier. Principal imports are wheat, oil and oil products, heavy machinery, and auto and truck components.

Development policies and programs

Brazil has been concentrating on rapid industrial development over the past few years, with little emphasis on improving its agriculture. The 5-year program begun in 1956 emphasized the expansion of energy sources, basic and consumer industries, transportation, and education. The only agricultural commodity in the plan was wheat, although there were goals for extending elevator and cold storage capacity and agricultural machinery production. No overall long-range plans have been announced by the new Government. A long-range study projecting demand and investment requirements for Brazil was made in 1956 by the Economic Commission for Latin America of the United Nations.[1]

There is underway now a study of what can be done for the economic development of the northeast with its problems of semiarid land and outmoded agricultural methods and organizations. The United States is participating in this through a study mission and it is planned to set aside funds under the Alliance for Progress for use in that area.

We were impressed with the plans and programs of the National Bank for Economic Development which is going to be responsible for an increasingly large part of the planning and administration of projects in the public sector. The Bank, which is just getting its program underway, will be a focal point for many of the projects under the Alliance for Progress. At the time of our visit the Bank was reviewing projects and preparing to make loans for low-cost homes, rural water supply facilities, schools in rural areas, powdered milk plants, and other food processing projects in poorer regions.

Total U.S. private investments in Brazil approximate $840 million, although some estimates range as high as $1.2 billion New American investment capital continues to flow in volume to Brazil, largely into the establishment of branch plants by U.S. manufacturers. Efforts to conclude an investment guarantee agreement, however, have not yet borne fruit.

Nonetheless, not only American capital but private capital from other countries has continued to flow into Brazil. Up to December 1960, German direct investments by 200 firms totaled $160 million, Italy $70 million, and Japan, $45 million. Whether these developments will continue or not depends partly upon the ability of the new Government to get inflation under control and maintain an adequate level of public services, and, perhaps, more important, on the nature of controls over profit remittances abroad which may be put into effect.

Financial and technical assistance

The United States has contributed an estimated $65 million to joint programs of technical assistance since the point 4 program began in Brazil in 1942. Programs have been carried out with Fèderal, State, and private agencies in the agriculture, public health, education, public and business administration, public safety, mineral resources investigations, transportation, and community development. Increasing emphasis is being placed on education, training, and research.

This total does not include the large loans for economic development and balance-of-payments assistance of $1,350 million extended through Export-Import Bank or the $175 million of economic development loans from the sale of agricultural commodities under Public Law 480. Nor does it include the $240,000 made available by the Development Loan Fund for a resettlement project.

[1] Analysis and Projections of Economic Development, II. "The Economic Development of Brazil," United Nations, New York, 1956.

Chile

Introduction

Chile has an economy with many assets but it is not without some of the liabilities which some of her neighbors face. In addition, within the last year and a half, Chile has had to recover from a series of disastrous earthquakes and tidal waves. Many lives were lost and the damages have been estimated at $400 million. About one-third of the nation's economy was directly affected.

Chile is a nation of large, well diversified natural resources. It is larger than Texas, although at no point in its 2,650-mile length is it as wide as 250 miles. Eighty-five percent of its 7.5 million people live in the central agricultural area. It has a hot, dry, mineral, rich desert in the north, a central region of mild wet winters and dry hot summers, and a southern forest area with lower temperatures and heavy rains.

Although Chile is primarily an agricultural country and has achieved a fair degree of industrialization, its economy is still excessively dependent on minerals and mineral resources. Copper is its most important export. It provides 60 percent of Chile's foreign exchange and 15 percent of her tax revenues. Iron ore has replaced nitrates as the second important mineral.

Chile's agriculture, always handicapped by a less than optimum land-use pattern, has suffered in recent years from a farm to city movement of workers and a high emphasis given to industrialization in the overall economy. As a result, agricultural production has fallen so far behind population growth and rising levels of consumption that Chile has shifted from an exporter to an importer of some major foodstuffs.

In the drive to industrialize, and thereby reduce its dependence on foreign trade, serious distortions arose in the economy in the early 1950's. Public investment was concentrated in industry and power to the exclusion of much needed expansion of transportation, communications, and port services. The attempt to accelerate the process of capital formation too fast and perhaps in the wrong directions also accentuated a chronic inflation. The cost-of-living index rose 73 percent in 1954 and 84 percent in 1955. It was not until 1958, with the advent of the new Chilean Government, that vigorous and effective steps were taken to correct the inflation.

Over 30 percent of Chile's labor force is employed on farms, and their productivity is estimated at about one-half the national average. The 4 or 5 percent of the labor force employed in mining, on the other hand, have a productivity double the national average. According to local economists it is impossible to get satisfactory data on the distribution of incomes. There is, however, a rough estimate that the income receivers in the top 4 or 5 percent income of the range get 50 percent of the total income. As a corollary to the farm-to-city population shift, there is a large, chronic urban unemployment. In March 1959 unemployment was 10.4 percent of the labor force, with

1.2 percent new entrants. There has been some improvement since, so that by September 1961 the total was 7 percent with about the same number of new entrants.

Gross national product and rate of growth

Chile's per capita gross national product at $348 ranks fairly high among the South American countries but Chile's economy has stagnated during most of the postwar period (app., table 1). Chile has a relatively low portion of indigenous population. The population growth rate is now about 2.5 percent and seems more likely to increase than decline.

Monetary and fiscal policies

Chile's postwar inflation, second in degree only to Bolivia's hyperinflation, represented a continuation of a condition of chronic inflation which began in the early 1930's. Indeed, the rise in the cost of living almost seemed to have become a way of life in Chile. In adjusting to this situation, savings and investment for productive enterprise were discouraged, and agriculture, the prices of whose products were frequently controlled, tended to stagnate.

Following a number of reports by external missions and frequent statements of intent by the governments in power, positive action to halt inflation was finally taken in 1959. Stabilization actions were begun similar to those in Argentina. A free unitary exchange rate was established, budgetary expenditures were drastically limited, credit curtailed, price controls, except on a few basic commodities, eliminated along with a freeing of many imports from quota and licensing controls, and wage increases limited. After more than a generation of high and continuous inflation, reasonable stability was at last achieved, and in 1960 the cost-of-living increase was held to 5.4 percent. In 1961 the cost-of-living rose by 9.6 percent and Chile is not without exchange problems still. But the success of Chile's stabilization program is perhaps all the more remarkable since it was undertaken during the period in which the earthquakes caused severe damage and affected output in the southern part of the country.

Chile continues to face a serious problem in financing governmental expenditures, largely because of an inadequate tax system. The Chilean tax system is extremely complicated. Aside from income tax revenues from the mining companies, most of the taxes are indirect. The income tax law tends to favor unincorporated landholders, and taxes on landholdings tend to be low. Except for taxes on mining enterprises, the tax system of Chile would appear to be only moderately progressive, if not actually regressive.

The President has appointed a committee of leading members from each of the political parties forming the present coalition government to prepare proposed legislation to achieve basic changes in the structure of Chilean taxes. Among the announced goals and means sought to accomplish them are the following:

1. To substantially increase Government revenues by broadening the tax base, eliminating unnecessary or undesirable tax concessions, simplifying both rate structure and collection procedures, and strengthening administration.

2. To distribute the tax burden more justly by emphasizing direct taxes and making them more progressive, and by acting to prevent evasion by certain sectors.

3. To use property taxes as a tool to force improved use of land or its relinquishment for use in the land reform program.

4. To foster increased private investment.

While many difficulties are foreseen in securing final approval of meaningful tax reform, and current progress is slow, general agreement on the need for and the means for accomplishing it appears near.

Special commodity problems

We have already dwelt on the significance of copper to the Chilean economy. Not only are there about 18,000 men employed by the large mines, but the industry contributes an estimated 59 percent of total foreign exchange earnings received by Chile and about 15 percent ($88 million in 1960) of the Government's revenues from taxes.

At the present time Chile ranks third in the world in the production of raw copper after the United States and the Rhodesias. During the past year (1960) this industry produced over 436,000 metric tons of the red metal of which about 98 percent (worth an estimated US$345 million) was exported. Most of this production (about 89 percent) was obtained from the three large American-owned mines.

Since Chile derives such a large portion of its foreign exchange and tax earnings from the copper industry, it is apparent that fluctuating copper prices can have an extreme influence on Chile's finances. This has indeed been the case in recent years when prices varied from a high yearly average of 44 cents a pound in 1955 to a low average of 24.7 cents in 1958. This was largely responsible for copper tax payments falling from $163 million to $52 million.

These severe effects have caused many Chileans to advocate attempting to stabilize the price of copper by controlling production. Since the American companies are prevented by the Sherman Antitrust Act from entering into "price fixing" agreements, all the local impetus in the direction has been furnished by the Copper Department, a Government bureau with certain supervisory powers in the copper industry. Little has yet been done to realize this desire. The Copper Department has, on behalf of the Chilean Government, issued an invitation to the International Nonferrous Metals Council asking that the next meeting of Copper Producers and Consumers (scheduled for March 1962) be held in Santiago. If this invitation is accepted, as appears possible, the Copper Department will probably try to lay the groundwork for a workable international control agreement. Any statements by leading figures in the United States proposing international arrangements to stabilize the world market price of copper are, of course, watched with great concern in Chile.

The Chilean natural nitrate industry, once the very foundation of the national economy, has been continually plagued by troubles since the development of inexpensive artificial nitrogenous compounds during World War I. Plagued also with a series of strikes as well as a declining market, national production fell to the lowest level since the depression year 1933–34. Exports at $33 million in 1960 were 32 percent below 1959. The largest producer is predominantly U.S.-owned and the United States is the principal market for nitrate.

The booming Chilean iron ore industry continued its rapid rate of growth in 1960, finally usurping the position so long held by the nitrate industry as second in importance in Chilean mining, both in the number of workers employed and in foreign exchange earnings. During the year production rose 30 percent to an estimated 6 million long tons. Exports were 5.4 million tons, reflecting an increase of 170 percent in the last 5 years. Substantial U.S. investments have been made in Chilean iron ore production, and most of the ore is shipped to the United States. Iron ore production in 1960 was valued at approximately $55 million.

Development policies and programs

Chile's Development Corporation (Corfo) has recently formulated a 10-year plan for 1961–70, the target of which is to raise output to a rate of 5.5 percent per annum as against a rate in recent years of around 3 percent per year. The plan provides for a series of investments in agriculture, minerals, industry, fuel, education, urbanization, telecommunication, and transport.

The basic philosophy of the development program is that, through significantly increasing the role of the Government in encouraging the use of domestic savings and in borrowing abroad, funds may be accumulated which, when invested in accordance with a carefully drawn plan and proper economic policies, will not only provide the basic economic infrastructure but stimulate the rate of private investment to the point where rapid economic growth will be self-generating. While calling for a measure of centralized planning of investments in the private sector and detailed guidance of the economy by public regulation the architects of the Chilean development plan have attempted to preserve the basic elements of free private enterprise.

The plan calls for new real investment in the 1961–70 decade of $9 billion in plant and equipment and an additional $600 million in stocks. Direct public investment is planned to provide 33 percent of the total investment in fixed assets and another 17 percent through loans and subsidies to the private sector. The private sector, it is hoped, will match these amounts and, over the decade, provide 50 percent of the total from its own resources. To meet the most critical social and economic infrastructure needs of Chile, the planned and expected investment pattern for the funds is 25 percent to construction, including housing, 21 percent to industry, 15 percent to transportation, 12 percent power development, 10 percent to agriculture, 7 percent to mining, and 10 percent to general services.

Within the total gross fixed investment, expenditures in foreign currency are expected to total 26.5 percent but, because over the decade a favorable current account foreign balance is expected, foreign financing of the program may be somewhat smaller. Dependence on foreign assistance, however, is significant. Financing plans estimate that gross foreign borrowing and foreign private investment should average $180 million per year over the decade and be even higher ($220 million per year) during the first 3 years. Drawers of the plan estimate that proper domestic policies and initial successes in the production goals will allow domestic saving to grow from the present 8–9 percent of national product to over 18 percent in 1970 and provide funds for financing the remainder of the projected investment.

The overall production target is a cumulative 5.5 percent yearly increase in output (gross domestic product) over the 1961–70 decade. If this is achieved, it is calculated, investment can grow by 9.2 percent per year, public consumption by 2.5 percent, exports by 6.5 percent, and still leave a residual which will permit per capita private consumption to increase by an average of 2 percent each year.

The difficult problems of increasing the productivity of the agricultural sector are being worked on by an interparty committee of Congress, similar to the special tax committee. The Ministry of Lands and Colonization has attempted to distribute and thus raise production on public lands but this has relieved only a portion of the agrarian situation. The committee is reported to have reached accord on a wide range of subjects including powers to be given the Government, methods of procedure in reducing latifundia (large landholdings), and the expansion of credit and technical facilities to agriculture. Still under consideration, however, are such critical points as the methods and terms in which present owners shall receive compensation for expropriated land, the desirable maximum landholding which shall be allowed, the definition of "poorly managed" lands, which are to be among the first of those which may be marked for expropriation and division. The goals of land reform are still vague. The formation of new public policies on this important matter is certain to prove difficult and to make considerable delay inevitable. In the meantime the Government is actively seeking foreign assistance for use in speeding the division and development of family farms on lands held by public entities and social security institutes.

Imports, exports, and trade policies

Chile adopted a free trade policy in May 1959 and no product or material was prohibited from import into the country prior to January 1961, although circumstances may change this. As a transitory measure the prior-deposit system was retained to provide the necessary control on the use of foreign exchange holdings and protection for national industry until a new single rate tariff schedule could be worked out. A prior-import deposit must be made on registration of the order and is not refundable until the goods clear customs and not before 90 days with few exceptions. Surtaxes which are gradually replacing the prior-deposit system are payable at the time the goods clear customs.

By application of the prior deposit or surtax which amount to an import charge over and above the customs duty, the Government helps to channel its foreign exchange resources toward the purchase of essential goods, restrains the import of foreign products competitive with locally manufactured articles and discourages the import of used or luxury merchandise. Chile is committed to GATT to place its new import schedule into effect by January 1, 1962. The Government, however, has requested and received an extension of time.

In 1960 Chile's exports were slightly under the 1959 level while imports amounted to $489 million, an increase of 32 percent over the 1959 level. Chile's favorable trade balance for 1960 dropped to $438,000. The United States continued to be Chile's principal supplier and best market; however, its share of the total trade in both imports and exports was less. Germany, Argentina, Great Britain, Peru, and Japan made substantial gains in Chile's import trade. Although Japan more than doubled its sales to Chile its share of the total trade was only 2.4 percent.

Available data do not readily reflect trade trends by commodities. During 1960 the Government's policy was to lower prior deposits on essential machinery, equipment, and materials for agriculture, mining, and industry. The Government permitted importers of certain machinery and equipment to purchase exchange cover in accordance with terms of payment obtained from the foreign suppliers. With investment capital scarce and commercial money expensive, credit terms weigh heavily in the choice of capital equipment. Increased purchases for modernization and expansion of industrial plants and of mechanized equipment for agriculture and transport influenced the sharp rise in 1960 imports. European manufacturers reportedly are offering 6-, 8-, and 10-year financing for 80–88 percent of the cost of capital equipment. Interest rates average 7 to 9 percent on such financing. Delivery schedules, however, are approximately double the time required by U.S. manufacturers.

Government purchases for the rehabilitation of the southern region affected by the earthquake and for programs included in its 10-year development plan will be a strong factor in Chile's import trade for 1961 and 1962. Such purchases are financed almost entirely through foreign loans.

Financial and technical assistance

Official grants and loans were of great importance to Chile's economic growth, even during the period preceding the 1960 earthquakes and the undertaking of a major development plan. Prior to the earthquake, the World Bank had authorized loans to Chile totaling $106 million, the IMF had extended balance of payments and currency support of $64 million, and the Export-Import Bank over $200 million for industrial equipment and balance-of-payments assistance. The U.S. Government had made loans of over $10 million in connection with the mutual security program, and of over $31 million from the proceeds of Public Law 480 sales funds. U.S. grant aid under these same programs totaled about $44 million. The German and Italian Governments had assisted their exporters to authorize major equipment credits totaling nearly $40 million.

The Chilean Government expressed great appreciation for the prompt and effective assistance received from the United States following the May 1960 disasters. In one of the largest emergency relief operations ever undertaken under the mutual security program, more than 700 U.S. personnel and 1,000 tons of equipment and supplies—including the personnel and equipment of two complete Army field hospitals—were airlifted to Chile from the Panama Canal Zone and the continental United States. Private U.S. donations in cash and kind for Chilean relief amount to at least US$10 million.

After assisting with the immediate problems of disaster relief, the U.S. Government has evidenced a continuing interest in aiding reconstruction efforts and speeding economic and social development. The various international agencies have come forward, not only to lend support to Chile's foreign exchange position, but to finance economic development projects. European nations have also extended substantial assistance through offers of exporter credits. Chile has had made available to it for balance of payments on standby assistance since May 1960, $135 million from the International Monetary Fund, Export-Import Bank, the Treasury Stabilization Fund, and private New York banks. As of November 1961, $95 million had been drawn or utilized. Reconstruction and development credits advanced from all sources since May 1960, total $316 million, of which only $71 million has been drawn or utilized. Some of the large amounts not yet used include $105 million from the United States for reconstruction credits and Public Law 480 proceeds, $85 million out of the $110 million Export-Import Bank loan for steel plant, railways, and other capital goods and $15 million out of $16 million from the U.S. Development Loan Fund for airports and ports.

It should be remembered that, although the amounts of loans drawn or utilized are much smaller than those authorized during the past 18 months, drawings by Chilean entities under loans authorized in 1958–60 are continuing, and receipts in 1960–61 were considerably greater than those shown above.

In addition to the economic assistance listed, all of which is actually arranged and firm, it appears likely that Chile will receive additional aid in the relatively near future when applications for loans before the Interamerican Development Bank, Export-Import Bank, and others receive final action. The U.S. AID mission will continue its activity in Chile and additional grant aid may result. Any statement on probable amounts would be premature.

Foreign investments have played an important role in Chilean economic progress. They are generally considered at present to have a value of about $1 billion and constitute an important portion of all existing capital. U.S. direct investments are estimated to total almost $1 billion. Three-fourths of this amount is in the mining industry while the majority of the remainder lies in the public utility field.

Whether or not these investments by private capital will continue to increase may be influenced by a feeling that the large U.S. copper firms have been singled out to pay, through new taxes, a disproportionate share of recent wage and salary increases to Government workers. The question of the need for the wage increases was not raised but simply how the additional burden is to be borne. Offsetting this view, was a statement by a local businessman and economist that Chile has never moved against foreign capital, that the tax on the copper companies is less than it was 6 years ago, and that it is designed rather to equalize rates vis-a-vis other parts of the economy. He said Chilean industry lacks working capital as well as capital for investment and stated the hope that there could be government-to-business, as well as government-to-government loans under the alliance for progress—and that loans from private enterprise outside to private enterprise inside Chile should also expand.

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PERU

Introduction

Peru, the third largest country in South America, is about three times the size of California. The topography of Peru is a major factor in its economic development. The country is divided into three well-defined geographic areas. Proceeding inland from the Pacific, there is first the narrow coastal desert, 25 to 40 miles wide, where the capital and seaports are located. Rivers rising in the interior mountains form approximately 40 oases in the coastal desert, where intensive irrigation makes possible the country's export crops of cotton and sugar. Next comes the high sierra, the zone of the great Andean cordilleras, which culminate in Peru in snow-clad Huascaran, 22,205 feet above sea level. This region comprises about 27 percent of the national territory, is the most populous (about 60 percent of the total, including most of the Indians), and contains the chief deposits of mineral wealth. To the east lie the vast, uncharted hill and forest lands and the tropical jungle lowlands through which the great rivers wind to the Amazon. This area, known as the montana and occupying more than 60 percent of the entire country, is largely undeveloped, very sparsely populated, and only partially explored.

The last census taken in Peru was in 1961. The population was reported at 11 million, with a population growth rate of 2.4 percent a year. Only 3 to 4 million of the total population can be said to participate in the money economy. The remainder, most of whom live in the highland plateaus and valleys in southern Peru, are at the barest subsistence level.

There are areas, such as Lima-Callao, Chimbote, Chiclayo, and Piura which are in the first stages of industrialization, but Peru has basically an agricultural economy. Agriculture employs 60 percent of the labor force, produces 28 percent of national income and 34 percent of Peru's exports.

Mining, which only employs 2 percent of the labor force, is the other major source of the country's export earnings, accounting for 44 percent.

Most of Peruvian industry is of the light-industry type, with the exception of the Chimbote steel complex. Industry employs 19 percent of the labor force and produces 15 percent of national income.

Railroad transportation in Peru consists primarily of two railroads which run up into the mountains to serve the mining communities. Traffic is principally heavy freight. Operation costs in such difficult terrain are understandably high. There are two major highways. One is a two-lane asphalt road running along the coast 1,900 miles from north to south. The other, largely unpaved, runs inland from Lima to LaOraya, paralleling the Central Railroad to Pucallpa in the rain forest. The great need is for "penetration roads" to open areas now inaccessible.

International cable service and internal telegraph service in Peru are adequate, but the rest of the communication system is weak. Telephone systems are totally inadequate and, according to local observers, must be expanded immediately to prevent handicapping industrial growth. Similarly, the country's postal system needs modernization.

GNP and rate of growth

Peru is one of the poorest countries in Latin America with an estimated per capita GNP of only $179 (Appendix Table 1). It has had a high rate of population growth in recent years, and its projected annual increase for the period 1957–80 may be even higher. Nevertheless Peru has been experiencing a reasonably high rate of growth in output per capita over the past 10 years, sparked in considerable measure by the development of her mineral resources. But economic progress in Peru still has not affected the lives of the vast bulk of the rural population.

One of the results of this has been the increased migration of the population to the coastal cities at an ever-increasing rate, particularly to Lima where the evidence is readily at hand for any visitor to see. Employment and food supplies so far have been adequate to sustain this change in patterns of living, largely because the standard of living on Peruvian farms often is so low that city slums are apparently considered an improvement by the migrants. The growth of agriculture to feed these migrants and industry to employ them is obviously crucial.

Monetary and fiscal policies

Compared to the inflation in Argentina, Brazil, and Chile, Peru's postwar price rises have been modest and, in most postwar years, Peru's exchange system has been relatively free from controls. Peru experienced a monetary crisis following the sharp fall in export prices in 1957, accompanied by a severe balance of payments deficit and an accelerated rise in the cost of living. In 1959, the Government introduced monetary reforms involving a reduction in the monetary deficit, the raising of taxes, and the elimination of price controls. Peru's stabilization program has been quite successful and, over the 12-month period ended in February 1961, cost of living rose only 3 percent. Peru has a convertible currency and her improved balance-of-payments position has been reflected in recent stability in the value of the Peruvian sol.

The Export-Import Bank, International Monetary Fund, the U.S. Treasury, and some private U.S. banks all assisted during the stabilization crisis, with loans and other credits. The drawings from the International Monetary Fund standby credit and the Export-Import Bank balance of payments were repaid before they became due, no drawings having been made from the U.S. Treasury or U.S. bank credits. Exchange and trade controls have been removed. Government borrowing from the Central Bank has been discontinued and Government subsidies of some staples, particularly gasoline, have been abandoned.

The budget has been balanced both in 1960 and this year, with some surpluses reported in 1960. The tax structure puts major emphasis on indirect taxes. About 50 percent of all tax receipts in Peru are derived from export and customs duties while some 25 percent is produced by taxes on income and wealth. A transaction tax, which has the unfortunate inflationary effect of compounding prices, has been increased in recent years from 0.8 to 2.5 percent. Taxes bear heavily on foreign corporations and on the middle income groups. Taxes on income range from 7 percent up to 35 percent but the overall impact of the tax system can only be mildly progressive.

Foreign trade, trade policies, and commodity problems

Because of her diversified exports, Peru is not as vulnerable to price fluctuations and trade restrictions on a single commodity. But the need for foreign exchange to pay for heavy imports of manufactured goods and half of her food supply makes changes in the price or volume of any commodity she exports of great importance.

Peru had a favorable balance of trade of $20 million in 1959 and $60 million in 1960. Exports in 1960 totaled $435 million and imports $375 million. Principal exports in 1960 were copper, $94 million; cotton, $73 million; fishmeal and other fish products, $52 million; iron ore, $33 million; sugar, $48 million; coffee, $19 million; lead, $22 million; zinc, $17 million; silver, $24 million; and petroleum products, $17 million. In 1960, exports to the United States were $165 million or 44 percent of Peru's total exports. Imports from the United States were $157 million in 1960, 36 percent of the total imports.

Peru has traditionally followed liberal trade policies. There are no controls over imports, exports, or exchange except that Peru embargoes all trade with the Sino-Soviet bloc. Trade with Czechoslovakia is an exception since she is a partner in GATT. A tariff for revenue is levied on both imports and exports and a surcharge on imports has been in effect since 1958. The Peruvian Government has pledged to remove the surtax before June 1962.

Because of the diversity and amount of its exports to the United States, Peru is concerned with a number of measures which the United States has taken or have been proposed in regard to both imports and exports. They have protested the import quotas on lead and zinc and view with apprehension bills introduced to protect marginal mines in the United States. As a large cotton exporter, Peru must be concerned with the effect of our cotton export policies on her sales and prices in world markets generally. The reallocation of part of Cuba's sugar quota to Peru helped ease some of the pressure there. Fishmeal is another Peruvian export which they feel may be in conflict with measures designed to protect U.S. industry.

Development policies and programs

Peru's development planning is headed by a Central Planning Office in the Ministry of Finance. Plans have been drawn up on a regional basis including a series of projects in mining, petroleum, transport, power, agriculture, and highways in central Peru and a similar program for the southern region of Peru. There is also a special plan for the industrial sector which was basically one recommended by a group of external consultants, and a plan for agrarian reform based on the Agrarian Reform Law of October 1960. There has been created an Institute of Agrarian Reform and Colonization to implement the agrarian program, but some of the necessary legislation has not passed the Congress.

The basic problem which all of these organizations face is a nation which is only 50 percent self-sufficient in food and with almost two-thirds of its population outside of the money economy.

This puts a high premium on simultaneously increasing agricultural production and providing industrial employment for the unrelenting flow of migrants to the cities.

More access roads to some areas will help with getting food to markets and people to lands not occupied and better farming methods will increase productivity. But there still will be need for investment in the industrial base to employ people who cannot be absorbed on the land.

The climate for foreign investment in Peru is generally good, and Peruvian laws encourage such investment. Direct U.S. investment in Peru has reached about $685 million and is continuing to increase. The most spectacular recent development was the investment by a consortium of U.S. mining companies of $230 million (one-half loaned by the Export-Import Bank) in the Toquepala copper project in southern Peru, as a result of which copper is now Peru's first export. U.S. investment accounts for 74 percent of the $1,129 million total foreign direct investment in Peru. About 15 percent of the American investment is made up of U.S. Government loans and credits.

Financial and technical assistance

We have already mentioned the assistance to the stabilization program by the International Monetary Fund, the Export-Import Bank, and the Treasury.

In July 1960, the U.S. Government set aside $53.2 million to cover future loan applications from the Peruvian Government to finance the building of hard-surface roads, the settlement of land in adjacent areas, agricultural programs related to a land reform, and the construction of low-cost housing. Peru's draft land reform bill would limit individual holdings to 617.5 acres in Pacific coastal regions and 24,710 acres in jungle areas and provide for compensation to landholders and a system of rural credit. The Government sponsored a bill in the Peruvian Parliament providing for the necessary legislation to implement the land reform program. However, both this bill and the legislation setting up the housing credit institutions have not passed the Peruvian Congress. This has resulted in some delays, but loan agreements have been signed covering all but $11.7 million of this credit, including loans for housing and agricultural credit.

Uruguay

Introduction

Uruguay is the smallest country in South America but a nation with a high proportion of its people well dressed, well fed, and well educated.

Uruguay's economy hinges on the production, and processing into export form, of agricultural commodities. Roughly one-fifth of the country s gross national product, about 90 percent of its foreign exchange income, and at least half of total employment opportunities flow from the preparation and sales abroad of greasy and scoured wool, frozen and canned meats, hides and skins, and vegetable oils. Those sales permit vital imports of basic raw materials and of equipment upon which Uruguay's manufacturing structure depends. Like all pastoral economies, and particularly those possessing negligible supplies of minerals and fuels, Uruguay is at the mercy of world market fluctuations and the vagaries of weather.

For all its agricultural base, Uruguay is still one of the most urban nations in the world, with nearly a million of its estimated 3 million people living in the city of Montevideo. The northern two-thirds of the country is devoted almost entirely to livestock and general crop production is found mainly in the southern one-third. The land-use pattern is dominated by large landholdings. In 1948 the National Colonization Bureau did begin a program of creating colonies of small properties throughout the country, but the problem of developing more moderate-sized farms with more intensive land use and better technology remains.

GNP and rate of growth

Uruguay's estimated gross national product per capita, at $500, is one of the highest in Latin America (app., table 1). As suggested earlier, it is also well distributed with a large middle class and little evidence of either persons who are very rich or persons who are very poor. But with Uruguay's vulnerability because of her dependence on external markets, her rate of economic growth has slowed greatly in recent years.

At the same time, part of this slowdown was due apparently to an attempt begun after World War II to follow a program of rapid industrialization designed to make the country self-sufficient in as many items as possible. Wheat production was encouraged at the expense of the traditional Uruguayan export commodities—wool and meat. A multiple exchange rate system was established which, as it evolved, subsidized the importation of capital equipment and raw materials by giving them a preferential rate while taxing nonessential imports and agricultural exports. Large and numerous consumer subsidies were established.

As a result, the national budget was unbalanced, there was rising inflation, and national capital was being used up at a rate faster than it could be replaced. Since 1959, however, there has been an attempt to reverse these processes.

Monetary and fiscal policies

The Government has initiated foreign exchange, trade, and budgetary reforms designed to stabilize the price level and to expand Uruguay's agricultural exports. Although prices continued to rise rapidly during 1960, in recent months there has been evidence of a fair degree of stability in the cost of living. Uruguay has eliminated controls on prices of wheat and wheat products and lowered wool export taxes from 35 to 25 percent of value. In September 1960 Uruguay entered into a stabilization agreement with the Monetary Fund whereby the Fund provided a standby credit of $30 million; Uruguay agreed to restrict credit, to maintain a balanced budget, and to simplify, reduce, and finally eliminate export taxes and import surcharges and advance deposits within 2 years. Uruguay has also eliminated its complicated multiple exchange rate system in favor of a unitary rate.

Historically, Uruguay has relied on indirect taxes, particularly excises on imports and consumer goods, for 60 to 70 percent of total tax revenue. Taxes on land have been used very little and it was not until November 1960 that the legislature passed the first income tax law. There is a tax of 15 percent on 85 percent of undistributed corporate profits and an excess profits tax which applies on all profits over 30 percent of capital. It was reported that improvements have been made recently in the administration of the tax system.

Special commodity problems

No country we visited was more keenly aware that its economy depended on one or two commodities than Uruguay. The fact that approximately 60 percent of their foreign exchange comes from wool, that another 30 percent comes from hides and meat—and that exports make up one-fifth of their national product—was emphasized wherever we went. Of the 46.5 million acres in Uruguay, 42 million are in agriculture. There are 85,000 ranches with 8.5 million head of beef cattle and 23 million sheep and lambs.

In 1960, when Uruguay did away with her multiple exchange and bilateral trade agreements and trade returned to traditional markets, the United States was the principal buyer of wool from Uruguay, purchasing about $15 million. England, with $12.7 million, and Holland, with $11.8 million were next. Although the United States appears as an important purchaser of wool, purchases representing 11 percent of Uruguay's total exports in 1959 and 21 percent in 1960, most of these purchases were for the cheaper grades.

The representatives of the wool trade, and other Uruguayan and American businessmen with whom we talked, point to the import duty of 25½ cents per pound on clean apparel wool as an almost insurmountable barrier to exporting wool into the United States. They cite the 73-percent decline in export of apparel wools to the United States in the last 15 years, as compared with a decline of only 9 percent in the export of carpet wools to the United States as evidence of the impact of the duty. There is no duty on the latter carpet wools.

In 1960, wool exports accounted for $71 million out of $129.4 million total exports. Of the remaining $58.4 million, nearly $41 million was accounted for by meat, meat products, and hides. Uruguay, which produces meat at a lower price than any nation except Argentina, faces two problems in developing her position in world markets. In recent years, a number of countries have begun programs for protecting their own cattle raisers. Because of this, Uruguay feels they have lost or are losing the Belgian, Italian, and German markets, and sales to the French Army in north Africa. England remains as the principal buyer of chilled and frozen beef and canned meats.

Because of our regulations against importing meat from countries where there is hoof-and-mouth disease, the United States is a market for only canned meats, largely corn beef and some types of canned roast beef. U.S. purchases of these products from Uruguay totaled about $3 million in 1960.

Development policies and programs

If we have seemed to dwell unduly long on wool and meat, it is because the maintenance of these markets is so crucial to the Uruguayan economy and will be for years to come. The general direction of development programs in Uruguay has been to try to achieve more efficiency in the use of the land and improvements in the technology of livestock raising, including a start on a program to try to eliminate hoof-and-mouth disease from some areas. There is a small group in the Ministry of Agriculture with a continuing program of this kind of assistance. It seems likely, however, that this is a slow process. The swifter approach is, of course, through expanding external markets. Some of the impediments there we have just mentioned.

There is, on the other hand, a need to increase the efficiency of the industrial and service sector of the economy, which is currently suffering some recession and accordingly unemployment.

There is an interministerial Commission on Investment and Economic Development which is developing plans that would include those for industrial development, power, and transportation, housing, and education, as well as for agriculture. The handicaps to new investment this Commission faces in developing some of its programs are the small national market of only 3 million people, the shortage of savings, perhaps too high public investment, and a disproportionate share of savings going into speculation. Investment from outside the country is also handicapped by the small market and the possibilities for better alternatives elsewhere, particularly in Western Europe.

The possibilities for the development of heavy industry seem particularly remote but it was pointed out to us that Uruguay might well be an excellent shelter for the small or middle-size investor coming to start a business with his own capital, or that the country might, with some tax incentives, become a financial center. An important part of this future, of course, rests in the nature of the development of the Latin American Free Trade Association program.

The pattern of existing investment is heavily weighted toward public ownership. In part to lessen the adverse impact on the population of occasional climatic or world market adversities, and in part to perpetuate social programs introduced at the turn of the century, successive Uruguayan Governments have undertaken extensive programs of social welfare and intervened actively in the operation of the economy through production and consumption subsidies and state-owned enterprises. Today the Government has a monopoly or competes with private enterprise in electric power, telephones, fuels, alcohol, cement, aviation, railroads, insurance, and fishing, to name the principal examples.

The U.S. direct investment in Uruguay is approximately $60 million in 92 plants. These are mainly in textiles, cement manufacturing, distribution of petroleum products, and manufacture of electrical appliances.

Imports, exports, and trade policies

We have covered the bulk of Uruguay's exports in the section dealing with the special commodity problems of wool and meat. All types of exports to the United States in 1960 accounted for $19.8 million or 15.3 percent of the $129.4 million total. Imports from the United States in 1960 were $64.9 million or 28.4 percent of total imports. This relationship between exports and imports would seem to emphasize the need for carefully reviewing our trade relationships with Uruguay to see that they have a basis for getting the dollars to keep up their volume of imports from the United States. Principal imports of Uruguay are fuels and lubricants, industrial raw materials, and capital goods such as vehicles, machinery, and equipment. Other major suppliers are Brazil, United Kingdom, and Germany.

Financial and technical assistance

Uruguay believes that developing its trade is even more important for its economic development than is direct foreign aid, although there is an interest in the Alliance for Progress and other programs too. In the past, Uruguay has received credits from the World Bank to help develop its hydroelectric power resources. At present, it is drawing on a US$7 million loan from the World Bank to provide the foreign currency costs of a program to improve pasture management and on a US$8.8 million credit from the Development Loan Fund to enlarge the telephone network. The InterAmerican Development Bank recently loaned a meat-packing cooperative US$640,000 and the Government US$8.2 million for water purification and sanitation installations. Starting as a response to the 1959 floods which damaged food crops, Uruguay has become a regular customer of the P.L. 480 program, which permits it to buy surplus U.S. agricultural products without expending scarce foreign exchange. Thus far, US$35 million of P.L. 480 products have been purchased by Uruguay and the local currency proceeds lent to the Government for economic development projects and to subsidiaries of U.S. firms in Uruguay for expansion.

Uruguay has prepared a program of construction of schools and health centers, with emphasis on the rural areas, and improved vocational education, which it is discussing with AID.

Venezuela

Introduction

The economy of Venezuela is characterized by great contrasts and apparent contradictions. Here is a country at the same time rich and poor. It has large amounts of foreign investments but fears lack of confidence by foreign investors. Forty percent of the people of Venezuela are engaged in agriculture yet food is one of the country's largest imports.

The contrasts begin with its geography. Venezuela lies entirely within the tropics but in the narrow range of mountains extending from the Colombia border to the Caribbean are found snowcapped peaks over 16,000 feet. It is one of the least densely populated countries of South America, overall, yet it has great population concentration in and about its cities, particularly Caracas. Venezuela, which is about the size of Texas and Oklahoma, has four-fifths of its population concentrated in the northwest quarter of the country.

Inland transportation in Venezuela is centered around a network of good highways. Since population is concentrated it has meant that only a small number of major heavy-duty transport routes have been needed. Unfortunately, much of the population is concentrated in mountainous areas where the costs of construction have been extremely high. The construction of these highways—and we can attest to their excellence—has however resulted in substantial reduction in transportation costs and stimulated industrial and agricultural growth in areas which were stagnating. It also resulted in abandoning about 680 kilometers of the 1,000 kilometer rail network.

Telecommunications in Venezuela, especially the telephone system, are regarded as a serious handicap to economic development. We were told, for example, of a large company which had to install its own radio network to communicate adequately with its various units.

Venezuela is a one-crop country and relies on petroleum as the main source of its foreign exchange. This one commodity accounts for over 90 percent of the total value of Venezuela's exports. A growing iron ore industry accounts for about half of the remaining 10 percent of the country's exports. In addition to oil and iron ore exploration and production, there is some mining of diamonds, gold, nickel, manganese, asbestos, salt, and coal. The greatest economic significance of these small operations, however, is to indicate the breadth of the largely unexplored potential mineral resources.

Venezuela has a labor force estimated at 2,500,000 out of a total population of 7½ million people. Unemployment is high, due in part to a decline in construction. An annual growth rate of close to 4 percent in total population compounds the unemployment problem by its yearly additions to the labor force. Only a small percent of the labor force are trained workers and many of Venezuela's skilled craftsmen have come from other countries for temporary stays.

About half the labor force is organized in both craft and industrial unions in 23 state organizations and 13 industrial federations. It was felt by the labor leaders to whom we talked that additional workers not formally in the organized groups, respond sympathetically to objectives and programs of the organized workers. There is no minimum wage, unemployment compensation, or old-age and survivors insurance programs, but it was pointed out that a basis for these programs has been laid in some of the recent legislation providing for collective bargaining. There is a provision for profit sharing and some health benefits. Labor relations generally are considered to be good with 80 to 90 percent of labor negotiations being satisfactorily worked out without work stoppages.

Gross national product and rate of growth

The gross national product is the highest in South America but in terms of dollars of purchasing power is $645 per capita (appendix, table 1). Venezuela has had a rapid rate of growth during the postwar period. Within the last 25 years Venezuela, with the rapid growth of the oil industry, has become known as one of the most prosperous less developed countries. About 10 percent of the population have relatively good incomes by any standard, but of the remaining 90 percent about half are little, if any, better off than the rural populations of most other Latin American countries. Assuming that it is really possible to use such figures to compare with U.S. per capita incomes or between the industrialized and rural sectors of the Venezuelan economy (a large assumption because of differences in the character of the statistics), the average real gross national product per capita in Venezuela may be 20 to 25 percent of that of the United States. But the largest share of the rural population probably has real incomes of no more than 10 percent of the average rural income in the United States.

Monetary and fiscal policies and the balance of payments

Venezuela has experienced relative price stability during the postwar period. Until recently Venezuela has avoided the foreign exchange crises which have been so common in other Latin American countries. However, the decline in foreign exchange revenues from petroleum exports, along with the payment of the large debt inherited from the previous (Perez Jimenez) government, which facilitated a drastic flight of capital resulting from a loss of business confidence due to political uncertainties, produced a substantial decline in foreign assets. This has caused the Government to adopt a system of exchange controls to curb capital outflow, whereas until recently Venezuela's foreign exchange system had been relatively free. Venezuela has also been depreciating her import rate by shifting imports from the official rate to a higher free market rate.

The major part of the National Government's tax revenues comes from taxes on petroleum companies operating in Venezuela. Most of the remaining national tax revenue is derived chiefly from indirect taxation, notably customs taxes. Income tax revenue from the nonoil sector is a small part of the total revenue of that sector. Income tax rates are quite modest, and personal exemptions substantial. For example, a married couple with an income of $30,000 per year pays an income tax of about 3 percent, and a married couple with an income of $150,000 per year pays an income tax equal to slightly more than 12 percent. It is estimated that for the lowest income groups, somewhere between 5 and 10 percent of income is absorbed by taxation, all indirect. Because of high customs duties on certain luxury items, and of the income tax, wealthy individuals may pay anywhere from 10 to 20 percent of their income in the form of taxation. Obviously this does not represent a very highly progressive system. Real estate taxes in the urban centers tend to be low and rural land is, in general, not taxed at all.

Special commodity problems, exports and imports

The development of Venezuela's petroleum resources has produced one of the highest rates of economic growth and per capita income in South America. It is the world's third leading producer of oil and ranks first among the nations in oil exports. Depending, as Venezuela does, on oil for over half the nation's tax revenues and 90 percent of its foreign exchange, it is particularly sensitive to shifts in world markets and world prices. The high point in demand and in prices for Venezuelan oil was reached in 1957. The decline which began then has leveled off and there is expectation of it stabilizing at current levels or slightly above.

Venezuela, with 14 percent of the world's production and an estimated 6 percent of the world's reserves is still in a relatively strong position. The industry representatives with whom we talked are, of course, particularly concerned with the U.S. quotas on oil imports. The U.S. market takes between 40 and 50 percent of the Venezuelan crude and refined products and two-thirds of the U.S. oil imports come from Venezuela. Representatives of the Venezuelan oil industry said they were sympathetic with the objectives of the U.S. quota system of having a healthy, growing U.S. oil industry, particularly the national security aspects, and were willing to go along with the system of voluntary quotas in 1957 and 1958.

They are, however, concerned now about the mandatory quotas imposed in March 1959, and with the continuation and possible extension of these quotas in the future. They are not opposed to import restrictions as such since these restrictions tend to uphold Venezuelan prices at the U.S. level, but their concern lies with the manner in which quotas are assigned and particularly with the exemption of overland Mexican and Canadian imports. Venezuela would prefer quotas assigned to the foreign country as a whole rather than on a company basis, a system which would assure Venezuela's share of the U.S. market and would eliminate what are considered to be windfall profits for some concerns.

There is some evidence to indicate that U.S. companies tend to favor cheaper oils from the Middle East over imports from Venezuela when their imports are limited. The present situation may simply reflect a general oversupply and the actual impact of the quotas may in fact be relatively small.

Venezuela's oil export problem has been complicated in recent years by the relative shift of Western European imports from Venezuela to the Middle East and more recently to north Africa. Venezuela must depend increasingly upon the Western Hemisphere for markets. The United States, for example, imported 25 percent of Latin American petroleum exports in 1938, but 44 percent in 1958. Western Europe imported 57 percent of Latin America's petroleum in 1938 but only 21 percent in 1958. Moreover, as other Latin American countries increase their own petroleum production, the market for Venezuelan oil will be restricted, unless offset by the growth of demand in the United States and in other petroleum deficit Western Hemisphere countries. Venezuela will face increasing competition from cheaper Middle Eastern oil, both in North American and in other Latin American markets.

Iron ore with 5 percent, coffee with 1.6 percent, and other minor items making up 2.2 percent account for the rest of Venezuela's exports. Venezuela imports a wide variety of merchandise, including many foods, and is one of the best customers of the United States. Worldwide, it holds No. 5 position as a buyer of U.S. goods, behind Canada, Japan, the United Kingdom, and Germany and ahead of countries like France and Italy. U.S. exports to Venezuela reached a peak of $1,224 million in 1957 (a boom year)—67 percent of the total imports. In 1960 the figures were $551 million and 52 percent.

Development policies and programs

Venezuela is basically a free enterprise economy, although the Government is directly engaged in production in some areas. The Government has made a large investment in a steel plant which is just beginning to produce steel and has made direct investments in the petrochemical industry. Even in some of these cases, contracts have been made by the Government with private concerns to provide management for the Government enterprise. The businessmen we discussed this with emphasized the desirability of obtaining private foreign capital and urged that under the various parts of the Alliance for Progress program, attention be paid also to loans directly to business rather than through Government. At the same time, the Government officials stressed the intention of the Venezuelan Government to play an increasingly vigorous role, direct or indirect, in the economic development of the country. But there was not any particular contradiction in these two approaches. Rather, the thought was that there would be room for both. Much of the Government's energies would go toward the development of human resources through better education, better health services, better housing, development of job-training programs, etc.

Fortunately, there is an excellent basis for examining all types of development programs for Venezuela, in a general economic survey made in 1959–60 by a survey mission organized by the World Bank.[2] This survey recommends a 40 percent reduction of investment in basic services, such as transportation, power, and communications (as compared with 1954–58), and a 25 percent increase in Government expenditures to assist agriculture and industry. Looking toward the longer run and problems of implementation of programs, Venezuela recently established an organization entitled the Central Office of Coordination and Planning and a 4-year plan is in process of implementation.

[2] "The Economic Development of Venezuela," the Johns Hopkins Press, Baltimore, Md., 1961.

In spite of the fact that U.S. private investment in petroleum in Venezuela accounts for $2.2 billion out of a total U.S. investment in Latin America of $8.8 billion, the flow of foreign capital to Venezuela has declined substantially in recent years. While this is largely because of the world petroleum surplus, there also have been some uncertainties and conflicts between the Government and the oil companies. There is encouraging evidence that this trend has reversed and that there is growing interest in working out joint ventures or other arrangements for the encouragement of foreign private investment.

Development programs for agriculture in Venezuela are confronted with two problems at two extremes. In the Venezuelan Andes there exists the problem of the large landholdings and all the abuses associated with it. But there is also the problem of holdings too small to support a family even when the property is owned by the operator. From these highlands there has been a steady stream of people to the large cities, particularly Caracas and Maracaibo, and there has been a steady movement of people out of the mountains to settle in the lowlands adjacent to the mountains. The great bulk of these people have been squatters on Government land or unused land of large landowners.

In 1959 the Venezuelan Government embarked on an agrarian reform program that will eventually distribute 76 million acres to some 300,000 farmers. The 10-year program has been designed to improve the social and economic conditions of the farmers as well as to increase food production. The first land was given out in April 1960 and during the first 9 months almost 3 million acres were parceled out to nearly 35,000 farmers.

Venezuela is particularly fortunate in having a large public domain to parcel out. However, much of this land is of doubtful value. The main areas are in the Maracaibo Basin and in the llanos (plains covered with tropical grasses) south of the Andes. Extended periods of drought characterize the bulk of the land available for distribution. Irrigation will help in some areas. Venezuela is fortunate in having a good highway network to aid in the settlement of the new landowners and to make it possible to market their produce. The land reform is not directed at large landowners. Expropriation will be resorted to only where large tracts of private land suitable for cultivation are unused.

The Venezuelan Government estimates that it will cost about $3,600 to settle each family. This is just enough to give them a small loan for living expenses during the first year and to buy essential tools and seeds. Additional funds will be necessary to expand the road network, establish irrigation works, build schools, medical facilities, etc.

Venezuela's land reform represents the most ambitious attempt by a South American nation to remake its agricultural economy. In 10 years they hope to have as much new agricultural land operated by small farmers as the total land in farms in Chile today (Chile has about the same population as Venezuela).

Financial and technical assistance

With its heavy inflow of private capital and its oil revenues, Venezuela has considered no foreign aid program until very recently. During our visit, approval was announced for two loans in the housing field and one in education. The Development Loan Fund is working on a program to help set up savings and loan associations. The USIA prepares a monthly publication which is used as a teaching aid by 30,000 teachers in elementary schools. A program for technical aid in the field of public administration is also being developed.

When the Perez Jimenez government left the new constitutional government with an estimated $1.2 billion in heretofore undisclosed short-term liabilities, a group of New York banks lent $200 million to help meet the deficit in the federal budget and dollar exchange losses. An Export-Import Bank loan was negotiated during the year for $100 million ($75 million for commercial debts and $25 million for projects). The first drawing was made in September. Additional credits totaling $500 to $600 million are in process of serious negotiation or are contemplated during the next 2 years.

SUPPLEMENTAL VIEWS
OF
REPRESENTATIVE THOMAS B. CURTIS

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SUPPLEMENTAL VIEWS OF REPRESENTATIVE THOMAS B. CURTIS

I want to commend the subcommittee and its staff for an excellent report. The subject is so complex that it is impossible for any report to carry the emphasis of each one of us. My supplemental views are in the nature of emphasis and further observation and in no sense basic disagreement with the report.

I hope the subcommittee will hold hearings on the report itself to permit scholars and other persons with knowledge about Latin American affairs to add their comments and criticisms. The report will serve admirably as a base for this kind of further study which I believe is necessary in order for us to have a proper understanding of Latin America.

General Observations

1. There is no general agreement on the guidelines by which we can evaluate our own economy let alone the economy of another society. It is this lack of agreed upon criteria which has permitted the dangerous game of growthmanship to be played in our own society using the valuable but limited statistical series of gross national product to serve as a sole test of economic growth and achievement and so deceive us as to what is really going on in our dynamic private enterprise system.

2. Even if agreed upon guidelines had been developed to evaluate economies, the economic statistics which have been developed in various societies are not the same and therefore are not readily usable in comparing different economies.

The first set of papers in the Joint Economic Committee hearings on Russian versus U.S. economics ("Soviet Economic Growth: A Comparison With the United States"), 1st session of the 85th Congress, go into the question of comparative economic statistics in a very helpful way.

3. The following are some of the basic factors which must be evaluated to understand an economy.

(*a*) The work force:
1. In relation to total population.
2. In relation to square miles of land.
3. In relation to skills.
4. In respect to organization.
5. In respect to productivity.

(*b*) Transportation.
(*c*) Communications.
(*d*) Power.
(*e*) Natural resources.
(*f*) Education and knowledge:
1. General.
2. Technical.
3. Research and Development.

(*g*) Raw material production:
1. Agricultural.
2. Extractive.
3. Chemical.

(*h*) Manufacturing.
(*i*) Distribution.
(*j*) Service.
(*k*) Resources of the Government sector in relation to resources of the private sector.
(*l*) The resources of local governments in relation to the Federal Government.
(*m*) Capital and savings.
(*n*) Capital plant.
(*o*) Monetary policy and other weights and measures.

Specific Observations

1. Latin American economic statistics are relatively poor compared to U.S. statistics. U.S. statistics though they may be the best in the world have grave limitations in evaluating an economy and must be used with understanding of these limitations.

2. Latin America has a low incidence of population per square mile in respect to the United States, Western Europe, China, India, Indonesia, and the Caribbean Islands. It is underpopulated. What population pressures there are come from a post-World War II higher birth rate and lower death rate. Most of this new population is not yet in the work force. I believe our report would be in error in stating that there are problems arising from population "pressures" in Latin America interpreted to mean that this has to do with aggregate numbers of people in respect to available resources. The increasing population is the greatest asset an underdeveloped nation of this sort can have, not a liability.

In other words, if South America developed its resources along the lines existing in other more economically advanced societies today, let alone developments anticipated for the future it could support a population substantially larger than its present population even with its increased birth rate, as the following table suggests:

	Size, square miles	Population, 1958–59	Density, people per square miles
South America	7,100.0	134.0	19
Argentina	1,072.0	21.0	19
Brazil	3,285.0	65.0	20
Chile	286.0	7.3	26
Peru	514.0	10.5	18
Uruguay	72.0	2.7	41
Venezuela	352.0	6.6	19
Colombia	455.0	13.8	57
Ecuador	271.0	4.2	39
Bolivia	424.0	3.3	8
Paraguay	157.0	1.7	10
Mexico	760.0	32.3	41
Guatemala	42.0	3.5	83
El Salvador	8.3	2.5	312
Honduras	43.0	1.9	33
Nicaragua	57.0	1.4	24
Costa Rica	20.0	1.1	53
Panama	28.7	1.0	35
United States	3,676.0	180.0	50
Australia	2,974.0	10.0	3
India	1,266.0	406.0	312
Indonesia	575.0	89.6	156
Africa	12,100.0	230.0	19
France	213.0	45.7	211

3. "Land reform" in an underpopulated society is an entirely different thing from land reform in an overpopulated society such as China, India, Indonesia, or certain areas of Western Europe.

Land reform in an underpopulated society should be concerned with pioneering, homesteading, irrigation, reclamation, transportation, communications, power (rural electrification if possible), real estate taxation, education, local government, and title laws in respect to mineral exploration

It should not be concerned with expropriation and redistributing what little wealth there may be even though it may be heavily concentrated in the hands of a few. It should be concerned with the process involved in creating new wealth. Much of the talk of land reform in Latin America regrettably is directed toward breaking up holdings, without sufficient regard to the possibility that, in some cases, the change would be to turn away from the productivity of more and more successful commercial agriculture into what would tend to become subsistence farming. This is a backward step, not a forward step.

4. A good system of real estate taxation lies at the base of encouraging good land usage and establishing solid local government, both of which are so essential to pioneering and developing new areas. In Latin America there is generally no good or sophisticated system of real estate taxation or of local government. Local government, such as it is, is an appendage of the federal government. Local governments cannot spring forth from the grassroots, as it were, because they do not have the basic power of taxation. Turning over to local communities the power to tax property would permit local communities to spring up and to grow strong.

It is an error, in my judgment, to establish a system of real estate taxation with an eye to land reform. Establishing an efficient system of gaining revenue based upon land values will insure economic land usage. Such a real estate tax is graduated not by rates but rather by market value based upon intrinsic value, location, use, and improvements. It is unnecessary to set up artificial standards to bring about better land usage. The tax for revenue based upon efficiency and fairness automatically brings this about.

I would warn my Latin American friends not to rely on the advice I have heard given out by some of our U.S. authorities on the subject of real estate taxation. Our Federal Government has never had the power to tax real estate and therefore has little experience or knowledge of it. The property tax has been reserved to our local governments. One must go to the U.S. counties and municipalities, not stopping even at the level of State governments, for experience and knowledge. Furthermore, a dangerous cult has developed in the United States in recent years which downgrades the real estate tax as an inefficient and a regressive tax, while any thorough study reveals it is just the opposite. The real estate tax when set up properly is highly efficient and probably the most efficiently progressive tax conceivable.

The political economists in the United States whose thinking is directed toward establishing a stronger Federal Government seek to knock out this basic tax which is the bulwark both of local government, diversified education, and proper land usage. They substitute in its stead a greater reliance on our Federal income tax. Yet many scholars of U.S. taxation feel that the heavy reliance on our Federal income tax is already thwarting sound economic growth and is in no position to assume a greater load.

The tax history of the United States since World War II reveals that it has been the remarkable strength of the real estate tax which has permitted our society to more than double the amounts we have been spending on education and community facilities without going to the Federal Government for assistance.

5. None of the Latin American countries has developed a governmental career civil service. Government employment is essentially based upon spoils politics. Accordingly, it is dangerous to rely upon government as opposed to the private sector to accomplish economic achievements. Military service, on the other hand, is a real career service in most of the Latin American countries and provides what stability there is to their political governments.

6. U.S. companies and others doing business in Latin America by and large have established the base for real career services in the private sector.

7. Communications are very inadequate. Very few of the countries have good postal systems, which reflects among other things the lack of career government service. The relationship between a good postal system and rural living, new land development, and general education is not well understood. In fact, few people in the United States seem to appreciate the reasons that caused our constitutional forefathers to give to the Federal Congress the power to establish post offices and post roads. Until better communications are developed opening up new lands is going to be difficult in South America.

8. Transportation taken over by the government in most instances is very inadequate and its improvement is a key factor in any development program.

9. There is practically no rural electrification or other form of power available in rural areas or areas to be developed.

10. Education is highly developed in a quality way and a top Latin American scholar is the equal of any scholar in the world today, but quantitywise it is undeveloped. Just as local government is an adjunct only of the Federal government, so education is centralized. Without a good real estate tax it is likely to remain so.

11. Technical training, adult education in technical training, on-the-job training, apprenticeship training is almost confined to a few private companies. Trade unions and governmental officials have not concerned themselves very much about this important area.

12. I asked about immigration laws in countries where technical skills and business know-how were in such great need. Little thought has been given to immigration as a source of obtaining skills. The labor unions weren't opposed to immigration; they just had never thought much about it.

13. Housing, health facilities, and other facilities and know-how having to do with worker productivity are apparently thought of only in relation to personal well-being and abstract general welfare. They seem to be isolated from the economic field. As a result government has assumed a dominant role in these areas which has resulted in waste, mismanagement and neglect. They seem to be more related to getting and keeping political power than to improving the economy. There is much the U.S. citizen can learn from this and take heed.

14. I believe that Latin America breaks itself into two, not one, natural common markets and it would be a mistake to endeavor to develop a single common market.

The first common market area is southern Brazil, Uruguay, Argentina, Chile, Peru, and the undeveloped areas within their own political boundaries plus the countries of Paraguay and Bolivia. These economies taken as a whole are fully capable of developing their own undeveloped resources. There is little question that they would advance if the presently sophisticated areas obtained the advantages of the efficiencies of mass production which a common market would give to them.

This area needs "hard investment" capital and it can demand "hard" capital on sound economic basis. It does not need soft loans and, above all, it does not need nor can it stand money channeled through the political governments to the private sectors. The political governments have enough to do in developing sound civil service systems so they can undertake with efficiency the areas of proper government concern which are now so badly neglected, without moving further into the private sector. The political governments need a number of basic reforms to bring about the climate which will enable its people to exercise their pioneering spirit and initiative in developing their own vast resources, not the least of which is governmental fiscal discipline.

The second common market area does not have sophisticated economies such as exist in the Southern Hemisphere common market. Industrialized economies are developing in Mexico, Venezuela, and possibly Columbia, but it is all quite new and quite recent. Essentially the Caribbean common market area consists of small political units producing raw materials and doing little or no processing. A great advantage can ensue to this area from forming a common market somewhat along the line of the purchasing and marketing cooperatives which developed in the U.S. rural areas a few decades ago. It is a banding together to pool marketing power inasmuch as they marketed similar products and to pool purchasing power inasmuch as they were in the market to purchase similar things.

From this base can come a sophisticated economy where the advantages of the efficiencies derived from mass production for a mass market can be realized.

The primary factor which leads me to suggest this duality of common markets is the almost complete lack of trade and association that goes on between the Caribbean and Southern Hemisphere countries. The only thing that even suggests commonality is the common cultural background of the countries involved.

15. A major problem in Latin America is the existence of two basically different races and cultures. There is an Indian civilization and population of considerable size. There is Western European civilization and population of considerable size. There has been some intermingling of races and civilizations and perhaps the future lies in a complete intermingling.

Wherever the future lies, the present presents difficult and serious problems. Lest any North American treat lightly this problem, which seems to be more whispered about than openly discussed, let me relate it to our own experiences. If the Indian population in the United States were 90 million instead of a few million and the Navajo and other Indian reservations occupied half of our territory instead of a portion of just a few of our States we would have a basis for understanding this complex problem as it exists for example in Peru a little better. Certainly the way we have handled our Indian affairs does not leave us in a very good position to hand out sound advice to other societies as to how to handle theirs.

We in the United States have never discussed very much the obvious difference that exists between the programs we followed in respect to Indians with the programs followed in respect to Negroes. The two programs are in almost complete disagreement. The Indian program seems to be directed more to preserving a living historical museum of interesting stone-age cultures than it is to advancing a people and integrating them into our society. The Negro program is hardly ever discussed as a program and perhaps it is so unformalized that the word "program" should not even be used to refer to it. The approach is to pretend that no program exists, or is needed, to solve the problem of how two races with two different cultural backgrounds live together or merge together. It just follows whatever the course of nature and spontaneous social action dictates.

Final Observations

The best way the United States can help our neighbors in Latin America is to understand our own system, its strengths, its successes, its weaknesses and its failures, and through honest discussion bring out the things that seem to be worthy of emulation and the things that should be eschewed.

I believe our genius has best expressed itself in setting up a system which frees up and encourages individual initiative, both in government, mainly through local government, and in private enterprise.

I think a system based upon the development of the individual human being proves itself both in the long run and in the short run superior to a system which assumes that there exists, in the society, a group of men, capable of being reasonably identified, who are sufficiently superior to the others that they can make decisions of what should be done in government and in economics which will prove wiser than the collective decisions of the individuals.

Russia and the Communists adhere to this latter viewpoint. So when it comes to the United States advising Latin American societies how to set up political oligarchies to make the decisions which the people are incapable of making for themselves, I think we had best recognize that Russia (and possibly our Military Establishment) understand this system of human organization the best. They have had experience along these lines.

If this is the decision, let's withdraw and let our betters take over. However, if we do believe that representative government and the private enterprise system is superior, let's start understanding its merits ourselves and then pointing out its virtues and weaknesses as we have found them to be so others can obtain the advantages from them and indeed help us all in further perfecting them.

APPENDIXES

APPENDIX I

TREATY ESTABLISHING A FREE-TRADE AREA AND INSTITUTING THE LATIN AMERICAN FREE-TRADE ASSOCIATION (MONTEVIDEO TREATY) INCLUDING THE RELEVANT PROTOCOLS AND RESOLUTIONS [1]

The Governments represented at the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American countries,

Persuaded that the expansion of present national markets, through the gradual elimination of barriers to intra-regional trade, is a prerequisite if the Latin American countries are to accelerate their economic development process in such a way as to ensure a higher level of living for their peoples,

Aware that economic development should be attained through the maximum utilization of available production factors and the more effective co-ordination of the development programmes of the different production sectors in accordance with norms which take due account of the interests of each and all and which make proper compensation, by means of appropriate measures, for the special situation of countries which are at a relatively less advanced stage of economic development,

Convinced that the strengthening of national economies will contribute to the expansion of trade within Latin America and with the rest of the world,

Sure that, by the adoption of suitable formulas, conditions can be created that will be conducive to the gradual and smooth adaptation of existing productive activities to new patterns of reciprocal trade, and that further incentives will thereby be provided for the improvement and expansion of such trade,

Certain that any action to achieve such ends must take into account the commitments arising out of the international instruments which govern their trade,

Determined to persevere in their efforts to establish, gradually and progressively, a Latin American common market and, hence, to continue collaborating with the Latin American Governments as a whole in the work already initiated for this purpose, and

Motivated by the desire to pool their efforts to achieve the progressive complementarity and integration of their national economies on the basis of an effective reciprocity of benefits, decide to establish a Free-Trade Area and, to that end, to conclude a Treaty instituting the Latin American Free-Trade Association; and have, for this purpose, appointed their plenipotentiaries who have agreed as follows:

CHAPTER I. NAME AND PURPOSE

Article 1

By this Treaty the Contracting Parties establish a Free-Trade Area and institute the Latin American Free-Trade Association (hereinafter referred to as "the Association"), with headquarters in the city of Montevideo (Eastern Republic of Uruguay).

The term "Area", when used in this Treaty, means the combined territories of the Contracting Parties.

CHAPTER II. PROGRAMME FOR TRADE LIBERALIZATION

Article 2

The Free-Trade Area, established under the terms of the present Treaty, shall be brought into full operation within not more than twelve (12) years from the date of the Treaty's entry into force.

[1] Reprinted from the Annual Report of the Economic Commission for Latin America, pp. 32-42, May 24, 1959-Mar. 29, 1960; E/3333. E/CN.12/AC.45/13/Rev. 1.

Article 3

During the period indicated in article 2, the Contracting Parties shall gradually eliminate, in respect of substantially all their reciprocal trade, such duties, charges and restrictions as may be applied to imports of goods originating in the territory of any Contracting Party.

For the purposes of the present Treaty the term "duties and charges" means customs duties and any other charges of equivalent effect—whether fiscal, monetary or exchange—that are levied on imports.

The provisions of the present article do not apply to fees and similar charges in respect of services rendered.

Article 4

The purpose set forth in article 3 shall be achieved through negotiations to be held from time to time among the Contracting Parties with a view to drawing up:

(*a*) National Schedules specifying the annual reductions in duties, charges, and other restrictions which each Contracting Party grants to the other Contracting Parties in accordance with the provisions of article 5; and

(*b*) A Common Schedule listing the products on which the Contracting Parties collectively agree to eliminate duties, charges, and other restrictions completely, so far as intra-Area trade is concerned, within the period mentioned in article 2, by complying with the minimum percentages set out in article 7 and through the gradual reduction provided for in article 5.

Article 5

With a view to the preparation of the National Schedules referred to in article 4, subparagraph (*a*), each Contracting Party shall annually grant to the other Contracting Parties reductions in duties and charges equivalent to not less than eight (8) percent of the weighted average applicable to third countries, until they are eliminated in respect of substantially all of its imports from the Area, in accordance with the definitions, methods of calculation, rules and procedures laid down in the Protocol.

For this purpose, duties and charges for third parties shall be deemed to be those in force on 31 December prior to each negotiation.

When the import regime of a Contracting Party contains restrictions of such a kind that the requisite equivalence with the reductions in duties and charges granted by another Contracting Party or other Contracting Parties is unobtainable, the counterpart of these reductions shall be complemented by means of the elimination or relaxation of those restrictions.

Article 6

The National Schedules shall enter into force on 1 January of each year, except that those deriving from the initial negotiations shall enter into force on the date fixed by the Contracting Parties.

Article 7

The Common Schedule shall consist of products which, in terms of the aggregate value of the trade among the Contracting Parties, shall constitute not less than the following percentages, calculated in accordance with the provisions of the Protocol:

Twenty-five (25) per cent during the first three-year period;
Fifty (50) per cent during the second three-year period;
Seventy-five (75) per cent during the third three-year period;
Substantially all of such trade during the fourth three-year period.

Article 8

The inclusion of products in the Common Schedule shall be final and the concessions granted in respect thereof irrevocable.

Concessions granted in respect of products which appear only in the National Schedules may be withdrawn by negotiation among the Contracting Parties and on a basis of adequate compensation.

Article 9

The percentages referred to in articles 5 and 7 shall be calculated on the basis of the average annual value of trade during the three years preceding the year in which each negotiation is effected.

Article 10

The purpose of the negotiations—based on reciprocity of concessions—referred to in article 4 shall be to expand and diversify trade and to promote the progressive complementarity of the economies of the countries in the Area.

In these negotiations the situation of those Contracting Parties whose levels of duties, charges and restrictions differ substantially from those of the other Contracting Parties shall be considered with due fairness.

Article 11

If, as a result of the concessions granted, significant and persistent disadvantages are created in respect of trade between one Contracting Party and the others as a whole in the products included in the liberalization programme, the Contracting Parties shall, at the request of the Contracting Party affected, consider steps to remedy these disadvantages with a view to the adoption of suitable, non-restrictive measures designed to promote trade at the highest possible levels.

Article 12

If, as a result of circumstances other than those referred to in article 11, significant and persistent disadvantages are created in respect of trade in the products included in the liberalization programme, the Contracting Parties shall, at the request of the Contracting Party concerned, make every effort within their power to remedy these disadvantages.

Article 13

The reciprocity mentioned in article 10 refers to the expected growth in the flow of trade between each Contracting Party and the others as a whole, in the products included in the liberalization programme and those which may subsequently be added.

CHAPTER III. EXPANSION OF TRADE AND ECONOMIC COMPLEMENTARITY

Article 14

In order to ensure the continued expansion and diversification of reciprocal trade, the Contracting Parties shall take steps:

(*a*) To grant one another, while observing the principle of reciprocity, concessions which will ensure that, in the first negotiation, treatment not less favourable than that which existed before the date of entry into force of the present Treaty is accorded to imports from within the Area;

(*b*) To include in the National Schedules the largest possible number of products in which trade is carried on among the Contracting Parties; and

(*c*) To add to these Schedules an increasing number of products which are not yet included in reciprocal trade.

Article 15

In order to ensure fair competitive conditions among the Contracting Parties and to facilitate the increasing integration and complementarity of their economies, particularly with regard to industrial production, the Contracting Parties shall make every effort—in keeping with the liberalization objectives of the present Treaty—to reconcile their import and export régimes, as well as the treatment they accord to capital, goods and services from outside the Area.

Article 16

With a view to expediting the process of integration and complementarity referred to in article 15, the Contracting Parties:

(*a*) Shall endeavour to promote progressively closer co-ordination of the corresponding industrialization policies, and shall sponsor for this purpose agreements among representatives of the economic sectors concerned; and

(*b*) May negotiate mutual agreements on complementarity by industrial sectors.

Article 17

The complementarity agreements referred to in article 16, subparagraph (*b*), shall set forth the liberalization programme to be applied to products of the sector concerned and may contain, *inter alia*, clauses designed to reconcile the treatment accorded to raw materials and other components used in the manufacture of these products.

Any Contracting Party concerned with the complementarity programmes shall be free to participate in the negotiation of these agreements.

The results of these negotiations shall, in every case, be embodied in protocols which shall enter into force after the Contracting Parties have decided that they are consistent with the general principles and purposes of the present Treaty.

CHAPTER IV. MOST-FAVOURED-NATION TREATMENT

Article 18

Any advantage, benefit, franchise, immunity or privilege applied by a Contracting Party in respect of a product originating in or intended for consignment to any other country shall be immediately and unconditionally extended to the similar product originating in or intended for consignment to the territory of the other Contracting Parties.

Article 19

The most-favoured-nation treatment referred to in article 18 shall not be applicable to the advantages, benefits, franchises, immunities and privileges already granted or which may be granted by virtue of agreements among Contracting Parties or between Contracting Parties and third countries with a view to facilitating border trade.

Article 20

Capital originating in the Area shall enjoy, in the territory of each Contracting Party, treatment not less favourable than that granted to capital originating in any other country.

CHAPTER V. TREATMENT IN RESPECT OF INTERNAL TAXATION

Article 21

With respect to taxes, rates, and other internal duties and charges, products originating in the territory of a Contracting Party shall enjoy, in the territory of another Contracting Party, treatment no less favourable than that accorded to similar national products.

Article 22

Each Contracting Party shall endeavour to ensure that the charges or other domestic measures applied to products included in the liberalization programme which are not produced, or are produced only in small quantities, in its territory, do not nullify or reduce any concession or advantage obtained by any Contracting Party during the negotiations.

If a Contracting Party considers itself injured by virtue of the measures mentioned in the previous paragraph, it may appeal to the competent organs of the Association with a view to having the matter examined and appropriate recommendations made.

CHAPTER VI. SAVING CLAUSES

Article 23

The Contracting Parties may, as a provisional measure and providing that the customary level of consumption in the importer country is not thereby lowered, authorize a Contracting Party to impose nondiscriminatory restrictions upon imports of products included in the liberalization programme which originate in the Area, if these products are imported in such quantities or under such conditions that they have, or are liable to have, serious repercussions on specific productive activities of vital importance to the national economy.

Article 24

The Contracting Parties may likewise authorize a Contracting Party which has adopted measures to correct its unfavourable overall balance of payments to extend these measures, provisionally and without discrimination, to intra-Area trade in the products included in the liberalization programme.

The Contracting Parties shall endeavour to ensure that the imposition of restrictions deriving from the balance-of-payments situation does not affect trade, within the Area, in the products included in the liberalization programme.

Article 25

If the situations referred to in articles 23 and 24 call for immediate action, the Contracting Party concerned may, as an emergency arrangement to be referred to the Contracting Parties, apply the measures provided for in the said articles. The measures adopted must immediately be communicated to the Committee mentioned in article 33, which, if it deems necessary, shall convene a special session of the Conference.

Article 26

Should the measures envisaged in this capter be prolonged for more than one year, the Committee shall propose to the Conference, referred to in article 33, either *ex officio* or at the request of any of the Contracting Parties, the immediate initiation of negotiations with a view to eliminating the restrictions adopted.

The present article does not affect the provisions of article 8.

CHAPTER. VII. SPECIAL PROVISIONS CONCERNING AGRICULTURE

Article 27

The Contracting Parties shall seek to co-ordinate their agricultural development and agricultural commodity trade policies, with a view to securing the most efficient utilization of their natural resources, raising the standard of living of the rural population, and guaranteeing normal supplies to consumers, without disorganizing the regular productive activities of each Contracting Party.

Article 28

Providing that no lowering of its customary consumption or increase in anti-economic production is involved, a Contracting Party may apply, within the period mentioned in article 2, and in respect of trade in agricultural commodities of substantial importance to its economy that are included in the liberalization programme, appropriate non-discriminatory measures designed to:

(*a*) Limit imports to the amount required to meet the deficit in internal production; and

(*b*) Equalize the prices of the imported and domestic product.

The Contracting Party which decides to apply these measures shall inform the other Contracting Parties before it puts them into effect.

Article 29

During the period prescribed in article 2 an attempt shall be made to expand intra-Area trade in agricultural commodities by such means as agreements among the Contracting Parties designed to cover deficits in domestic production.

For this purpose, the Contracting Parties shall give priority, under normal competitive conditions, to products originating in the territories of the other Contracting Parties, due consideration being given to the traditional flows of intra-Area trade.

Should such agreements be concluded among two or more Contracting Parties, the other Contracting Parties shall be notified before the agreements enter into force.

Article 30

The measures provided for in this chapter shall not be applied for the purpose of incorporating, in the production of agricultural commodities, resources which imply a reduction in the average level of productivity existing on the date on which the present Treaty enters into force.

Article 31

If a Contracting Party considers itself injured by a reduction of its exports attributable to the lowering of the usual consumption level of the importer country as a result of measures referred to in article 28 and/or an anti-economic increase in the production referred to in the previous article, it may appeal to the competent organs of the Association to study the situation and, if necessary, to make recommendations for the adoption of appropriate measures to be applied in accordance with article 12.

CHAPTER VIII. MEASURES IN FAVOUR OF COUNTRIES AT A RELATIVELY LESS ADVANCED STAGE OF ECONOMIC DEVELOPMENT

Article 32

The Contracting Parties, recognizing that fullfillment of the purposes of the present Treaty will be facilitated by the economic growth of the countries in the Area that are at a relatively less advanced stage of economic development, shall take steps to create conditions conducive to such growth.

To this end, the Contracting Parties may:

(*a*) Authorize a Contracting Party to grant to another Contracting Party which is at a relatively less advanced stage of economic development within the Area, as long as necessary and as a temporary measure, for the purposes set out in the present article, advantages not extended to the other Contracting Parties, in order to encourage the introduction or expansion of specific productive activities;

(*b*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to implement the programme for the reduction of duties, charges and other restrictions under more favourable conditions, specially agreed upon;

(*c*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to adopt appropriate measures to correct an unfavourable balance of payments, if the case arises;

(*d*) Authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to apply, if necessary and as a temporary measure, and providing that this does not entail a decrease in its customary consumption, appropriate nondiscriminatory measures designed to protect the domestic output of products included in the liberalization programme which are of vital importance to its economic development.

(*e*) Make collective arrangements in favour of a Contracting Party at a relatively less advanced stage of economic development within the Area with respect to the support and promotion, both inside and outside the Area, of financial or technical measures designed to bring about the expansion of existing productive activities or to encourage new activities, particularly those intended for the industrialization of its raw materials; and

(*f*) Promote or support, as the case may be, special technical assistance programmes for one or more Contracting Parties, intended to raise, in countries at a relatively less advanced stage of economic development within the Area, productivity levels in specific production sectors.

CHAPTER IX. ORGANS OF THE ASSOCIATION

Article 33

The organs of the Association are the Conference of the Contracting Parties (referred to in this Treaty as "the Conference") and the Standing Executive Committee (referred to in this Treaty as "the Committee").

Article 34

The Conference is the supreme organ of the Association. It shall adopt all decisions in matters requiring joint action on the part of the Contracting Parties, and it shall be empowered, *inter alia*:

(*a*) To take the necessary steps to carry out the present Treaty and to study the results of its implementation;

(*b*) To promote the negotiations provided for in article 4 and to assess the results thereof;

(*c*) To approve the Committee's annual budget and to fix the contributions of each Contracting Party;

(*d*) To lay down its own rules of procedure and to approve the Committee's rules of procedure;

(*e*) To elect a Chairman and two Vice-Chairmen for each session;

(*f*) To appoint the Executive Secretary of the Committee; and

(*g*) To deal with other business of common interest.

Article 35

The Conference shall be composed of duly accredited representatives of the Contracting Parties. Each delegation shall have one vote.

Article 36

The Conference shall hold: (*a*) a regular session once a year; and (*b*) special sessions when convened by the Committee.

At each session the Conference shall decide the place and date of the following regular session.

Article 37

The Conference may not take decisions unless at least two-thirds (⅔) of the Contracting Parties are present.

Article 38

During the first two years in which the present Treaty is in force, decisions of the Conference shall be adopted when affirmative votes are cast by at least two-thirds (⅔) of the Contracting Parties and providing that no negative vote is cast.

The Contracting Parties shall likewise determine the voting system to be adopted after this two-year period.

The affirmative vote of two-thirds (⅔) of the Contracting Parties shall be required:

(*a*) To approve the Committee's annual budget;

(*b*) To elect the Chairman and Vice-Chairmen of the Conference, as well as the Executive Secretary; and

(*c*) To fix the time and place of the sessions of the Conference.

Article 39

The Committee is the permanent organ of the Association responsible for supervising the implementation of the provisions of the present Treaty. Its duties and responsibilities shall be, *inter alia*:

(*a*) To convene the Conference;

(*b*) To submit for the approval of the Conference an annual work programme and the Committee's annual budget estimates;

(*c*) To represent the Association in dealings with third countries and international organs and entities for the purpose of considering matters of common interest. It shall also represent the Association in contracts and other instruments of public and private law;

(*d*) To undertake studies, to suggest measures and to submit to the Conference such recommendations as it deems appropriate for the effective implementation of the Treaty;

(*e*) To submit to the Conference at its regular sessions an annual report on its activities and on the results of the implementation of the present Treaty;

(*f*) To request the technical advice and the cooperation of individuals and of national and international organizations;

(*g*) To take such decisions as may be delegated to it by the Conference; and

(*h*) To undertake the work assigned to it by the Conference.

Article 40

The Committee shall consist of a Permanent Representative of each Contracting Party, who shall have a single vote.

Each Representative shall have an Alternate.

Article 41

The Committee shall have a secretariat headed by an Executive Secretary and comprising technical and administrative personnel.

The Executive Secretary, elected by the Conference for a three-year term and re-eligible for similar periods, shall attend the plenary meetings of the Committee without the right to vote.

The Executive Secretary shall be the General Secretary of the Conference His duties shall be, *inter alia*:

(*a*) To organize the work of the Conference and of the Committee;

(*b*) To prepare the Committee's annual budget estimates; and

(*c*) To recruit and engage the technical and administrative staff in accordance with the Committee's rules of procedure.

Article 42

In the performance of their duties, the Executive Secretary and the secretariat staff shall not seek or receive instructions from any Government or from any other national or international entity. They shall refrain from any action which might reflect on their position as international civil servants.

The Contracting Parties undertake to respect the international character of the responsibilities of the Executive Secretary and of the secretariat staff and shall refrain from influencing them in any way in the discharge of their responsibilities.

Article 43

In order to facilitate the study of specific problems, the Committee may set up Advisory Commissions composed of representatives of the various sectors of economic activity of each of the Contracting Parties.

Article 44

The Committee shall request, for the organs of the Association, the technical advice of the secretariat of the United Nations Economic Commission for Latin America (ECLA) and of the Inter-American Economic and Social Council (IA-ECOSOC) of the Organization of American States.

Article 45

The Committee shall be constituted sixty days from the entry into force of the present Treaty and shall have its headquarters in the city of Montevideo.

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CHAPTER X. JURIDICAL PERSONALITY—IMMUNITIES AND PRIVILEGES

Article 46

The Latin American Free-Trade Association shall possess complete juridical personality and shall, in particular, have the power:

(*a*) To contract;

(*b*) To acquire and dispose of the movable and immovable property it needs for the achievement of its objectives;

(*c*) To institute legal proceedings; and

(*d*) To hold funds in any currency and to transfer them as necessary.

Article 47

The representatives of the Contracting Parties and the international staff and advisers of the Association shall enjoy in the Area such diplomatic and other immunities and privileges as are necessary for the exercise of their functions.

The Contracting Parties undertake to conclude, as soon as possible, an Agreement regulating the provisions of the previous paragraph in which the aforesaid privileges and immunities shall be defined

The Association shall conclude with the Government of the Eastern Republic of Uruguay an Agreement for the purpose of specifying the privileges and immunities which the Association, its organs and its international staff and advisers shall enjoy.

CHAPTER XI. MISCELLANEOUS PROVISIONS

Article 48

No change introduced by a Contracting Party in its regime of import duties and charges shall imply a level of duties and charges less favourable than that in force before the change for any commodity in respect of which concessions are granted to the other Contracting Parties.

The requirement set out in the previous paragraph shall not apply to the conversion to present worth of the official base value (*aforo*) in respect of customs duties and charges, providing that such conversion corresponds exclusively to the real value of the goods. In such cases, the value shall not include the customs duties and charges levied on the goods.

Article 49

In order to facilitate the implementation of the provisions of the present Treaty, the Contracting Parties shall, as soon as possible:

(*a*) Determine the criteria to be adopted for the purpose of establishing the origin of goods and for classifying them as raw materials, semi-manufactured goods or finished products;

(*b*) Simplify and standardize procedures and formalities relating to reciprocal trade;

(*c*) Prepare a tariff nomenclature to serve as a common basis for the presentation of statistics and for carrying out the negotiations provided for in the present Treaty;

(*d*) Determine what shall be deemed to constitute border trade within the meaning of article 19;

(*e*) Determine the criteria for the purpose of defining "dumping" and other unfair trade practices and the procedures relating thereto.

Article 50

The products imported from the Area by a Contracting Party may not be re-exported save by agreement between the Contracting Parties concerned.

A product shall not be deemed to be a re-export if it has been subjected in the importer country to industrial processing or manufacture, the degree of which shall be determined by the Committee.

Article 51

Products imported or exported by a Contracting Party shall enjoy freedom of transit within the Area and shall only be subject to the payment of the normal rates for services rendered.

Article 52

No Contracting Party shall promote its exports by means of subsidies or other measures likely to disrupt normal competitive conditions in the Area.

An export shall not be deemed to have been subsidized if it is exempted from duties and charges levied on the product or its components when destined for internal consumption, or if it is subject to drawback.

Article 53

No provision of the present Treaty shall be so construed as to constitute an impediment to the adoption and execution of measures relating to:

(*a*) The protection of public morality;

(*b*) The application of security laws and regulations;

(*c*) The control of imports or exports of arms, ammunition, and other war equipment and, in exceptional circumstances, of all other military items, insofar as this is compatible with the terms of article 51 and of the treaties on the unrestricted freedom of transit in force among the Contracting Parties;

(*d*) The protection of human, animal, and plant life and health;

(*e*) Imports and exports of gold and silver bullion;

(*f*) The protection of the nation's heritage of artistic, historical, and archaeological value; and

(*g*) The export, use, and consumption of nuclear materials, radioactive products or any other material that may be used in the development or exploitation of nuclear energy.

Article 54

The Contracting Parties shall make every effort to direct their policies with a view to creating conditions favourable to the establishment of a Latin American common market. To that end, the Committee shall undertake studies and consider projects and plans designed to achieve this purpose, and shall endeavour to co-ordinate its work with that of other international organizations.

CHAPTER XII. FINAL PROVISIONS

Article 55

The present Treaty may not be signed with reservations nor shall reservations be admitted at the time of ratification or accession.

Article 56

The present Treaty shall be ratified by the signatory States at the earliest opportunity.

The instruments of ratification shall be deposited with the Government of the Eastern Republic of Uruguay, which shall communicate the date of deposit to the Governments of the signatory and successively acceding States.

Article 57

The present Treay shall enter into force for the first three ratifying States thirty days after the third instrument of ratification has been deposited; and, for the other signatories, thirty days after the respective instrument of ratification has been deposited, and in the order in which the ratifications are deposited.

The Government of the Eastern Republic of Uruguay shall communicate the date of the entry into force of the present Treaty to the Government of each of the signatory States.

Article 58

Following its entry into force, the present Treaty shall remain open to accession by the other Latin American States, which for this purpose shall deposit the relevant instrument of accession with the Government of the Eastern Republic of Uruguay. The Treaty shall enter into force for the acceding State thirty days after then deposit of the corresponding instrument.

Acceding States shall enter into the negotiations referred to in article 4 at the session of the Conference immediately following the date of deposit of the instrument of accession.

Article 59

Each Contracting Party shall begin to benefit from the concessions already granted to one another bv the other Contracting Parties as from the date of entry into force of the reductions in duties and charges and other restrictions negotiated by them on a basis of reciprocity, and after the minimum obligations referred to in article 5, accumulated during the period which has elapsed since the entry into force of the present Treaty, have been carried out.

Article 60

The Contracting Parties may present amendments to the present Treaty, which shall be set out in protocols that shall enter into force upon their ratification by all the Contracting Parties and after the corresponding instruments have been deposited.

Article 61

On the expiry of the twelve-year term starting on the date of entry into force of the present Treaty, the Contracting Parties shall proceed to study the results of the Treaty's implementation and shall initiate the necessary collective negotiations with a view to fulfilling more effectively the purposes of the Treaty and, if desirable, to adapting it to a new stage of economic integration.

Article 62

The provisions of the present Treaty shall not affect the rights and obligations deriving from agreements signed by any of the Contracting Parties prior to the entry into force of the present Treaty.

However, each Contracting Party shall take the necessary steps to reconcile the provisions of existing agreements with the purposes of the present Treaty.

Article 63

The present Treaty shall be of unlimited duration.

Article 64

A Contracting Party wishing to withdraw from the present Treaty shall inform the other Contracting Parties of its intention at a regular session of the Conference, and shall formally submit the instrument of denunciation at the following regular session.

When the formalities of denunciation have been completed, those rights and obligations of the denouncing Government which derive from its status as a Contracting Party shall cease automatically, with the exception of those relating to reductions in duties and charges and other restrictions, received or granted under the liberalization programme, which shall remain in force for a period of five years from the date on which the denunciation becomes formally effective.

The period specified in the preceding paragraph may be shortened if there is sufficient justification, with the consent of the Conference and at the request of the Contracting Party concerned.

Article 65

The present Treaty shall be called the Montevideo Treaty.

IN WITNESS WHEREOF the undersigned Plenipotentiaries, having deposited their full powers, found in good and due form, have signed the present Treaty on behalf of their respective Governments.

DONE in the City of Montevideo, on the eighteenth day of the month of February in the year One Thousand Nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic. The Government of the Eastern Republic of Uruguay shall be the depositary of the present Treaty and shall transmit duly certified copies thereof to the Governments of the other signatory and acceding States.

For the Government of the Argentine Republic:
Diógenes Taboada

For the Government of the United States of Brazil:
Horacio Lafer

For the Government of the Republic of Chile:
Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:
Manuel Tello

For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:
Horacio Martinez Montero
Mateo Magarinos de Mello

PROTOCOL NO. 1. ON NORMS AND PROCEDURES FOR NEGOTIATIONS

On the occasion of the signing of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree upon the following Protocol:

Title I. Calculation of weighted averages

1. For the purposes of article 5 of the Montevideo Treaty, it shall be understood that, as a result of the negotiations for the establishment of the National Schedules, the difference between the weighted average of duties and charges in force for third countries and that which shall be applicable to imports from within the area shall be not less than the product of eight per cent (8%) of the weighted average of duties and charges in force for third countries multiplied by the number of years that have elapsed since the Treaty became effective.

2. The reduction mechanism shall therefore be based on two weighted averages: one corresponding to the average of the duties and charges in force for third countries; and the other to the average of the duties and charges which shall be applicable to imports from within the Area.

3. In order to calculate each of these weighted averages, the total amount that would be represented by the duties and charges on aggregate imports of the goods under consideration shall be divided by the total value of these imports.

4. This calculation will give a percentage (or *ad valorem* figure) for each weighted average. It is the difference between the two averages that shall be not less than the product of the factor 0.08 (or eight per cent) multiplied by the number of years elapsed.

5. The foregoing formula is expressed as follows:

$$t \leq T\ (1-0.08n)$$

in which t=weighted average of the duties and charges that shall be applicable to imports from within the area; T=weighted average of duties and charges in force for third countries; n=number of years since the Treaty entered into force.

6. In calculating the weighted averages for each of the Contracting Parties, the following shall be taken into account:

(*a*) Products originating in the territory of the other Contracting Parties and imported from the Area during the preceding three-year period and further products included in the National Schedule concerned as a result of negotiations;

(*b*) The total value of imports, irrespective of origin, of each of the products referred to in sub-paragraph (*a*), during the three-year period preceding each negotiation; and

(*c*) The duties and charges on imports from third countries in force as on 31 December prior to the negotiations, and the duties and charges applicable to imports from within the Area entering into force on 1 January following the negotiations.

7. The Contracting Parties shall be entitled to exclude products of little value from the group referred to in sub-paragraph (*a*), provided that their aggregate value does not exceed five percent (5%) of the value of imports from within the Area.

Title II. Exchange of information

8. The Contracting Parties shall provide one another, through the Standing Executive Committee, with information as complete as possible on:

(*a*) National statistics in respect of total imports and exports (value in dollars and volume, by countries both of origin and of destination), production and consumption;

(*b*) Customs legislation and regulations;

(*c*) Exchange, monetary, fiscal and administrative legislation, regulations and practices bearing on exports and imports;

(*d*) International trade treaties and agreements whose provisions relate to the Treaty;

(*e*) Systems of direct or indirect subsidies on production or exports including minimum price systems; and

(*f*) State trading systems.

9. So far as possible, these data shall be permanently available to the Contracting Parties. They shall be specially brought up to date sufficiently in advance of the opening of the annual negotiations.

Title III. Negotiation of national schedules

10. Before 30 June of each year, the Contracting Parties shall make available to one another, through the Standing Executive Committee, the list of products in respect of which they are applying for concessions and, before 15 August of each year (with the exception of the first year, when the corresponding final date shall be 1 October), the preliminary list of items in favour of which they are prepared to grant concessions.

11. On 1 September of each year (with the exception of the first year, when the corresponding date shall be 1 November), the Contracting Parties shall initiate the negotiation of the concessions to be accorded by each to the others as a whole. The concessions shall be assessed multilaterally, although this shall not preclude the conduct of negotiations by pairs or groups of countries, in accordance with the interest attaching to specific products.

12. Upon the conclusion of this phase of the negotiations, the Standing Executive Committee shall make the calculations referred to in title I of this Protocol and shall inform each Contracting Party, at the earliest possible opportunity, of the percentage whereby its individual concessions reduce the weighted average of the duties and charges in force for imports from within the Area, in relation to the weighted average of duties and charges applicable in the case of third countries.

13. When the concessions negotiated fall short of the corresponding minimum commitment, the negotiations among the Contracting Parties shall be continued, so that the list of reductions of duties and charges and other restrictions to enter into force as from the following 1 January may be simultaneously published by each of the Contracting Parties not later than 1 November of each year.

Title IV. Negotiation of the Common Schedule

14. During each three-year period and not later than on 31 May of the third, sixth, ninth and twelfth years from the time of the Treaty's entry into force, the Standing Executive Committee shall supply the Contracting Parties with statistical data on the value and volume of the products traded in the Area during the preceding three-year period, indicating the proportion of aggregate trade which each individually represented.

15. Before 30 June of the third, sixth and ninth years from the time of the Treaty's entry into force, the Contracting Parties shall exchange the lists of products whose inclusion in the Common Schedule they wish to negotiate.

16. The Contracting Parties shall conduct multilateral negotiation to establish, before 30 November of the third, sixth, ninth and twelfth years, a Common Schedule comprising goods whose value meets the minimum commitments referred to in article 7 of the Treaty.

Title V. Special and temporary provisions

17. In the negotiations to which this Protocol refers, consideration shall be given to thoses cases in which varying levels of duties and charges on certain products create conditions such that producers in the Area are not competing on equitable terms.

18. To this end, steps shall be taken to ensure prior equalization of tariffs or to secure by any other suitable procedure the highest possible degree of effective reciprocity.

IN WITNESS WHEREOF the respective representatives have signed the Protocol.

DONE in the City of Montevideo, this eighteenth day of the month of February in the year One Thousand nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:
Diógenes Taboada

For the Government of the Republic of the United States of Brazil:
Horacio Lafer

For the Government of the Republic of Chile:
Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:
Manuel Tello

For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Pepublic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

PROTOCOL NO. 2. ON THE ESTABLISHMENT OF A PROVISIONAL COMMITTEE

On the occasion of the signing of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, taking into consideration the need to adopt and co-ordinate measures to facilitate the entry into force of the Treaty, hereby agree as follows:

1. A Provisional Committee shall be set up, composed of one representative of each signatory State. Each representative shall have an alternate.

At its first meeting the Provisional Committee shall elect from among its members one Chairman and two Vice-Chairmen.

2. The terms of reference of the Provisional Committee shall be as follows:

(*a*) To draw up its rules of procedure;

(*b*) To prepare, within sixty days from the date of its inauguration, its work programme, and to establish its budget of expenditure and the contributions to be made by each country;

(*c*) To adopt the measures and prepare the documents necessary for the presentation of the Treaty to the Contracting Parties of the General Agreement on Tariffs and Trade (GATT);

(*d*) To convene and prepare for the first Conference of Contracting Parties;

(*e*) To assemble and prepare the data and statistics required for the first series of negotiations connected with the implementation of the liberalization programme provided for in the Treaty;

(*f*) To carry out or promote studies and research, and to adopt whatsoever measures may be necessary in the common interest during its period of office; and

(*g*) To prepare a preliminary draft agreement on the privileges and immunities referred to in article 47 of the Treaty.

3. In technical matters, the Provisional Committee shall be assisted in an advisory capacity by the United Nations Economic Commission for Latin America (ECLA) and the Inter-American Economic and Social Council (IA–ECOSOC), of the Organization of American States, in accordance with the relevant Protocol.

4. The Provisional Committee shall appoint an Administrative Secretary and other requisite staff.

5. The Provisional Committee shall be inaugurated on 1 April 1960, and its quorum shall be constituted by not less than four members. Up to that date, the Officers of the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries shall continue to discharge their functions, for the sole purpose of establishing the Provisional Committee.

6. The Provisional Committee shall remain in office until the Standing Executive Committee, provided for in article 33 of the Treaty, has been set up.

7. The Provisional Committee shall have its headquarters in the City of Montevideo.

8. The Officers of the above-mentioned Conference are recommended to request the Government of the Eastern Republic of Uruguay to advance the necessary sums to cover the payment of staff salaries and the installation and operational expenses of the Provisional Committee during the first ninety days. These sums shall be subsequently reimbursed by the States signatories of the present Treaty.

9. The Provisional Committee shall approach the signatory Governments with a view to obtaining for the members of its constituent delegations, as well as for its international staff and advisers, such immunities and privileges as may be needful for the performance of their duties.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE in the City of Montevideo, this eighteenth day of the month of February in the year One Thousand Nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic. The Government of the Eastern Republic of Uruguay shall act as the depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:
Diógenes Taboada
For the Government of the Republic of the United States of Brazil:
Horacio Lafer
For the Government of the Republic of Chile:
Germán Vergara Donoso
For the Government of the Republic of the United Mexican States:
Manuel Tello
For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro
For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu
For the Government of the Eastern Republic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

PROTOCOL NO. 3. ON THE COLLABORATION OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA (ECLA) AND OF THE INTER-AMERICAN ECONOMIC AND SOCIAL COUNCIL (IA-ECOSOC) OF THE ORGANIZATION OF AMERICAN STATES

On the occasion of the signing of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree as follows:

1. With reference to the provisions of article 44 of the Treaty and in view of the fact that the secretariats of ECLA and of IA-ECOSOC have agreed to assist the organs of the Latin American Free-Trade Association with advice on technical matters, a representative of each of the secretariats in question shall attend the meetings of the Standing Executive Committee of the above-mentioned Association when the business to be discussed is, in the Committee's opinion, of a technical nature.

2. The appointment of the representatives referred to shall be subject to the prior approval of the members of the said Committee.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, this eighteenth day of the month of February in the year One Thousand Nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authenic. The Government of the Eastern Republic of Uruguay shall act as the depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:
Diógenes Taboada
For the Government of the Republic of the United States of Brazil:
Horacio Lafer
For the Government of the Republic of Chile:
Germán Vergara Donoso
For the Government of the Republic of the United Mexican States:
Manuel Tello
For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro
For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu
For the Government of the Eastern Republic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

PROTOCOL NO. 4. ON COMMITMENTS TO PURCHASE OR SELL PETROLEUM AND PETROLEUM DERIVATIVES

On the occasion of the signing of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree:

To declare that the provisions of the Montevideo Treaty, signed on 18 February 1960, are not applicable to commitments to purchase or sell petroleum and petroleum derivatives, resulting from agreements concluded by the signatories of the present Protocol prior to the date of signature of the above-mentioned Treaty.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE at the City of Montevideo, this eighteenth day of the month of February in the year One Thousand Nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equallv authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:
Diógenes Taboada
For the Government of the Republic of the United States of Brazil:
Horacio Lafer
For the Government of the Republic of Chile:
Germán Vergara Donoso
For the Government of the Republic of the United Mexican States:
Manuel Tello
For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro
For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu
For the Government of the Eastern Republic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

PROTOCOL NO. 5. ON SPECIAL TREATMENT IN FAVOUR OF BOLIVIA AND PARAGUAY

On the occasion of the signing of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Montevideo Treaty), the signatories, thereunto duly authorized by their Governments, hereby agree:

To declare that Bolivia and Paraguay are at present in a position to invoke in their favour the provisions in the Treaty concerning special treatment for countries at a relatively less advanced stage of economic development within the Free-Trade Area.

IN WITNESS WHEREOF the respective representatives have signed the present Protocol.

DONE in the City of Montevideo, this eighteenth day of the month of February in the year One Thousand Nine Hundred and Sixty, in one original in the Spanish and one in the Portuguese language, both texts being equally authentic.

The Government of the Eastern Republic of Uruguay shall act as depositary of the present Protocol and shall send certified true copies thereof to the Governments of the other signatory and acceding countries.

For the Government of the Argentine Republic:
Diógenes Taboada
For the Government of the Republic of the United States of Brazil:
Horacio Lafer
For the Government of the Republic of Chile:
Germán Vergara Donoso
For the Government of the Republic of the United Mexican States:
Manuel Tello
For the Government of the Republic ofParaguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro
For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu
For the Government of the Eastern Republic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

RESOLUTION I. MEETINGS OF GOVERNMENTAL REPRESENTATIVES OF CENTRAL BANKS

The Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries,

In view of the report submitted to the Conference by the Meeting of Governmental Representatives of Central Banks, held at Montevideo in January 1960,

Considering the desirability of continuing the studies on payments and credits to facilitate the financing of intra-Area transactions and therefore the fulfilment of the purposes of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association,

Decides:

1. To take note of the above-mentioned report;
2. To request the Provisional Committee to convene informal meetings of governmental experts from the central banks of Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, which shall be organized by the secretariat of the United Nations Economic Commission for Latin America (ECLA);
3. To establish that the object of these meetings shall be the continuance of the studies on credits and payments to facilitate the financing of intra-Area transactions and therefore the fulfilment of the purposes of the aforesaid Treaty;
4. To request the Economic Commission for Latin America (ECLA), the Inter-American Economic and Social Council (IAECOSOC) of the Organization of American States and the International Monetary Fund for their advice and technical assistance;
5. To extend the invitation to experts from the central banks of such countries as many have acceded to the said Treaty.

Montevideo, 18 February 1960

For the Government of the Argentine Republic:
Diógenes Taboada

For the Government of the Republic of the United States of Brazil:
Horacio Lafer

For the Government of the Republic of Chile:
Germán Vergara Donoso

For the Government of the Republic of the United Mexican States:
Manuel Tello

For the Government of the Republic of Paraguay:
Raúl Sapena Pastor
Pedro Ramón Chamorro

For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu

For the Government of the Eastern Republic of Uruguay:
Horacio Martínez Montero
Mateo Magariños de Mello

RESOLUTION II. MORATORIUM GRANTED TO BOLIVIA FOR SIGNATURE OF THE TREATY

The Inter-Government Conference for the Establishment of a Free-Trade Area among Latin American Countries,

Considering the generous spirit of co-operation displayed by Bolivia in its participation in the negotiations for the conclusion of the Treaty establishing a Free-Trade Area and instituting the Latin American Free-Trade Association (Treaty of Montevideo);

Mindful of the motives adduced by the delegation of Bolivia to explain why, for reasons of *force majeure,* it is unable to sign the above-mentioned Treaty on the present occasion,

Decides to grant the Government of Bolivia a moratorium of four (4) months during which it will be free to accede to the aforesaid Treaty as a signatory State.

Montevideo, 18 February 1960

For the Government of the Argentine Republic:
Diógenes Taboada
For the Government of the Republic of the United States of Brazil:
Horacio Lafer
For the Government of the Republic of Chile:
Germán Vergara Donoso
For the Government of the Republic of the United Mexican States:
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For the Government of Peru:
Hernán Bellido
Gonzalo L. de Aramburu
For the Government of the Eastern Republic of Uruguay:
Horacio Martinez Montero
Mateo Magariños de Mello

ANNEX III

List of the principal documents issued by the Commission since its 8th session (May 1959)

Symbol	Title	Languages[1]
	A. SECRETARIAT	
E/CN.12/429/Add.1-3/Rev.1	*El desarrollo económico de la Argentina. Parte 2: Los sectores de la producción* (*A. Argicultura—B. Industria—C. Energía y petróleo—D. Transporte*) (United Nations publication, Sales No.: 59.II.G.3, Vols. II and III)	S
E/CN.12/498/Rev.1	*Economic Survey of Latin America, 1958* (United Nations publication, Sales No.: 59.II.G.1)	E S
E/3246/Rev.2-E/CN.12/530/Rev.2	Annual Report (9 April 1958-23 May 1959)	E F S
E/CN.12/531	The Latin American common market [2]	E S
E/CN.12/532	Las perspectivas de la producción y de la demanda de productos siderúrgicos laminados en América Latina	S
E/CN.12/533	Informe del Comité de Coopéración Económica del Istmo Centroamericano [3]	S
E/CN.12/534	Estudio del papel y de la celulosa en el Ecuador	S
E/CN.12/535	La industria mexicana de papel y celulosa: situación actual y tendencias futuras	S
E/CN.12/536	La industria del papel y celulosa en Venezuela	S
E/CN.12/537	La industria peruana del papel y la celulosa: situación actual y tendencias futuras	S
E/CN.12/538	*Workshop on Budgetary Classification and Management in South America* [4]	E S
E/CN.12/539	Report to the Surinam Government on the prospects of the pulp and paper industry in Surinam	E
	Economic Bulletin for Latin America, Vol. IV, No. 2 (Santiago, Chile, October 1959)	E S

[1] The letters E, F, and S indicate English, French and Spanish, respectively.
[2] See section D of this annex.
[3] See section C of this annex.
[4] See section E of this annex.

APPENDIX II

ACT OF BOGOTÁ

MEASURES FOR SOCIAL IMPROVEMENT AND ECONOMIC DEVELOPMENT WITHIN THE FRAMEWORK OF OPERATION PAN AMERICA

The Special Committee to Study the Formulation of New Measures for Economic Cooperation,

Recognizing that the preservation and strengthening of free and democratic institutions in the American republics requires the acceleration of social and economic progress in Latin America adequate to meet the legitimate aspirations of the peoples of the Americas for a better life and to provide them the fullest opportunity to improve their status;

Recognizing that the interests of the American republics are so interrelated that sound social and economic progress in each is of importance to all and that lack of it in any American republic may have serious repercussions in others;

Cognizant of the steps already taken by many American republics to cope with the serious economic and social problems confronting them, but convinced that the magnitude of these problems calls for redoubled efforts by governments and for a new and vigorous program of inter-American cooperation;

Recognizing that economic development programs, which should be urgently strengthened and expanded, may have a delayed effect on social welfare, and that accordingly early measures are needed to cope with social needs;

Recognizing that the success of a cooperative program of economic and social progress will require maximum self-help efforts on the part of the American republics and, in many cases, the improvement of existing institutions and practices, particularly in the fields of taxation, the ownership and use of land, education and training, health and housing;

Believing it opportune to give further practical expression to the spirit of Operation Pan America by immediately enlarging the opportunities of the people of Latin America for social progress, thus strengthening their hopes for the future;

Considering it advisable to launch a program for social development, in which emphasis should be given to those measures that meet social needs and also promote increases in productivity and strengthen economic development.

Recommends to the Council of the Organization of American States:

I. MEASURES FOR SOCIAL IMPROVEMENT

An inter-American program for social development should be established which should be directed to the carrying out of the following measures of social improvement in Latin America, as considered appropriate in each country:

A. Measures for the improvement of conditions of rural living and land use

1. The examination of existing legal and institutional systems with respect to:

a. land tenure legislation and facilities with a view to ensuring a wider and more equitable distribution of the ownership of land, in a manner consistent with the objectives of employment, productivity and economic growth;

b. agricultural credit institutions with a view to providing adequate financing to individual farmers or groups of farmers;

c. tax systems and procedures and fiscal policies with a view to assuring equity of taxation and encouraging improved use of land, especially of privately-owned land which is idle.

2. The initiation or acceleration of appropriate programs to modernize and improve the existing legal and institutional framework to ensure better conditions of land tenure, extend more adequate credit facilities and provide increased incentives in the land tax structure.

3. The acceleration of the preparation of projects and programs for:

a. land reclamation and land settlement, with a view to promoting more widespread ownership and efficient use of land, particularly of unutilized or under-utilized land;

b. the increase of the productivity of land already in use; and

c. the construction of farm-to-market and access roads.

4. The adoption or acceleration of other government service programs designed particularly to assist the small farmer, such as new or improved marketing organizations; extension services; research and basic surveys; and demonstration, education, and training facilities.

B. Measures for the improvement of housing and community facilities

1. The examination of existing policies in the field of housing and community facilities, including urban and regional planning, with a view to improving such policies, strengthening public institutions and promoting private initiative and participation in programs in these fields. Special consideration should be given to encouraging financial institutions to invest in low-cost housing on a long-term basis and in building and construction industries.

2. The strengthening of the existing legal and institutional framework for mobilizing financial resources to provide better housing and related facilities for the people and to create new institutions for this purpose when necessary. Special consideration should be given to legislation and measures which would encourage the establishment and growth of:

a. private financing institutions, such as building and loan associations;
b. institutions to insure sound housing loans against loss;
c. institutions to serve as a secondary market for home mortgages;
d. institutions to provide financial assistance to local communities for the development of facilities such as water supply, sanitation and other public works.

Existing national institutions should be utilized, wherever practical and appropriate, in the application of external resources to further the development of housing and community facilities.

3. The expansion of home building industries through such measures as the training of craftsmen and other personnel, research, the introduction of new techniques, and the development of construction standards for low and medium-cost housing.

4. The lending of encouragement and assistance to programs, on a pilot basis. for aided self-help housing, for the acquisition and subdivision of land for low-cost housing developments, and for industrial housing projects.

C. Measures for the improvement of educational systems and training facilities

1. The reexamination of educational systems, giving particular attention to:

a. the development of modern methods of mass education for the eradication of illiteracy;

b. the adequacy of training in the industrial arts and sciences with due emphasis on laboratory and work experience and on the practical application of knowledge for the solution of social and economic problems;

c. the need to provide instruction in rural schools not only in basic subjects but also in agriculture, health, sanitation, nutrition, and in methods of home and community improvement.

d. the broadening of courses of study in secondary schools to provide the training necessary for clerical and executive personnel in industry, commerce, public administration, and community service;

e. specialized trade and industrial education related to the commercial and industrial needs of the community;

f. vocational agricultural instruction;

g. advanced education of administrators, engineers, economists, and other professional personnel of key importance to economic development.

D. Measures for the improvement of public health

1. The reexamination of programs and policies of public health, giving particular attention to:

a. strengthening the expansion of national and local health services, especially those directed to the reduction of infant mortality;

b. the progressive development of health insurance systems, including those providing for maternity, accident and disability insurance, in urban and rural areas;

c. the provision of hospital and health service in areas located away from main centers of population;

d. the extension of public medical services to areas of exceptional need;

e. the strengthening of campaigns for the control or elimination of communicable diseases with special attention to the eradication of malaria;

f. the provision of water supply facilities for purposes of health and economic development;

g. the training of public health officials and technicians;

h. the strengthening of programs of nutrition for low-income groups.

E. Measures for the mobilization of domestic resources

1. This program shall be carried out within the framework of the maximum creation of domestic savings and of the improvement of fiscal and financial practices;

2. The equity and effectiveness of existing tax schedules, assessment practices and collection procedures shall be examined with a view to providing additional revenue for the purpose of this program;

3. The allocation of tax revenues shall be reviewed, having in mind an adequate provision of such revenues to the areas of social development mentioned in the foregoing paragraphs.

II. CREATION OF A SPECIAL FUND FOR SOCIAL DEVELOPMENT

1. The delegations of the governments of the Latin American republics welcome the decision of the Government of the United States to establish a special inter-American fund for social development, with the Inter-American Development Bank to become the primary mechanism for the administration of the fund.

2. It is understood that the purpose of the special fund would be to contribute capital resources and technical assistance on flexible terms and conditions, including repayment in local currency and the relending of repaid funds, in accordance with appropriate and selective criteria in the light of the resources available, to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvements and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth.

III. MEASURES FOR ECONOMIC DEVELOPMENT

The Special Committee,

Having in view Resolution VII adopted at the Seventh Meeting of Consultation of Ministers of Foreign Affairs expressing the need for the maximum contribution of member countries in hemisphere cooperation in the struggle against underdevelopment, in pursuance of the objectives of Operation Pan America,

Expresses its conviction

1. That within the framework of Operation Pan America the economic development of Latin America requires prompt action of exceptional breadth in the field of international cooperation and domestic effort comprising:

   a. additional public and private financial assistance on the part of capital exporting countries of America, Western Europe, and international lending agencies within the framework of their charters, with special attention to:

      i. the need for loans on flexible terms and conditions, including, whenever advisable in the light of the balance of payments situation of individual countries, the possibility of repayment in local currency,

      ii. the desirability of the adequate preparation and implementation of development projects and plans, within the framework of the monetary, fiscal and exchange policies necessary for their effectiveness, utilizing as appropriate the technical assistance of inter-American and international agencies,

      iii. the advisability, in special cases, of extending foreign financing for the coverage of local expenditures;

   b. mobilization of additional domestic capital, both public and private;

   c. technical assistance by the appropriate international agencies in the preparation and implementation of national and regional Latin American development projects and plans;

   d. the necessity for developing and strengthening credit facilities for small and medium private business, agriculture and industry.

Recommends:

1. That special attention be given to an expansion of long-term lending, particularly in view of the instability of exchange earnings of countries exporting primary products and of the unfavourable effect of the excessive accumulation of short- and medium-term debt on continuing and orderly economic development.

2. That urgent attention be given to the search for effective and practical ways, appropriate to each commodity, to deal with the problem of the instability of exchange earnings of countries heavily dependent upon the exportation of primary products.

IV. MULTILATERAL COOPERATION FOR SOCIAL AND ECONOMIC PROGRESS

The Special Committee,

Considering the need for providing instruments and mechanisms for the implementation of the program of inter-American economic and social cooperation which would periodically review the progress made and propose measures for further mobilization of resources,

Recommends:

1. That the inter-American Economic and Social Council undertake to organize annual consultative meetings to review the social and economic progress of member countries, to analyze and discuss the progress achieved and the problems encountered in each country, to exchange opinions on possible measures that might be adopted to intensify further social and economic progress, within the framework of Operation Pan America, and to prepare reports on the outlook for the future. Such annual meetings should begin with an examination by experts and terminate with a session at the ministerial level.

2. That the Council of the Organization of American States convene within 60 days of the date of this Act a special meeting of senior government representatives to find ways of strengthening and improving the ability of the Inter-American Economic and Social Council to render effective assistance to governments with a view to achieving the objectives enumerated below, taking into account the proposal submitted by the Delegation of the Republic of Argentina in Document CECE/III-13:

a. To further the economic and social development of Latin American countries;

b. To promote trade between the countries of the Western Hemisphere as well as between them and extra-continental countries;

c. To facilitate the flow of capital and the extension of credits to the countries of Latin America both from the Western Hemisphere and from extra-continental sources.

3. The special meeting shall:

a. Examine the existing structure of the Inter-American Economic and Social Council, and of the units of the Secretariat of the Organization of American States working in the economic and social fields, with a view to strengthening and improving the Inter-American Economic and Social Council;

b. Determine the means of strengthening inter-American economic and social cooperation by an administrative reform of the Secretariat, which should be given sufficient technical, administrative and financial flexibility for the adequate fulfillment of its tasks.

c. Formulate recommendations designed to assure effective coordination between the Inter-American Economic and Social Council, the Economic Commission for Latin America, the Inter-American Development Bank, the United Nations and its Specialized Agencies, and other agencies offering technical advice and services in the Western Hemisphere.

d. Propose procedures designed to establish effective liaison of the Inter-American Economic and Social Council and other regional American organizations with other international organizations for the purpose of study, discussion and consultation in the fields of international trade and financial and technical assistance.

e. And formulate appropriate recommendations to the Council of the Organization of American States.

In approving the Act of Bogotá the Delegations to the Special Committee, convinced that the people of the Americas can achieve a better life only within the democratic system, renew their faith in the essential values which lie at the base of Western civilization, and re-affirm their determination to assure the fullest measure of well-being to the people of the Americas under conditions of freedom and respect for the supreme dignity of the individual.

(Signed by "The Committee of 21" in Bogata, September 1960; approved by the Council of the Organization of American States, October 11, 1960.)

Appendix III

THE CHARTER OF PUNTA DEL ESTE

Establishing an Alliance for Progress Within the Framework of Operation Pan America

PREAMBLE

We, the American Republics, hereby proclaim our decision to unite in a common effort to bring our people accelerated economic progress and broader social justice within the framework of personal dignity and political liberty.

Almost two hundred years ago we began in this Hemisphere the long struggle for freedom which now inspires people in all parts of the world. Today, in ancient lands, men moved to hope by the revolutions of our young nations search for liberty. Now we must give a new meaning to that revolutionary heritage. For America stands at a turning point in history. The men and women of our Hemisphere are reaching for the better life which today's skills have placed within their grasp. They are determined for themselves and their children to have decent and ever more abundant lives, to gain access to knowledge and equal opportunity for all, to end those conditions which benefit the few at the expense of the needs and dignity of the many. It is our inescapable task to fulfill these just desires—to demonstrate to the poor and forsaken of our countries, and of all lands, that the creative powers of free men hold the key to their progress and to the progress of future generations. And our certainty of ultimate success rests not alone on our faith in ourselves and in our nations but on the indomitable spirit of free man which has been the heritage of American civilization.

Inspired by these principles, and by the principles of Operation Pan America and the Act of Bogota, the American Republics hereby resolve to adopt the following program of action to establish and carry forward an Alliance for Progress.

Title I

OBJECTIVES OF THE ALLIANCE FOR PROGRESS

It is the purpose of the Alliance for Progress to enlist the full energies of the peoples and governments of the American republics in a great cooperative effort to accelerate the economic and social development of the participating countries of Latin America, so that they may achieve maximum levels of well-being, with equal opportunities for all, in democratic societies adapted to their own needs and desires.

The American republics hereby agree to work toward the achievement of the following fundamental goals in the present decade:

1. To achieve in the participating Latin American countries a substantial and sustained growth of per capita income at a rate designed to attain, at the earliest possible date, levels of income capable of assuring self-sustaining development, and sufficient to make Latin American income levels constantly larger in relation to the levels of the more industrialized nations. In this way the gap between the living standards of Latin America and those of the more developed countries can be narrowed. Similarly, presently existing differences in income levels among the Latin American countries will be reduced by accelerating the development of the relatively less developed countries and granting them maximum priority in the distribution of resources and in international cooperation in general. In evaluating the degree of relative development, account will be taken not only of average levels of real income and gross product per capita, but also of indices of infant mortality, illiteracy, and per capita daily caloric intake.

It is recognized that, in order to reach these objectives within a reasonable time, the rate of economic growth in any country of Latin America should be not less than 2.5 per cent per capita per year, and that each participating country should determine its own growth target in the light of its stage of social and economic evolution, resource endowment, and ability to mobilize national efforts for development.

2. To make the benefits of economic progress available to all citizens of all economic and social groups through a more equitable distribution of national income, raising more rapidly the income and standard of living of the needier sectors of the population, at the same time that a higher proportion of the national product is devoted to investment.

3. To achieve balanced diversification in national economic structures, both regional and functional, making them increasingly free from dependence on the export of a limited number of primary products and the importation of capital goods while attaining stability in the prices of exports or in income derived from exports.

4. To accelerate the process of rational industrialization so as to increase the productivity of the economy as a whole, taking full advantage of the talents and energies of both the private and public sectors, utilizing the natural resouces of the country and providing productive and remunerative employment for unemployed or part-time workers. Within this process of industrialization, special attention should be given to the establishment and development of capital-goods industries.

5. To raise greately the level of agricultural productivity and output and to improve related storage, transportation, and marketing services.

6. To encourage, in accordance with the characteristics of each country, programs of comprehensive agrarian reform leading to the effective transformation, where required, of unjust structures and systems of land tenure and use, with a view to replacing latifundia and dwarf holdings by an equitable system of land tenure so that, with the help of timely and adequate credit, technical assistance and facilities for the marketing and distribution of products, the land will become for the man who works it the basis of his economic stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity.

7. To eliminate adult illiteracy and by 1970 to assure, as a minimum, access to six years of primary education for each school-age child in Latin America; to modernize and expand vocational, technical, secondary and higher educational and training facilities, to strengthen the capacity for basic and applied research; and to provide the competent personnel required in rapidly-growing societies.

8. To increase life expentancy at birth by a minimum of five years, and to increase the ability to learn and produce, by improving individual and public health. To attain this goal it will be necessary, among other measures, to provide adequate potable water supply and sewage disposal to not less than 70 per cent of the urban and 50 percent of the rural population; to reduce the presently mortality rate of children less than five years of age by at least one-half; to control the more serious communicabld diseases, according to their importance as a cause of sickness, disability, and death; to eradicate those illnesses, especially malaria, for which effective techniqeus are known; to improve nutrition; to train medical and health personnel to meet at least minimum requirements; to improve basic health services at national and local levels; and to intensify scientific research and apply its results more fully and effectively to the prevention and cure of illness.

9. To increase the construction of low-cost houses for low-income families in order to replace inadequate and deficient housing and to reduce housing shortages; and to provide necessary public services to both urban and rural centers of population.

10. To maintain stable price levels, avoiding inflation or deflation and the consequent social hardships and maldistribution of resources, always bearing in mind the necessity of maintaining an adequate rate of economic growth.

11. To strengthen existing agreements on economic integration, with a view to the ultimate fulfillment of aspirations for a Latin American common market that will expand and diversify trade among the Latin American countries and thus contribute to the economic growth of the region.

12. To develop cooperative programs designed to prevent the harmful effects of excessive fluctuations in the foreign exchange earnings derived from exports of primary products, which are of vital importance to economic and social development; and to adopt the measures necessary to facilitate the access of Latin American exports to international markets.

Title II

ECONOMIC AND SOCIAL DEVELOPMENT

Chapter I. Basic Requirements for Economic and Social Development

The American republics recognize that to achieve the foregoing goals it will be necessary:

1. That comprehensive and well-conceived national programs of economic and social development, aimed at the achievement of self-sustaining growth, be carried out in accordance with democratic principles.

2. That national programs of economic and social development be based on the principle of self-help—as established in the Act of Bogotá—and on the maximum use of domestic resources, taking into account the special conditions of each country.

3. That in the preparation and execution of plans for economic and social development, women should be placed on an equal footing with men.

4. That the Latin American countries obtain sufficient external financial assistance, a substantial portion of which should be extended on flexible conditions with respect to periods and terms of repayment and forms of utilization, in order to supplement domestic capital formation and reinforce their import capacity; and that, in support of well-conceived programs, which include the necessary structural reforms and measures for the mobilization of internal resources, a supply of capital from all external sources during the coming ten years of at least 20 billion dollars be made available to the Latin American countries, with priority to the relatively less developed countries. The greater part of this sum should be in public funds.

5. That institutions in both the public and private sectors, including labor organizations, cooperatives, and commercial, industrial, and financial institutions, be strengthened and improved for the increasing and effective use of domestic resources, and that the social reforms necessary to permit a fair distribution of the fruits of economic and social progress be carried out.

Chapter II. National Development Programs

1. Participating Latin American countries agree to introduce or strengthen systems for the preparation, execution, and periodic revision of national programs for economic and social development consistent with the principles, objectives, and requirements contained in this document. Participating Latin American countries should formulate, if possible within the next eighteen months, long-term development programs. Such programs should embrace, according to the characteristics of each country, the elements outlined in the Appendix.

2. National development programs should incorporate self-help efforts directed toward:

a. Improvement of human resources and widening of opportunities by raising general standards of education and health; improving and extending technical education and professional training with emphasis on science and technology; providing adequate remuneration for work performed, encouraging the talents of managers, entrepreneurs, and wage earners; providing more productive employment for underemployed manpower; establishing effective systems of labor relations, and procedures for consultation and collaboration among public authorities, employer associations, and labor organizations; promoting the establishment and expansion of local institutions for basic and applied research; and improving the standards of public administration.

b. Wider development and more efficient use of natural resources, especially those which are now idle or under-utilized, including measures for the processing of raw materials.

c. Strengthening of the agricultural base, progressively extending the benefits of the land to those who work it, and ensuring in countries with Indian populations the integration of these populations into the economic, social, and cultural processes of modern life. To carry out these aims, measures should be adopted, among others, to establish or improve, as the case may be, the following services: extension, credit, technical assistance, agricultural research and mechanization; health and education; storage and distribution; cooperatives and farmers' associations; and community development.

d. 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. Development programs should include the adaptation of budget expenditures to development needs, measures for the maintenance of price stability, the creation of essential credit facilities at reasonable rates of interest, and the encouragement of private savings.

e. Promotion through appropriate measures, including the signing of agreements for the purpose of reducing or eliminating double taxation, of conditions that will encourage the flow of foreign investments and help to increase the capital resources of participating countries in need of capital.

f. Improvement of systems of distribution and sales in order to make markets more competitive and prevent monopolistic practices.

Chapter III. Immediate and Short-Term Action Measures

1. Recognizing that a number of Latin American countries, despite their best efforts, may require emergency financial assistance, the United States will provide assistance from the funds which are or may be established for such purposes. The United States stands ready to take prompt action on applications for such assistance. Applications relating to existing situations should be submitted within the next 60 days.

2. Participating Latin American countries should, in addition to creating or strengthening machinery for long-term development programming, immediately increase their efforts to accerate their development by giving special emphasis to the following objectives:

a. The completion of projects already under way and the initiation of projects for which the basic studies have been made, in order to accelerate their financing and execution.

b. The implementation of new projects which are designed:

(1) To meet the most pressing economic and social needs and benefit directly the greatest number of people;

(2) To concentrate efforts within each country in the less developed or more depressed areas in which particularly serious social problems exist;

(3) To utilize idle capacity or resources, particularly under-employed manpower; and

(4) To survey and assess natural resources.

c. The facilitation of the preparation and execution of long-term programs through measures designed:

(1) To train teachers, technicians, and specialists;
(2) To provide accelerated training to workers and farmers;
(3) To improve basic statistics;
(4) To establish needed credit and marketing facilities; and
(5) To improve services and administration.

3. The United States will assist in carrying out these short-term measures with a view to achieving concrete results from the Alliance for Progress at the earliest possible moment. In connection with the measures set forth above, and in accordance with the statement of President Kennedy, the United States will provide assistance under the Alliance, including assistance for the financing of short-term measures, totalling more than one billion dollars in the year ending March 1962.

Chapter IV. External Assistance in Support of National Development Programs

1. The economic and social development of Latin America will require a large amount of additional public and private financial assistance on the part of capital-exporting countries, including the members of the Development Assistance Group and international lending agencies. The measures provided for in the Act of Bogotá and the new measures provided for in this Charter, are designed to create a framework within which such additional assistance can be provided and effectively utilized.

2. The United States will assist those participating countries whose development programs establish self-help measures and economic and social policies and programs consistent with the goals and principles of this Charter. To supplement the domestic efforts of such countries, the United States is prepared to allocate resources which, along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals envisaged in this Charter. Such assistance will be allocated to both social and economic development and, where appropriate, will take the form of grants or loans on flexible terms and conditions. The participating countries will request the support of other capital-exporting countries and appropriate institutions so that they may provide assistance for the attainment of these objectives.

3. The United States will help in the financing of technical assistance projects proposed by a participating country or by the General Secretariat of the Organization of American States for the purpose of:

a. Providing experts contracted in agreement with the governments to work under their direction and to assist them in the preparation of specific investment projects and the strengthening of national mechanisms for preparing projects, using specialized engineering firms where appropriate;

b. Carrying out, pursuant to existing agreements for cooperation among the General Secretariat of the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank, field investigations and studies, including those relating to development problems, the organization of national agencies for the preparation of development programs, agrarian reform and rural development, health, cooperatives, housing, education and professional training, and taxation and tax administration; and

c. Convening meetings of experts and officials on development and related problems.

The governments or abovementioned organizations should, when appropriate, seek the cooperation of the United Nations and its specialized agencies in the execution of these activities.

4. The participating Latin American countries recognize that each has in varying degree a capacity to assist fellow republics by providing technical and financial assistance. They recognize that this capacity will increase as their economies grow. They therefore affirm their intention to assist fellow republics increasingly as their individual circumstances permit.

Chapter V. Organization and Procedures

1. In order to provide technical assistance for the formulation of development programs, as may be requested by participating nations, the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank will continue and strengthen their agreements for coordination in this field, in order to have available a group of programming experts whose service can be used to facilitate the implementation of this Charter. The participating countries will also seek an intensification of technical assistance from the specialized agencies of the United Nations for the same purpose.

2. The Inter-American Economic and Social Council, on the joint nomination of the Secretary General of the Organization of American States, the President of the Inter-American Development Bank, and the Executive Secretary of the United Nations Economic Commission for Latin America, will appoint a panel of nine high-level experts, exclusively on the basis of their experience, technical ability, and competence in the various aspects of economic and social development. The experts may be of any nationality, though if of Latin American origin an appropriate geographical distribution will be sought. They will be attached to the Inter-American Economic and Social Council, but will nevertheless enjoy complete autonomy in the performance of their duties. They may not hold any other remunerative position. The appointment of these experts will be for a period of three years, and may be renewed.

3. Each government, if it so wishes, may present its program for economic and social development for consideration by an ad hoc committee, composed of no more than three members drawn from the panel of experts referred to in the preceding paragraph together with an equal number of experts not on the panel. The experts who compose the ad hoc committee will be appointed by the Secretary General of the Organization of American States at the request of the interested government and with its consent.

4. The committee will study the development program, exchange opinions with the interested government as to possible modifications and, with the consent of the government, report its conclusions to the Inter-American Development Bank and to other governments and institutions that may be prepared to extend external financial and technical assistance in connection with the execution of the program.

5. In considering a development program presented to it, the ad hoc committee will examine the consistency of the program with the principles of the Act of Bogotá and of this Charter, taking into account the elements in the Appendix.

6. The General Secretariat of the Organization of American States will provide the personnel needed by the experts referred to in paragraphs 2 and 3 of this Chapter in order to fulfill their tasks. Such personnel may be employed specifically for this purpose or may be made available from the permanent staffs of the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank, in accordance with the present liaison arrangements between the three organizations. The General Secretariat of the Organization of American States may seek arrangements with the United Nations Secretariat, its specialized agencies and the Inter-American Specialized Organizations, for the temporary assignment of necessary personnel.

7. A government whose development program has been the object of recommendations made by the ad hoc committee with respect to external financing requirements may submit the program to the Inter-American Development Bank so that the Bank may undertake the negotiations required to obtain such financing, including the organization of a consortium of credit institutions and governments

disposed to contribute to the continuing and systematic financing, on appropriate terms, of the development program. However, the government will have full freedom to resort through any other channels to all sources of financing, for the purpose of obtaining, in full or in part, the required resources.

The ad hoc committee shall not interfere with the right of each government to formulate its own goals, priorities, and reforms in its national development programs.

The recommendations of the ad hoc committee will be of great importance in determining the distribution of public funds under the Alliance for Progress which contribute to the external financing of such programs. These recommendations shall give special consideration to Title I. 1.

The participating governments will also use their good offices to the end that these recommendations may be accepted as a factor of great importance in the decisions taken, for the same purpose, by inter-American credit institutions, other international credit agencies, and other friendly governments which may be potential sources of capital.

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

Appendix

ELEMENTS OF NATIONAL DEVELOPMENT PROGRAMS

1. The establishment of mutually consistent targets to be aimed at over the program period in expanding productive capacity in industry, agriculture, mining, transport, power and communications, and in improving conditions of urban and rural life, including better housing, education, and health.
2. The assignment of priorities and the description of methods to acheive the targets, including specific measures and major projects. Specific development projects should be justified in terms of their relative costs and benefits, including their contribution to social productivity.
3. The measures which will be adopted to direct the operations of the public sector and to encourage private action in support of the development program.
4. The estimated cost, in national and foreign currency, of major projects and of the development program as a whole, year by year over the program period.
5. The internal resources, public and private, estimated to become available for the execution of the programs.
6. The direct and indirect effects of the program on the balance of payments, and the external financing, public and private, estimated to be required for the execution of the program.
7. The basic fiscal and monetary policies to be followed in order to permit implementation of the program within a framework of price stability.
8. The machinery of public administration—including relationships with local governments, decentralized agencies and nongovernmental organizations, such as labor organizations, cooperatives, business and industrial organizations—to be used in carrying out the program, adapting it to changing circumstances and evaluating the progress made.

Title III

ECONOMIC INTEGRATION OF LATIN AMERICA

The American republics consider that the broadening of present national markets in Latin America is essential to accelerate the process of economic development in the Hemisphere. It is also an appropriate means for obtaining greater productivity through specialized and complementary industrial production which will, in turn, facilitate the attainment of greater social benefits for the inhabitants of the various regions of Latin America. The broadening of markets will also make possible the better use of resources under the Alliance for Progress. Consequently, the American republics recognize that:

1. The Montevideo Treaty (because of its flexi lity and because it is open to they adherence of all of the Latin American nations) and the Central American Treaty on Economic Integration are appropriate instruments for the attainment of these objectives, as was recognized in Resolution No. 11 (III) of the Ninth Session of the Economic Commission for Latin America.
2. The integration process can be intensified and accelerated not only by the specialization resulting from the broadening of markets through the liberalization

of trade but also through the use of such instruments as the agreements for complementary production within economic sectors provided for in the Montevideo Treaty.

3. In order to insure the balanced and complementary economic expansion of all of the countries involved, the integration process should take into account, on a flexible basis, the condition of countries at a relatively less advanced stage of economic development, permitting them to be granted special, fair, and equitable treatment.

4. In order to facilitate economic integration in Latin America, it is advisable to establish effective relationships between the Latin American Free Trade Association and the group of countries adhering to the Central American Economic Integration Treaty, as well as between either of these groups and other Latin American countries. These arrangements should be established within the limits determined by these instruments.

5. The Latin American countries should coordinate their actions to meet the unfavorable treatment accorded to their foreign trade in world markets, particularly that resulting from certain restrictive and discriminatory policies of extracontinental countries and economic groups.

6. In the application of resources under the Alliance for Progress, special attention should be given not only to investments for multinational projects that will contribute to strengthening the integration process in all its aspects, but also to the necessary financing of industrial production, and to the growing expansion of trade in industrial products within Latin America.

7. In order to facilitate the participation of countries at a relatively low stage of economic development in multinational Latin American economic cooperation programs, and in order to promote the balanced and harmonious development of the Latin American integration process, special attention should be given to the needs of these countries in the administration of financial resources provided under the Alliance for Progress, particularly in connection with infrastructure programs and the promotion of new lines of production.

8. The economic integration process implies a need for additional investment in various fields of economic activity and funds provided under the Alliance for Progress should cover these needs as well as those required for the financing of national development programs.

9. When groups of Latin American countries have their own institutions for financing economic integration, the financing referred to in the preceding paragraph should preferably be channeled through these institutions. With respect to regional financing designed to further the purposes of existing regional integration instruments, the cooperation of the Inter-American Development Bank should be sought in channeling extra-regional contributions which may be granted for these purposes.

10. One of the possible means for making effective a policy for the financing of Latin American integration would be to approach the International Monetary Fund and other financial sources with a view to providing a means for solving temporary balance-of-payments problems that may occur in countries participating in economic integration arrangements.

11. The promotion and coordination of transportation and communications systems is an effective way to accelerate the integration process. In order to counteract abusive practices in relation to freight rates and tariffs, it is advisable to encourage the establishment of multinational transport and communication enterprises in the Latin American countries, or to find other appropriate solutions.

12. In working toward economic integration and complementary economies, efforts should be made to achieve an appropriate coordination of national plans, or to engage in joint planning for various economies through the existing regional integration organizations. Efforts should also be made to promote an investment policy directed to the progressive elimination of unequal growth rates in the different geographic areas, particularly in the case of countries which are relatively less developed.

13. It is necessary to promote the development of national Latin American enterprises, in order that they may compete on an equal footing with foreign enterprises.

14. The active participation of the private sector is essential to economic integration and development, and except in those countries in which free enterprise does not exist, development planning by the pertinent national public agencies, far from hindering such participation, can facilitate and guide it, thus opening new perspectives for the benefit of the community.

15. As the countries of the Hemisphere still under colonial domination achieve their independence, they should be invited to participate in Latin American economic integration programs.

Title IV

BASIC EXPORT COMMODITIES

The American republics recognize that the economic development of Latin America requires expansion of its trade, a simultaneous and corresponding increase in foreign exchange incomes received from exports, a lessening of cyclical or seasonal fluctuations in the incomes of those countries that still depend heavily on the export of raw materials, and the correction of the secular deterioration in their terms of trade.

They therefore agree that the following measures should be taken:

Chapter I. National Measures

National measures affecting commerce in primary products should be directed and applied in order to:

1. Avoid undue obstacles to the expansion of trade in these products;
2. Avoid market instability;
3. Improve the efficiency of international plans and mechanisms for stabilization; and
4. Increase their present markets and expand their area of trade at a rate compatible with rapid development.

Therefore:

A. Importing member countries should reduce and if possible eliminate, as soon as feasible, all restrictions and discriminatory practices affecting the consumption and importation of primary products, including those with the highest possible degree of processing in the country of origin, except when these restrictions are imposed temporarily for purposes of economic diversification, to hasten the economic development of less developed nations, or to establish basic national reserves. Importing countries should also be ready to support, by adequate regulations, stabilization programs for primary products that may be agreed upon with producing countries.

B. Industrialized countries should give special attention to the need for hastening economic development of less developed countries. Therefore, they should make maximum efforts to create conditions, compatible with their international obligations, through which they may extend advantages to less developed countries so as to permit the rapid expansion of their markets. In view of the great need for this rapid development, industrialized countries should also study ways in which to modify, wherever possible, international commitments which prevent the achievement of this objective.

C. Producing member countries should formulate their plans for production and export, taking account of their effect on world markets and of the necessity of supporting and improving the effectiveness of international stabilization programs and mechanisms. Similarly they should try to avoid increasing the uneconomic production of goods which can be obtained under better conditions in the less developed countries of the Continent, in which the production of these goods is an important source of employment.

D. Member countries should adopt all necessary measures to direct technological studies toward finding new uses and by-products of those primary commodities that are most important to their economies.

E. Member countries should try to reduce, and, if possible, eliminate within a reasonable time export subsidies and other measures which cause instability in the markets for basic commodities and excessive fluctuations in prices and income.

Chapter II. International Cooperation Measures

1. Member countries should make coordinated, and if possible, joint efforts designed:

a. To eliminate as soon as possible undue protection of the production of basic products;

b. To eliminate taxes and reduce excessive domestic prices which discourage the consumption of imported basic products;

c. To seek to end preferential agreements and other measures which limit world consumption of Latin American basic products and their access to international markets, especially the markets of Western European countries in process of economic integration, and of countries with centrally planned economies; and

d. To adopt the necessary consultation mechanisms so that their marketing policies will not have damaging effects on the stability of the markets for basic commodities.

2. Industrialized countries should give maximum cooperation to less developed countries so that their raw material exports will have undergone the greatest degree of processing that is economic.

3. Through their representation in international financial organizations, member countries should suggest that these organizations, when considering loans for the promotion of production for export, take into account the effect of such loans on products which are in surplus in world markets.

4. Member countries should support the efforts being made by international commodity study groups and by the Commission on International Commodity Trade of the United Nations. In this connection, it should be considered that producing and consuming nations bear a joint responsibility for taking national and international steps to reduce market instability.

5. The Secretary General of the Organization of American States shall convene a group of experts appointed by their respective governments to meet before November 30, 1961 and to report, not later than March 31, 1962 on measures to provide an adequate and effective means of offsetting the effects of fluctuations in the volume and prices of exports of basic products. The experts shall:

a. Consider the questions regarding compensatory financing raised during the present meeting;

b. Analyze the proposal for establishing an international fund for the stabilization of export receipts contained in the Report of the Group of Experts to the Special Meeting of the Inter-American Economic and Social Council, as well as any other alternative proposals;

c. Prepare a draft plan for the creation of mechanisms for compensatory financing. This draft plan should be circulated among the member Governments and their opinions obtained well in advance of the next meeting of the Commission on International Commodity Trade.

6. Member countries should support the efforts under way to improve and strengthen international commodity agreements and should be prepared to cooperate in the solution of specific commodity problems. Furthermore, they should endeavor to adopt adequate solutions for the short- and long-term problems affecting markets for such commodities so that the economic interests of producers and consumers are equally safeguarded.

7. Member countries should request other producer and consumer countries to cooperate in stabilization programs, bearing in mind that the raw materials of the Western Hemisphere are also produced and consumed in other parts of the world.

8. Member countries recognize that the disposal of accumulated reserves and surpluses can be a means of achieving the goals outlined in the first chapter of this Title, provided that, along with the generation of local resources, the consumption of essential products in the receiving countries is immediately increased. The disposal of surpluses and reserves should be carried out in an orderly manner, in order to:

a. Avoid disturbing existing commercial markets in member countries, and

b. Encourage expansion of the sale of their products to other markets.

However, it is recognized that:

a. The disposal of surpluses should not displace commercial sales of identical products traditionally carried out by other countries; and

b. Such disposal cannot substitute for large scale financial and technical assistance programs.

IN WITNESS WHEREOF this Charter is signed, in Punta del Este, Uruguay, on the seventeenth day of August, nineteen hundred sixty-one.

The original texts shall be deposited in the archives of the Pan American Union, through the Secretary General of the Special Meeting, in order that certified copies may be sent to the Governments of the Member States of the Organization of American States.

(Printed below are the names of the signatories)

FOR VENEZUELA:
Lorenzo Fernández
Manuel Pérez Guerrero
José Antonio Mayobre
Mercedes Carvajal de Arocha
Daniel Orellana
Virgilio Fernández

FOR GUATEMALA:
Joaquín Prieto Barrios
Julio Prado García Salas
Alberto Arreaga

FOR BOLIVIA:
Alfonso Gumucio Reyes

FOR MEXICO:
Antonio Ortiz Mena

FOR THE DOMINICAN REPUBLIC:
Salvador Ortiz

FOR HONDURAS:
Jorge Bueso Arias
Roberto Ramírez
Carlos H. Matute
Lempira Bonilla

FOR PANAMA:
Gilberto Arias
Jorge R. Riba
Carlos Malgrat

FOR HAITI:
Vilfort Beauvoir
Gerard Phillipeaux
Henri Marc Charles

FOR COSTA RICA:
Manuel G. Escalante
Manuel Enrique Herrero
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Juan Eduardo Azzini
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FOR CHILE:
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Juan José Lugo Marenco
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FOR BRAZIL:
Clemente Mariani Bittencourt
Arthur Bernardes Filho
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Roberto de Oliveira Campos

Appendix IV

Social Progress Trust Fund Agreement—Inter-American Development Bank

Agreement dated this nineteenth day of June 1961, between the Inter-American Development Bank (hereinafter sometimes called the Bank) and the Government of the United States of America (United States), to entrust to the Bank the administration of the Social Progress Trust Fund, constituted from part of the Special Inter-American Fund for Social Progress.

PREAMBLE

Whereas the President and the Congress of the United States have endorsed the establishment of a cooperative program for the social progress of the American Republics, complementing measures directed toward accelerated economic growth, and based on the determination of the respective countries to contribute their own efforts and resources in a manner conducive to achieving the purposes of the program;

Whereas the representatives of the American Republics, considering it advisable to adopt measures for social improvement and economic development within the framework of Operation Pan America, recognized in the Act of Bogota of September 12, 1960, that the preservation and strengthening of free and democratic institutions in the American Republics require the acceleration of social and economic progress in Latin America adequate to meet the legitimate aspirations of the peoples of the Americas for a better life and to provide them the fullest opportunity to improve their status and recognize further that the magnitude of the problems involved will require maximum self-help efforts on the part of the American Republics and, in many cases, the improvement of existing institutions and practices, particularly in the fields of ownership and use of land, education and training, health and housing, and taxation and other aspects of the mobilization of domestic resources;

Whereas in the Act of Bogota the representatives of the American Republics welcomed the decision of the Government of the United States to establish a Special Inter-American Fund for Social Progress with the Inter-American Development Bank to become the primary mechanism for the administration of such a fund;

Whereas the United States has now established the aforesaid Fund to assist in carrying out its declared aims for social improvement in the Latin American Republics and thereby contribute towards fulfilling the purposes of the Act of Bogota; and

Whereas the Inter-American Development Bank has determined that the administration of a trust fund for these purposes by the Bank would be consistent with the provisions of the Agreement Establishing the Bank and would strengthen the efforts of the Bank to foster greater social progress and balanced economic growth.

Now, therefore, the Parties hereto agree as follows:

ARTICLE I: ESTABLISHMENT AND PURPOSES OF THE SOCIAL PROGRESS TRUST FUND

Section 1.01. There is hereby established the Social Progress Trust Fund (hereinafter called the Fund), constituted by monies transferred to the Fund from time to time by the United States and by any other accruals thereto, pursuant to Article III of this Agreement, to be held in trust and administered by the Bank in accordance with the terms of this Agreement.

Section 1.02. The Bank is hereby designated Administrator of the Fund. The term Administrator will hereinafter be used to refer to the Bank acting in that capacity.

Section 1.03. The purpose of the Fund shall be to provide capital resources and technical assistance on flexible terms and conditions, including repayment in local currency and the relending of repaid funds and interest, in accordance with appropriate and selective criteria in the light of the resources available, to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvements and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth.

Section 1.04. Consistent with the foregoing purpose, the Administrator shall utilize the resources of the Fund to make loans for projects or programs designed to achieve improved conditions in the countries concerned in the fields of—

(a) Land settlement and improved land use, including access and feeder roads, assistance to agricultural credit institutions, assistance to supervised credit and agricultural extension, and development of storage and marketing facilities, provided that the resources of the Fund shall not be used for the purchase of agricultural land;

(b) Housing for low income groups, through assistance to self-help housing and to institutions providing long-term housing finance and engaged in mobilizing domestic resources for this purpose;

(c) Community water supply and sanitation facilities;

(d) Such supplementary financing of facilities for advanced education and training related to economic and social development as may be agreed upon from time to time between the United States and the Administrator.

Section 1.05. In addition, the Administrator shall utilize the resources of the Fund to provide technical assistance related to projects in the fields set forth in Section 1.04, and technical assistance related to the mobilizing of domestic financial resources and the strengthening of financial institutions.

Section 1.06. The Fund and its assets and accounts shall be kept separate and apart from all other assets and accounts of the Bank.

ARTICLE II. CRITERIA FOR THE ADMINISTRATION OF THE FUND

Section 2.01. In considering applications for loans and for technical assistance, the Administrator shall be guided by the following criteria:

(a) Consideration shall continuously be given to the institutional improvements which a country is initiating or expanding consistent with Article I, Section 1.03, of this Agreement. Accordingly, assistance shall be made available to those projects or programs which are related to effective self-help measures in countries which demonstrate their determination to achieve the purposes there set forth, and a willingness to employ their own resources efficiently to the end of meeting social needs and strengthening economic development. Special consideration shall be given to proposals which are part of a soundly conceived national development program, taking into account the review and analysis of social and economic progress and problems in each country undertaken at the annual consultative meetings of the Inter-American Economic and Social Council.

(b) Before acting favorably on a loan request, the Administrator shall be satisfied that measures necessary and appropriate for the success of the particular project or program have been or will be undertaken.

(c) Loan requests shall be granted only for projects or programs in which the applicant bears an appropriate share of the total costs. Loans may be granted to cover the total cost of a specific project, provided such project is an integral part of an expanding program in the same field financed to an appropriate extent by the applicant. The Administrator shall also be satisfied that the borrower or another appropriate entity is prepared to assume the costs of the continued support of the project or program, including the costs of maintenance and operation of any structure, installation and equipment connected therewith.

(d) Before committing resources of the Fund to any project or program, the Administrator shall take into account whether the financial and/or technical assistance required can be obtained from national or international agencies or from private sources on terms which, in the opinion of the Administrator, are reasonable for the recipient, considering all pertinent factors.

ARTICLE III. RESOURCES OF THE FUND

Section 3.01. The United States undertakes to contribute to the Fund out of monies appropriated by the United States Congress which may be available for this purpose.

Section 3.02. The Administrator shall be entitled to make commitments on behalf of the Fund in an amount of $394,000,000, which may be increased by mutual agreement.

Section 3.03. The United States contributions will be made available to the Administrator from time to time as needed to meet disbursement from the Fund.

Section 3.04. All monies received in repayment of loans made out of the Fund or by way of interest or by way of other accruals thereto shall be held by the Administrator as part of the resources of the Fund and be available for use in accordance with this Agreement.

ARTICLE IV. OPERATIONS OF THE FUND

Section 4.01. Whenever assistance from the Fund is requested, the applicant shall be required to furnish the Administrator such information as may be necessary or desirable to enable the Administrator to determine whether favorable consideration of the application would further the purposes specified in Article I, Section 1.04, of this Agreement. The borrower shall also be required to supply the Administrator such additional information as the Administrator may reasonably request at any time during the course of the operation.

Section 4.02. Capital resources of the Fund shall be provided by the Administrator under such flexible terms and conditions of repayment as it is determined are best suited to carry out the purposes set forth in Article I, Sections 1.03 and 1.04, of this Agreement. Ther esources of the Fund shall not be loaned or reloaned at interest rates which the Administrator considers to be excessive or which are higher than the legal rate of interest of the country in which the loan is made.

Section 4.03. Upon request, technical assistance may be provided by the Administrator on a loan, grant, or reimbursable basis, for the preparation, financing, and execution of plans and projects for carrying out the purposes set forth in Article I, Sections 1.04 and 1.05, of this Agreement.

Section 4.04. Loans may be made to national governments, government institutions and agencies, to local and municipal governments and to private borrowers within an eligible country, including cooperatives and organizations affiliated with or sponsored by labor unions. The provisions of Article III, Section 7(b), of the Agreement Establishing the Bank shall be followed in applying this Agreement.

Section 4.05. Except as may be otherwise agreed between the United States and the Administrator, no financing or technical assistance shall be extended from the Fund to the government or any government agency of, or to any individual, partnership, association, corporation or other entity in, any country which was not a member of the Bank as of September 12, 1960, or which is being subjected to economic or diplomatic sanctions by the Organization of American States. Moreover, no part of the Fund shall be used for the purchase of goods or services originating in any such country.

Section 4.06. United States dollar funds made available under this Agreement shall be used for the purchase of goods or services from the United States or for the acquisition of goods or services of local origin in the country where the assistance is received. However, subject to the provisions of Section 4.05 of this Agreement, the Administrator may authorize the use of such funds for the acquisition of goods or services produced in other countries which are members of the Bank if such transaction would be advantageous to the borrower.

Section 4.07. Loans made from the Fund may be made repayable in whole or in part, as to both principal and interest, in the currency of the borrower. All loans of dollars shall be denominated in dollars and, to the extent that servicing is called for in a non-dollar currency, the loan contract shall oblige the borrower to make payments of interest and payments of principal in such amount in the case of each payment as is required by provisions in the contract deemed by the Administrator to be appropriate to insure that the payment is equivalent in value to the dollar denominated amount due.

Section 4.08. Whenever any part of a loan is made repayable in the currency of the borrower, the Administrator shall require that the country of the borrower agree that its currency received by the Fund may be used by the Fund or by any recipient from the Fund, without restriction by the country, to make payments for goods and services produced in the territory of the country for use in furtherance of the purposes of the Fund in any country eligible for assistance from the Fund.

Section 4.09. Currencies held by the Administrator in the resources of the Fund shall not be used to purchase other currencies for making loans.

Section 4.10. Decisions relating to the Fund shall be reached by the Administrator in accordance with the provisions of Article IV, Section 9, of the Agreement Establishing the Bank.

ARTICLE V. THE ADMINISTRATOR

Section 5.01. In the administration of the Fund, cooperation shall be maintained with national and international organizations, both public and private, operating in the field of social development, and particularly with agencies of the United States administering other portions of the Special Inter-American Fund for Social Development.

Section 5.02. The Bank shall exercise the same care in the discharge of its functions under this Agreement as it exercises with respect to the administration and management of its own affairs

Section 5.03. The Administrator shall receive no compensation other than reimbursement for expenses incurred because of services rendered under this Agreement, which will be computed in accordance with the plan set forth in Annex A hereto.

Section 5.04. The Bank shall include in its annual and quarterly reports a separate section containing appropriate information with respect to the receipts and disbursements of, and balances in, the Fund. In addition, within sixty days after the close of each annual accounting period the Administrator shall issue a detailed report containing appropriate information with respect to operations of the Fund, the progress of the projects for which disbursements were made and other matters relating to the Fund, including a factual presentation of the measures being taken in the borrowing countries to accomplish the objectives stated in Section 1 of the Act of Bogota. Observations which the United States may desire to make to the Administrator upon any such annual report shall be presented as promptly as possible and ordinarily within the annual accounting period in which the report is received.

ARTICLE VI. REVISION AND TERMINATION

Section 6.01. Following each annual report made by the Administrator under Article V, Section 5.04, hereof, either Party may propose revision of the terms of this Agreement.

Section 6.02. If at any time it appears to the Administrator or to the United States that the Fund is no longer necessary or that the purposes of the Fund can no longer be appropriately or effectively carried out, the Parties hereto shall forthwith consult with one another concerning the measures to be taken. If a decision to terminate the Agreement is reached, or if no decision is reached within thirty days, or if pursuant to Article X of the Agreement Establishing the Bank, the Bank suspends or terminates its operations, then the operations of the Fund shall cease and its liquidation shall be commenced upon the election of either Party unless both Parties agree on another course of action.

Section 6.03. Any assets remaining in the Fund at the time of termination, including outstanding loans, shall revert to the United States upon the settlement of all accounts due and payable from the Fund.

ARTICLE VII. ENTRY INTO FORCE

Section 7.01. This Agreement shall enter into force on the date hereof.

ARTICLE VIII. TITLE

Section 8.01. This Agreement may be cited as "Social Progress Trust Fund Agreement."

Done at the city of Washington in the District of Columbia, this nineteenth day of June, 1961, in two equally authentic originals.

FOR THE INTER-AMERICAN DEVELOPMENT BANK:
(s) Felipe Herrera

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:
(s) John F. Kennedy

ANNEX A

1. The Fund shall be charged for the salary costs of time which is spent on work for the Fund by the professional staff of the Office of Special Operations of the Administrator and by the professional staff, exclusive of division heads and assistant division heads, of the Loan, Technical Assistance, Economics, and Legal Divisions of the Administrator.

2. The Fund shall be charged for all other expenses clearly identifiable as having been incurred by the Administrator in the Fund's behalf, *e.g.*, staff travel and consultants' costs.

3. For each dollar of the professional salary costs charged to the Fund pursuant to paragraph 1 above, the Fund shall be charged an additional $1.80, representing the Fund's share of indirect and overhead expenses other than those specified in paragraph 4 hereof. The amount specified herein shall, at the request of either Party, be subject to adjustment at the end of each annual accounting period of the Administrator.

4. No charge shall be made to the Fund for costs of the Annual Meeting of the Board of Governors; for the Offices of the Executive Directors; for services of persons in the Offices of the President and the Executive Vice President; for the salaries of the heads and assistant heads of the Divisions referred to in paragraph 1 hereof; or for any part of the expenses incurred by the Bank primarily for its own benefit, such as travel, printing, library, books and periodicals, and for various fees and compensation costs (*e.g.*, fees for actuarial services and for handling the retirement fund).

APPENDIX V

STATISTICAL APPENDIX

APPENDIX TABLE 1.—*Estimated GNP and real GNP per capita for 20 Latin American Republics and selected Latin American countries, 1961*

[U.S. dollars]

	Per capita GNP	Per capita real GNP [1]
20 Latin American republics	307	421
Argentina	533	799
Bolivia	87	122
Brazil	268	375
Chile	348	450
Mexico	298	415
Peru	179	270
Uruguay	449	560
Venezuela	645	645

[1] Real GNP is the estimated value of GNP in terms of U.S. prices.

Source: P. N. Rosenstein-Rodan, "International Aid for Underdeveloped Countries," Center for International Studies, Massachusetts Institute of Technology, Cambridge, Mass., pp. 22–23. (This study was also published in The Review of Economics and Statistics, May 1961, pp. 107–138.)

APPENDIX TABLE 2.—*Growth rates in Latin America, 1950–58, 1958, 1959, and 1960*

[Annual percentage variation in per capita gross national product at constant prices]

Country	Average annual variation			
	1950–58	1958	1959	1960
Argentina	0	0.7	−7.0	0.8
Brazil	3.7	6.9	4.2	3.6
Chile	.4	−.3	−1.2	−1.1
Colombia	2.0	.1	2.7	.7
Ecuador	1.5	(1)	(1)	(1)
Guatemala	1.4	(1)	(1)	(1)
Honduras	.5	(1)	(1)	(1)
Mexico	2.7	1.4	1.0	3.0
Peru	1.9	−.2	−5.2	2.1
Venezuela	5.1	−1.7	4.9	−2.1
Latin America, total	1.7	1.6	.3	1.2

[1] Not available.

Sources: 1950–58 figures from "Cooperation for Progress in Latin America," Committee for Economic Development, New York City, April 1961, p. 47. Estimates for 1958, 1959, and 1960 (provisional) from "Economic Survey of Latin America, 1960," United Nations Economic Commission for Latin America, Santiago, Chile, 1961, ch. II, pp. 5 and 10.

APPENDIX TABLE 3.—*Population growth in selected Latin American countries*

Country	Annual percentage increase, 1950–57	Projected annual percentage increase, 1957–80
Argentina	2.2	1.4
Brazil	2.6	3.1
Chile	2.5	1.7
Peru	2.4	4.6
Uruguay	1.4	.9
Venezuela	3.3	3.8

Source: "United States-Latin American Relations," compilation of studies prepared under the direction of the Subcommittee on American Republic Affairs of the Committee on Foreign Relations, U.S. Senate, Aug. 31, 1960, table II-9, p. 592.

APPENDIX TABLE 4.—*Changes in cost of living, selected Latin American countries*

[Index numbers: December 1953=100]

Country	December 1951	December 1953	December 1960	Percent increase in past 12 months
Argentina	84	100	622	6 (March 1961)
Brazil	69	100	485	31 (January 1961)
Chile	57	100	945	6 (March 1961)
Peru	86	100	176	3 (February 1961)
Uruguay	83	100	358	32 (February 1961)
Venezuela	102	100	110	1 (December 1960)

Source: "International Financial Statistics," International Monetary Fund, Washington, D.C., June 1961, table, p. 29.

APPENDIX TABLE 5.—*Indexes of Latin American trade*

[1955=100]

Year	Value of exports	Quantum of exports	Unit value of exports
1950	82	88	93
1951	98	86	114
1954	98	93	106
1955	100	100	100
1956	106	108	98
1957	108	110	98
1958	102	112	91
1959	103	122	85

Source: "Boletin Economico de America Latina, Suplemento Estadistico," November 1960, Economic Commission for Latin America, Santiago, Chile.

APPENDIX TABLE 6.—*Latin American exports, imports, and trade balance, 1951–60*

[Millions of dollars]

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Latin America:											
Exports	6,809	7,811	7,057	7,620	7,888	7,968	8,647	8,662	8,195	8,316	8,642
Imports	5,630	7,829	7,681	6,541	7,408	7,523	7,947	9,341	8,539	7,934	8,375
Trade balance	1,179	−18	−624	1,079	480	445	700	−679	−344	382	267
Argentina:											
Exports	1,361	1,169	688	1,125	1,027	929	944	975	994	1,009	1,079
Imports	1,187	1,480	1,179	795	979	1,173	1,128	1,310	1,233	993	1,189
Trade balance	174	−311	−491	330	48	−244	−184	−335	−239	16	−110
Brazil:											
Exports	1,347	1,757	1,409	1,539	1,562	1,423	1,482	1,392	1,243	1,282	1,269
Imports	1,098	2,011	2,010	1,319	1,630	1,306	1,234	1,488	1,353	1,374	1,462
Trade balance	249	−254	−601	220	−68	117	248	−96	−110	−92	−193
Chile:											
Exports	281	370	453	408	398	472	542	455	386	495	489
Imports	247	328	370	335	345	376	354	441	415	413	500
Trade balance	34	42	83	73	53	96	88	14	−29	82	−11
Peru:											
Exports	189	248	234	219	245	268	308	320	281	312	430
Imports	176	262	288	293	250	300	361	400	335	293	375
Trade balance	13	−14	−54	−75	−5	−32	−53	−80	−54	19	55
Uruguay:											
Exports	254	236	209	270	249	183	211	128	139	98	129
Imports	200	310	237	193	274	229	213	255	151	160	244
Trade balance	54	−74	−28	77	−25	−46	−2	−127	−12	−62	−115
Venezuela:											
Exports	1,161	1,353	1,450	1,445	1,690	1,873	2,116	2,366	2,321	2,369	2,440
Imports	667	761	845	916	1,024	1,056	1,249	1,868	1,599	1,577	1,223
Trade balance	494	592	605	529	666	817	867	498	722	792	1,217

Source: International Financial Statistics, June 1961.

APPENDIX TABLE 7.—*U.S. Government grants and credits utilized, IBRD disbursements, and IMF drawings and repayments, 1955 through 1959—selected Latin American countries*

[In millions of U.S. dollars]

Area or country	U.S. Government[1] nonmilitary grants	U.S. Government[1] credits utilized	IBRD disbursements[2]	International Monetary Fund[2]	
				Drawings	Repayments
Latin America:					
1955	67.18	123.81	77.00	0	22.40
1956	79.95	89.94	95.20	21.40	28.20
1957	109.06	290.13	81.90	204.60	47.29
1958	111.78	529.59	72.00	117.60	59.80
1959	105.11	381.70	68.60	114.80	77.30
Argentina:					
1955	0	0	0	0	0
1956	.84	0	0	0	0
1957	0	7.90	0	75.00	0
1958	.10	61.01	0	0	0
1959	.47	83.77	0	72.50	0
Brazil:					
1955	5.55	48.05	14.50	0	0
1956	6.03	36.86	12.80	0	28.00
1957	6.93	76.23	3.80	37.50	0
1958	7.06	190.17	2.30	54.80	17.20
1959	9.15	87.40	20.60	0	20.20
Chile:					
1955	1.82	.70	2.70	0	0
1956	2.15	3.21	7.00	0	.20
1957	3.84	20.21	7.70	31.10	12.30
1958	15.79	56.83	8.90	10.60	0
1959	8.79	43.15	6.80	.70	.70
Peru:					
1955	3.21	6.02	8.00	0	0
1956	7.89	19.23	10.10	0	0
1957	10.53	44.33	9.60	0	0
1958	7.32	52.28	6.60	10.00	0
1959	4.15	53.78	3.70	4.50	14.50
Uruguay:					
1955	.25	0	1.20	0	0
1956	.33	0	4.40	0	0
1957	.25	0	7.50	0	0
1958	.21	0	7.70	0	0
1959	.13	1.46	7.70	0	0
Venezuela:					
1955	.19	0	0	0	0
1956	.11	4.32	0	0	0
1957	.15	.23	0	0	0
1958	.12	3.19	0	0	0
1959	.13	1.24	0	0	0
Total for selected countries:					
1955	11.02	54.78	26.40	0	0
1956	16.60	63.72	34.30	0	28.20
1957	21.69	148.90	28.60	143.60	12.30
1958	30.61	363.49	25.50	75.40	17.20
1959	22.82	270.80	38.80	77.70	35.40

[1] Source: Office of Business Economics, Foreign Grants and Credits by the U.S. Government (U.S. Government Printing Office, Washington 25, D.C.), published quarterly.

Figures for U.S. Government grants exclude items entitled: (*a*) Military Supplies and Services (Defense Department); (*b*) Military Equipment Loans.

Figures for U.S. Government credits utilized exclude items entitled: (*a*) Defense Mobilization Development ($5.49 million, 1955; $4.35 million, 1956; $0.03 million, 1957; $0.004 million, 1958; $0.08 million, 1959; Brazil was the sole recipient); (*b*) Export-Import Bank (through agent banks) repurchases. This is the repurchase by the Export-Import Bank of amounts already held by agent banks and does not represent a new credit.

[2] Source: International Monetary Fund, International Financial Statistics, Statistics Division (Washington 25, D.C.; May 1961), vol. XIV, No. 5, pp. 4 and 12.

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