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U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

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U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

MONDAY, JUNE 28, 1976

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

The subcommittee met, pursuant to notice, at 10:05 a.m., in room S-407, the Capitol, Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long, Bolling, and Hamilton.

Also present: Sarah Jackson, John R. Karlik, and Lou Krauthoff, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., minority professional staff member.

OPENING STATEMENT OF CHAIRMAN LONG

Chairman LONG. The meeting of the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee will come to order.

The Subcommittee on Inter-American Economic Relationships today is initiating a series of hearings on the changing economic relationships between the United States and Latin America and the Caribbean. We will, through these hearings and others to follow, try to define what U.S. interests in Latin America are and explore some proposals for new policies.

I think this reassessment is long overdue. Relations between the United States and Latin America over the past decade have suffered from what borders on a policy of "benign neglect" on the part of both Congress and the administration.

The recent meetings of the OAS in Santiago and the UNCTAD in Nairobi, for example, have pointed up the growing number of economic conflicts between the United States and the developing countries. I believe we must begin now to address these issues before they become crises, lest we find ourselves in the unfortunate position of making policy "under the gun" rather than in an atmosphere conducive to thoughtfulness and cooperation.

It might be useful to ask ourselves why there should be hearings in Congress on economic relations with Latin America. I would begin to answer by suggesting that the problems of the Third World—poverty, hunger, overpopulation and so forth—are of vital concern to the United States.

A peaceful world order, which is crucial to our own security and prosperity, will be impossible as long as these problems persist. Because of the proximity of Latin America to the United States and our historical relationship with it, Latin America may well be the most important part of the developing world to the United States in the long run.

From an economic standpoint, Latin America is one of the more promising regions of the developing world. Most of the countries there have economies that are fairly well on their way to development. They have moved to some extent.

This is evidenced by a burgeoning industrial base, an extensive infrastructure already in place, and growing numbers of manufactured exports. If we are able to find successful formulas for promoting cooperation for development in our own hemisphere, perhaps they could serve as a blueprint for other areas as well.

But there are other compelling reasons. Latin America continues to be a major trading partner, and it accounts for 70 percent of all U.S. direct investment in developing countries. Latin America will continue to be a prime source for raw materials needed here in the United States and upon which we are daily becoming more dependent. At the present, I do not believe we have much of a policy—economic or otherwise—toward Latin America or the Caribbean. The Alliance for Progress served a useful purpose in its day and clearly had an impact on the region's development—but the Alliance died years ago and nothing has taken its place.

Over the past 8 years, President Nixon and Secretary Kissinger used slogans to try and create the illusion that we had a Latin American policy. The "low profile," the "mature partnership," and the "new dialog" came and went along with a variety of other similar catch phrases—but an effective policy cannot be based upon catch words and a passing pat on the head.

As they were destined to do, most of these slogans have gone the way of oblivion. Secretary Kissinger, even as recently as the Santiago meeting, still speaks of a "special relationship" with Latin America. I hope that tomorrow, when we begin discussing the United States-Latin American connection, we can get some hard information about just what is and what is not "special" about any relationship between the United States and Latin America.

My own view is that any political relationship, if it is to be a lasting one, must be founded on perceptions of a common threat or a mutual profit. I have a hunch that U.S. interest in Latin America—political, economic or otherwise—will best be served by a healthy commercial relationship. Ways must be found to enhance the complementary nature of the economies of this hemisphere in ways which benefit all. And ways must be found to adjust differences amicably where economic interests diverge.

This series of hearings is open ended. The first two sessions today and tomorrow will be general in nature, to be followed by hearings on specific topics. We already have scheduled our first regional hearings in New Orleans for July 7 and 8 to discuss trade and investment questions.

Today's hearing will not be concerned directly with U.S. relations with Latin America. Rather, it will be about Latin America itself. We will try to take off our North American glasses, and as dispassionately as possible, look at the region, its problems and achievements. We will be looking at changes that have occurred over the past 5 years and at changes that are likely to occur in the future. I suspect that the situation is considerably different from what the average American and the average Member of Congress and the average member of the executive branch perceives to be.

Tomorrow we will put our North American glasses back on and begin to look at what U.S. policy is toward Latin America—to the extent that there is a policy—and explore prospects for new policies.

At this point, I would like to make a couple of explanations about the subject. First, when I speak of Latin America I am referring to a geographic and not a cultural or linguistic area. Latin America, as I am going to use the term, covers the entire Western Hemisphere to our south, including the largely black, English-speaking and French-speaking people of the Caribbean.

Second, while we are making what is primarily an economic inquiry, we all must recognize that few things are more political than the economy. When we passed the most recent Trade Act and denied generalized system of preferences, GSP, to Venezuela and Ecuador because of their membership in OPEC, this was essentially a political decision.

But, as we all know, that decision has had important political and economic repercussions. I suspect that the effects of these exclusions has been quite different in many respects than what was contemplated at the time the action was taken.

In recognition of the intricate web of economics and politics in the life of this hemisphere, I invited as our opening witness today Prof. Kalman Silvert—a noneconomist, but one of this country's foremost scholars on Latin America. I deeply regret his untimely death a couple of weeks ago, as it deprived not only this subcommittee but all of the Americas of one of their most eloquent witnesses for justice and democracy.

We are honored to have three distinguished witnesses with us today, all of whom bring different expertise and perspectives to bear on our subject. Mr. Abraham Lowenthal, who graciously agreed to appear in place of Mr. Silvert, is a fellow with the Council on Foreign Relations and a former student of Mr. Silvert's.

Mr. Sidney Weintraub, now Dean Rusk professor at the Lyndon Baines Johnson School of Public Affairs in Texas, formerly served as Deputy Assistant Secretary of State for Economic Affairs and Deputy Administrator of AID.

Mr. Tom Davis is a professor of economics and head of the Latin American studies program at Cornell University which gives him particularly good insight at what we are attempting to look at here.

Congressman Bolling, do you have anything you would like to say?

Representative Bolling. No, thank you, Mr. Chairman. I am delighted that you are having these hearings. These are very important. And it has been a subject much neglected in the last few years.

Chairman Long. Mr. Lowenthal, we will hear from you first.

STATEMENT OF ABRAHAM F. LOWENTHAL, DIRECTOR OF STUDIES, COUNCIL ON FOREIGN RELATIONS, INC., NEW YORK, N.Y.

Mr. Lowenthal. Thank you, Mr. Chairman.

I know you will understand that the honor I feel in meeting with you today is overwhelmed by deep sadness in knowing that I am with you in the place of my teacher and friend, the late Kalman Silvert. I think it would be appropriate to begin by saying a bit about him.

Kal Silvert would have risen to the challenge of your assignment, as he unfailingly did. He would have been able to discuss the political context throughout Latin America and the Caribbean; to highlight the trends and the key indicators; to infuse data with meaning; to relate statistics to people; to link politics and economics; to report on the sad state of democracy in the Americas and to speculate on the reasons why democracy is everywhere in crisis; and especially to consider the profound consequences and implications for the United States of events in Latin America, as he did in his final manuscript, a book which will appear in January and which he had just completed.

An authority on most of the individual countries of the region, able to speak Spanish with most of the different accents of the America, Kal Silvert knew and felt the politics of the region with a depth of understanding few in this country could match.

A social theorist of the first order Kalman Silvert learned from his analysis of nation-building in the Americas much which he showed to be relevant to democracy's troubles in the United States as well.

An inspiring teacher, Kal Silvert trained a whole generation of scholars in the United States to ask meaningful questions, to probe, and to focus always on the connection between theory and data.

An imaginative and creative executive with the Ford Foundation, Kalman Silvert did more than any other person to strengthen the capacity of Latin American social scientists and social science institutions to carry out their work, in surroundings which were often far from supportive.

The first president of the Latin American Studies Association, Kal worked with U.S. scholars from every discipline to forge a profession and to infuse it with scholarly and ethical standards.

Above all, Kal was an uncommonly warm and emphatic human being, one who merged his professional and his personal concerns into an incomparable whole, a person who was hard at work on the final day of his life trying to help victims of repression in Argentina as he had helped so many others and with so many problems before. We shall all miss Kalman Silvert more than any of us now realizes.

I know Kalman Silvert would have wanted these hearings to go on without him, for he was always enthusiastic about any chance to improve the quality of attention being paid in this country to Latin American and Caribbean affairs, and he would have particularly welcomed the interest of this subcommittee.

Knowing that, I have tried, in the short time available, to prepare myself to accept the chairman's invitation.

It is hard to know what to cover in attempting a rapid overview of politics in Latin America and the Caribbean, as the initial note for these hearings.

I think one way to begin approaching this question is to contrast Latin American realities today with what they were, or seemed to be, just 15 years ago. You mentioned 5 years ago in your opening statement. I chose in preparing my remarks to concentrate in the period the last 15 years because I think 15 years ago when Alliance for Progress was proclaimed, was really the last time that the American public paid sustained attention to Latin America. I think a lot of us in the general public, and perhaps even a Member or two in Congress, still have the images of Latin America that were formed at the time of that concentrated spurt of attention which was given to Latin America in 1961–62.

Fifteen years ago, many were celebrating the "twilight of the tyrants" in Latin America, in Tad Szulc's phrase, and welcoming the end of military rule. Today, democratic regimes govern in only two countries of South America—Venezuela and Colombia—and for most of the past year the latter has been under a "state of seige" in which public demonstrations were banned. Even the Commonwealth Caribbean countries, with strong democratic traditions, are moving away from competitive political processes. Opposition leaders are being squelched.

Fifteen years ago, it was generally assumed that economic growth, improved social equity, and democratic political development all went hand-in-hand; that prospects for democracy in Latin America would improve and were improving as economic growth occurred. Symour Martin Lipset's well-known article, "Some Social Requisites of Democracy" in the American Political Science Review in 1959 epitomized that faith, and it underlay much of the Alliance for Progress.

Argentina used to be the puzzling case that did not fit, the one essentially prosperous country which was always having problems "keeping it together" politically. It took a brilliant Argentine social scientist, Guillermo O'Donnell, to suggest that Argentina might not be an exception but rather might illustrate a troubling rule: As countries enter a stage of "high modernization " "bureaucratic authoritarianism" either civilian or military is more likely than participatory democracy to become the pattern of political behavior and it became institutionalized in Latin American politics. Argentina, Brazil, Chile and Uruguay all exemplify this perverse tendency.

Even more disturbing is the fact that those nations which have evolved the farthest in the direction of social mobilization and integration have been cursed with the most repressive political regimes. Kalman Silvert himself, in an essay prepared for the Commission on United States-Latin American Relations, the so-called Linowitz Commission, noted that the four countries in the Americas which are the "most complete social nations" are Cuba, Chile, Uruguay, and Argentina. It is a painful truth that these are precisely the nations in the Americas with the least freedom of expression and with the highest incidence of political prisoners. Uruguay, a country of 2.5 million which once enjoyed a reputation for its political freedom, now has an estimated 5,000 political prisoners, for example, as Representative Edward Koch of New York has recently emphasized.

In general, the Americas are plagued by widespread violations on human rights. Amnesty International reports in 1975 that Costa Rica is the only country in Latin America for which it received no allegations of torture in the preceding year.

A similar point can be made by contrasting our images of Peru and Chile 15 years ago with their very different realities today. Peru was regarded 15 years ago as the most extreme case in the Americas of structured inequity and stagnant development, where change would probably only come through revolution. Fidel Castro promised to make the Andes the "Sierra Maestra" of South America, and many observers expected large scale violence to erupt, and perhaps to be suppressed by Peru's armed forces, the "watchdog of the oligarchy."

By 1976, however, significant change has come to Peru, not through violent upheaval—which never came—but through a fascinating process of military-directed reform; in Fidel's pungent phrase, it is "as if the fire had started in the firehouse." To think that revolutionary change could have come to Peru through its armed forces.

Chile, on the other hand, was commonly regarded 15 years ago as a model polity: Democratic, civilian, respectful of a wide range of social and economic views, with strong political institutions—strong Congress, for example—and a sense of civilized discourse. Today, Chile presents us a haunting specter: its parties banned, its institutions corrupted, its Congress closed, its army officers reigning, even in the universities, many of its political leaders jailed or exiled, with torture as a commonly practiced art, and with no obvious prospect for returning to the standards on which inter-American friendship must be based.

In contrast with 15 years ago, the state has become much more powerful all over Latin America and the Caribbean, not only in the political sphere but in the economic sphere as well. Cuba's socialist experiment provides the most dramatic example, of course, but throughout the region the role of the state has exploded. In Peru, the state's share of total national development was only 13 percent in 1965 but over 50 percent by 1973. In Brazil, government expenditures as a proportion of GNP went from 17 percent in 1947 to 37 percent by 1973. Even in Venzuela, still a capitalist bastion, state enterprises now dominate the petroleum, petrochemical, steel, and mining sectors.

All over the region, states tax more, spend more, control more, and regulate more than ever before. And the power of bureaucracies, civilian and military, has grown accordingly.

Fifteen years ago it was believed that Latin America was at the "take off" stage of economic development, needing only sustained infusions of external capital—public and private—to achieve rapid economic development. And the Latin American economies did grow rapidly; the regional GDP increased at an annual rate of 5.6 percent during 1961–70, and at an even more impressive rate of over 7 percent from 1971 to 1974.

But growth is not development; in the last few years, it has become evident that the lot of many Latin Americans has not been much improved by all the economic activity at the aggregate level.

In some countries, indeed, the lot of the poor has worsened. Reports from Brazil for example indicate that the Brazilian miracle—and it has been a staggeringly impressive overall performance—has not produced much for an important segment of the country's population. In many countries, growth has been secured at the expense of the rural poor, and/or by holding down wages for industrial workers. Among the first moves of each of the rightist authoritarian regimes, most recently the Argentine one, have been to revise labor legislation at the expense of the workers, and to curb inflation at the expense of the poorest.

Even those countries which have undertaken reforms have found strict limits on the achievement of social equity. In Peru, for instance, recent studies have shown that even if all the announced reforms are fully implemented—and their performance has been impressive—the main income distribution effect will be to distribute income taken from the top 5 percent of the population and make it available to those in the top percent of the population. All over the hemisphere, in general, resources and power of all kinds are maldistributed, and poverty is still widespread.

Not only has economic growth in Latin America been flawed from the standpoint of equity but the most recent period has raised questions about the viability of the economic growth model in several Latin American countries. I am sure that Professor Davis and Professor Weintraub will expand on this at greater length, but one is struck by the very serious capital shortage and international debt problems which have affected Peru, Chile, Argentina, Brazil, and other countries, and which jeopardize the ability of these countries to attract foreign capital.

The political implications and consequences of this capital shortage are difficult to analyze. It is possible that the eventual result will be to fortify the trend toward economic nationalism in several of these countries, and therefore to make for more difficult relations between those countries and the United States. On the other hand, and perhaps in the more immediate term, there may be a better receptivity in some of those countries, to foreign investment, and therefore a greater disposition to conciliate outstanding differences, such as those which have affected relations between Peru and the United States during the last several years.

During the past several years, most of the nations of Latin American have become increasingly assertive in their relations with foreign direct private investment, particularly from the United States. Latin American technocrats have become more self-confident in their dealings with transnational corporations and have been articulating new sets of rules, backed by the power of the enlarged states and by regional arrangements such as the Andean Common Market. Expropriations and nationalizations have become common, especially in the mining and natural resource sector. Since 1960, nationalizations have affected all American investments in Cuba, much investment in Chile and in Peru, the petroleum and iron ore sectors in Venezuela, and significant other United States investments in the area. The nature of U.S. investment in the Americas has changed, away from the natural resources extractive sector and increasingly into manufacturing and services, and of course that has political implications as well.

Turning more generally to the international scene, 15 years ago the countries of Latin America and the Caribbean almost uniformly looked to the United States for leadership, and supported Washington's major foreign policy initiatives in the United Nations and elsewhere. No country in the region except Cuba had any other international relationship remotely comparable in significance with the one it maintained in Washington.

For example, in 1963 the Soviet Union had embassies in only three Latin American countries—Argentina, Cuba, and Mexico—and it had diplomatic relations with only seven other states. Today, by contrast, the Latin American nations play an increasingly independent role in international affairs. Venezuela was a founding member of

OPEC; Mexico and Peru are leading champions of Third World demands for a new international economic order; Brazil aspires to an influential position in world affairs, and is increasingly recognized for that role; and Cuba is playing an audacious international role.

By now, all of the countries in South America except Chile and Paraguay maintain relations with the Soviet Union, to stick with that example, and many are generally active participants in world affairs. The nations of Latin America do not always coincide with the United States in assessing their own national interests, on a variety of topics ranging from agricultural commodities to Zionism.

More generally, 15 years ago United States hegemony over the inter-American system was virtually unchallenged. The United States had little difficulty in obtaining the support of the OAS for its economic blockade of Cuba in 1960, for the quarantine in 1962, or its intervention in the Dominican Republic in 1965. Today, a pattern of intra-American economic and political interaction has largely displaced U.S. dominance. The most notable example of this new pattern is the creation of SELA, the Latin American Economic System, in October 1975. It is too early to tell exactly what role SELA will come to play, but it is noteworthy that it embraces all the members of the inter-American system except the United States, and that Cuba is a leading member of it together with Mexico and Venezuela.

Another feature of hemispheric life which should be mentioned is the extraordinary demographic explosion which has been occurring in Latin America. There are now 300 million Latin Americans, and within 25 years there will be twice as many, or two Latin Americans for every resident of the United States. Assessing the impact of this continuing demographic explosion on politics and economics within Latin America and the Caribbean is extremely complex, of course, and I shall not attempt to do so here. One aspect which deserves special mention, however, is the effect of Latin America's population growth directly on the United States, in the form of migration from Latin America, particularly the Caribbean, to the United States. The mass movement of Caribbean peoples to the United States is one of the understudied aspects of the history of our times. Something like 15 percent of the total population of the Caribbean after World War II has left that region, and much of this population has come to the United States, particularly to the Northeast, and to Florida. The impact on this country, and on inter-American relations of these migrant peoples, and of Mexican immigrants, is a subject worth attention by your subcommittee.

I have tried, in the brief time available to me to prepare, to sketch out some general notions about the political ambiente in Latin America. I hope they will provide some background for your discussion.

Chairman LONG. They certainly shall, Professor Lowenthal. We are most appreciative, as I mentioned earlier, particularly in view of the time constraints we had to impress upon you.

We have a vote now on the floor of the House. We generally are not in session at 10 o'clock in the morning, but today we are. Congressman Bolling and Congressman Hamilton have gone down to vote. With the approval of the subcommittee I would like to proceed, and then we will have a general discussion. Because the questions are of such general nature we can accomplish more by doing it with all three of you together than by questioning each witness after he appears. So if that is agreeable, we will go ahead with you, Mr. Weintraub. And again, let me welcome you back to Washington. I know you make the trip often, but we are glad to have you back.

STATEMENT OF SIDNEY WEINTRAUB, DEAN RUSK PROFESSOR, LYNDON B. JOHNSON SCHOOL OF PUBLIC AFFAIRS, THE UNIVERSITY OF TEXAS, AUSTIN, TEX.

Mr. WEINTRAUB. Thank you, Mr. Chairman.

I had not seen Mr. Lowenthal's presentation before I came here. We prepared each of our presentations separately, but I discover now that I will be dealing in an economic sense with some of the themes that he was dealing with in a broad political context.

As I note in my prepared statement, I am not always sure where the dividing line is between social, political and economic issues, and if I stray into the turf of others, please forgive me. I probably will.

You said at the outset that the question of U.S. policy toward Latin America will be reserved for tomorrow and other sessions. I don't intend to deal very much with policy, but I think I will stray on to that turf as well.

I would like to start by listing some of my conclusions and then moving from there into some supporting detail.

Looked at globally, taking all the countries together and then averaging, economic growth in Latin America was high during the 1970's until last year. Gross domestic product has been growing by more than 7 percent a year in this decade and by more than 4 percent on a per capita basis. By any historical standard, sustained growth at this rate for a whole continent is remarkable. Overall GDP growth was between 5.5 and 6 percent a year during the 1960's, which also was reasonably satisfactory based on previous standards. Mr. Lowenthal invoked the Alliance for Progress and looked back 15 years. And one conclusion that he reached and with which I agree, was that the Alliance for Progress did have some impact in instilling and inculcating a growth impact in Latin America.

GDP growth in 1975 seems to have been between 3 and 4 percent, or a little higher than the growth in population. The recession in the United States and other developed countries had its reflection in Latin America. Now that the economies of the United States and other developed countries are recovering, this reflection should result in renewed Latin American growth this year and probably even more so in 1977. Latin America is more independent of the United States economically than it used to be, but we still count. Latin American self-help is the crucial element in its own development, but this cannot do the full development job unless we also manage our own economic affairs well. For better or worse, we are interdependent.

While the foregoing overall averages have some overall value, they also are deceptive, which is characteristic of many averages. Some Latin American countries have been growing recently—until 1974 and 1975—at around 10 percent a year, such as Brazil, the Dominican Republic and more sporadically, Ecuador. Others have had more modest rates of growth, such as Mexico, Argentina on and off, Colombia, Peru, Venezuela, and most of the smaller countries. Some have had negative growth for many of the years in the 1970's, such as Chile and Uruguay, although Uruguay showed some recovery last year while others were slowing down.

Overall data are also incomplete in that they say nothing about income distribution. Latin America, despite its general advocacy of third world ideology in international forums—an ideology which sometimes argues the need to close the income gap between rich and poor countries—is not very egalitarian in its domestic economic and social structure. There are exceptions. The countries accounting for the bulk of Latin American population are not exceptions. This has potential political implications which have already been cited, and I will not elaborate on them in this statement. The social justice ethic of the Alliance for Progress, unfortunately, did not really take hold.

Despite the self-evident great differences among the Latin American and Caribbean countries in their economic, social and political structures, they do try to deal with us as a bloc. The Latin American Economic System, or SELA as it is called, is the most recent organized manifestation of this. Like third world cohesion in United Nations bodies, much of Latin America's outward unity is for pressure against others for negotiating purposes. I do not wish to denigrate this, since concessions often come only after pressure is exerted, but we should recognize this for what it is. Latin America's economic status is enough more affluent than that of most less-developed countries, and enough less affluent than that of the developed countries, that it does not fit easily into either group. It has chosen the path of the third world for the obvious reason of seeking concessions from the wealthier countries and to have more to say about the management of the international economic system. But the relationship is not a wholly comfortable one, and I suspect not a durable one.

I raise the question of unity for pressure's sake to lead into what I think are the major economic issues facing Latin America, since these latter are not amenable to solution by pressure on others. For most of the countries, and for almost a decade prior to the oil price increases of late 1973 and early 1974 and then the deep recession in the developed countries, balance of payments issues were not Latin America's No. 1 headache. Balance of payments issues were important, but not primordial. The issues during that period were not the terms of trade, not really the paucity of external resources—that is, not really the issues for which bloc pressure was used by third world countries. The deeper issues in Latin America in my judgment were excessive population growth, excessive unemployment, and grossly unequal distribution of the benefits of its societies. Raul Prebisch focused on these issues in his study in 1970 for the Inter-American Development Bank entitled "Change and Development," and he thought that increased economic growth could help to solve them. He knew that growth would not necessarily do it by itself. And it has not. The balance of payments problems reemerged in 1974 and 1975, but they are likely to subside again in 1977 assuming that growth in the developed countries continues, while great internal inequality will still be there. In my judgment Latin America has not been focusing on the issues of greatest importance to most of its economies. Or to put this another way, one gets the feeling that some Latin American leaders are stressing external pressure since they do not know how best to deal with the more transcendental internal economic and social problems they face.

I will skim very briefly over the rest of my prepared statement in the limited time available, touching on some of the trade and balance of payments consequences of the oil price increases of 1973 and 1974, and then the economic recession in the developed countries in 1974 and 1975. I would like to touch briefly on levels of unemployment and inflation in Latin America, focusing on some of the key countries, and then give some judgments as to where I think Latin American economies may be going in the next several years.

The events of the last several years, 1974 and 1975, had a major trade impact on Latin America.

The oil price increases helped some of the countries, those which export oil, such as Venezuela, Trinidad and Tobago, and Ecuador and Bolivia to a certain extent. Several countries were left relatively unchanged in their resource position; Argentina, Mexico, and Colombia fit this pattern. And the oil price increases had a severe adverse developmental impact on other countries, such as Brazil, Chile, Peru, Uruguay, Brazil, and Central America.

Let me cite just one example, that of Brazil, because it is such a major country. Adding together both crude oil and product, the increase in imports between 1973 and 1974 was from $725 million to more than $2.8 billion.

The biggest impact on Latin American trade in 1975 was the result of the worldwide recession. Latin American exports—and remember, the figures are not deflated for the inflation which occurred—declined between 1974 and 1975 from about $44.5 billion to $42.5 billion.

One of the factors affecting the decline in exports, in addition to the recession in the developed countries, was the inflation in some of the key Latin American countries and the failure of exchange rates to be adjusted sufficiently to compensate for the effects of inflation.

In addition to the decline in the demand for Latin American exports, prices for the goods which Latin America imported, particularly manufactured goods, increased because of the inflation in the developed countries. Latin American imports increased between 1974 and 1975 from about $50 billion to $53–$54 billion.

Latin America's trade deficit was about $5.5 billion in 1974 and about double that last year. If the trade of the oil exporting nations is exluded from last year's figure, the trade deficit was about $16 billion.

In trade between the United States and Latin America, the change which occurred between 1974 and 1975—I am talking here just about the change—was in the neighborhood of $3.5 billion in favor of the United States; that is, Latin America's trade balance with us deteriorated by that amount.

The total turnaround in the U.S. trade balance between the years 1974 and 1975 was about $13 billion. Of that amount, about $3.5 billion was a result of the improved trade balance with Latin America in 1975.

Let me briefly touch on the balance of payments as a whole. Latin American in 1974 had a current account deficit of about $12.5 billion. I do not have final data for 1975, but the figures apparently showed a further deterioration.

The financing of the deficits in these years took place essentially by borrowing, although there was some drawdown of reserves by countries such as Brazil. The borrowing increased the debt and exacerbated the debt servicing obligations of many of the Latin American countries. Many of them, such as Chile, face burdens which will have a very serious impact on development. The burden of the biggest country, Brazil, is relatively large, about 15 percent if one looks only at the debt service payments on public and publicly guaranteed debt. This ratio is not inordinately high. It is higher if one adds the service on private debt. My own judgment is that if the economies of developed countries continue to grow and Brazilian exports continue to recover, as I think they are likely to, then the burden in and of itself is not unmanageable. This assumes, as I say, growth in the developed countries. And it also assumes internal management of Brazil's inflation, which at the moment is not being controlled very well.

Let me touch on one other theme which I think is important in looking at overall balance of payments data; namely, where funds came from in financing the deficits which the Latin American countries have suffered in the last several years.

In its annual report for 1975, the Inter-American Development Bank gave a figure of $7.6 billion for the net flow of official and private external financing toward Latin America in 1974. Of this, the bulk, $5.4 billion, came from private sources. The bigger countries, Brazil and Mexico, and to a certain extent, Argentina, Chile, and Peru, were the principal recipients of these private flows.

Publicized Eurocurrency credits to Latin America were about $4.5 billion in 1974, and more than $5 billion in 1975. In 1974, two countries, Brazil and Mexico, obtained more than 70 percent of these publicized credits, and in 1975, their proportion was about 80 percent.

I would like to draw a policy conclusion which I think emerges from the data which I have just cited. Some of the countries, Brazil, Mexico, Argentina, and Colombia increasingly, have diversified economic bases. The main aspects of our economic relations with these countries are in trade and investment. Our policies in those fields matter much more to these countries than our foreign aid policies. For other countries the price of basic commodities and, hence, our commodity policy, is much more important than anything else we do in the economic sphere. For the poorest countries, such as those in Central America and the Caribbean, our aid policy will be important in our relations in the near future.

I would like to draw one further conclusion which I think emerges from this; namely, that while Latin America may seek to pressure us as a bloc, our economic policies will have to be differentiated since the separate countries will receive different benefits from the various policy steps we take.

Let me briefly outline the inflation situation in Latin America, because Latin American inflation has become worse in the last several years in just about every country. This is true in Brazil, where the inflation was almost 35 percent last year, and it seems to be running at about the same level this year. In Argentina and Chile, the rate of inflation, looking at the consumer price indexes, was in the hundreds. In Peru, the cost of living index, which was listed at 10 percent in 1975, was almost 25 percent last year. And Mexico's rate of inflation was about 15 percent last year as compared to 25 percent in 1974.

The other two major issues which I have cited at the outset of my remarks were unemployment and income distribution.

Unemployment is extremely high in almost every Latin American and Caribbean country. The real figures are hard to obtain, and it is really difficult or impossible to calculate the unemployment equivalents of underemployment. The figures, however, seem to be on the order of 20 to 30 percent if you add unemployment and underemployment together for such countries as Peru, Mexico, Chile, and other major countries.

The final point I would like to make is one that Mr. Lowenthal made —and I will not dwell on it—is the highly inequitable income distribution pattern in Latin America. The Brazilian economic miracle exacerbated inequalities in income distribution. In Chile, where there is a major anti-inflation campaign in process, the brunt of this program is falling on the poorest sector of the economy.

Mr. Lowenthal referred to immigration and population problems stemming from the Caribbean and, to some extent, from Mexico. In that part of the country from which I come, Texas, the question of illegal immigrants coming from Mexico to the United States is a major issue. The number of illegals in the United States is really not precisely known, but the figure seems to be between 6 and 12 million persons, the majority of them coming from Mexico. What happens is that when population, employment and income pressures show up in Mexico, they come to the United States as well and affect U.S. employment and income.

Let me conclude. What I have tried to show is that the Latin American economies are affected by what happens here and other developed countries. With a lag, as our economies decline, so do their economies, and as we recover, so will they.

Our recession in 1975 was the main factor in our balance-of-payments improvement, but it led to a balance-of-payments deterioration for Latin America. Our present recovery is leading to a deterioration in our trade balance, but it is helping to stimulate Latin American exports to us. The events of 1974 and 1975 led to increased Latin American borrowing to finance their increased current account balance-of-payments deficits, and the recoveries of the developed countries should help to mitigate Latin America's future debt service problems.

Looking ahead over the next several years, there should be an improvement in Latin America's balance-of-payments position from what was the case during the last 2 years, and there should be a resumption of past growth rates. The major problems are likely to be internal, in dealing with inflation, unemployment, and in achieving a greater sense of economic participation in the various societies.

Thank you.

Chairman LONG. Thank you very much, Professor Weintraub. You have been most helpful.

Without objection, I would like to make your entire prepared statement a part of the record at this point.

[The prepared statement of Mr. Weintraub follows:]

PREPARED STATEMENT OF SIDNEY WEINTRAUB

THE ECONOMIC SCENE IN LATIN AMERICA AND THE CARIBBEAN

I was asked to examine some current themes affecting the economies of the Latin American and Caribbean countries. I understand that other witnesses are doing the same in the course of the Subcommittee hearings on internal social and political issues, and on United States relations with Latin American and Caribbean countries. I do not know where the dividing lines are between internal and external relations and among social, economic and political matters, and I may therefore stray onto turf others feel belongs to them.

I would like first to list some conclusions.

1. Looked at globally, taking all the countries together and then averaging, economic growth in Latin America was high during the 1970's until last year. Gross domestic product has been growing by more than 7 percent a year in this decade and by more than 4 percent on a per capita basis. (See Table 4.) By any historical standard, sustained growth at this rate for a whole continent is remarkable. Overall GDP growth was between 5.5 and 6 percent a year during the 1960's, which also was reasonably satisfactory based on previous standards. The growth ethic of the Alliance for Progress did take hold.

2. GDP growth in 1975 seems to have been between 3 and 4 percent, or a little higher than the growth in population. The recession in the United States and other developed countries had its reflection in Latin America. Now that the economies of the United States and other developed countries are recovering, this reflection should result in renewed Latin American growth this year and even more so in 1977. Latin America is more independent of the United States economically than it used to be, but we still count. Latin American self-help is the crucial element in its own development, but this cannot do the full development job unless we also manage our own economic affairs well. For better or worse, we are interdependent.

3. While the foregoing overall averages have some overall value, they also are deceptive. This is a characteristic of many averages. Some Latin American countries have been growing recently (until 1974 and 1975) at around 10 percent a year, such as Brazil, the Dominican Republic and more sporadically, Ecuador. Others have had more modest rates of growth, such as Mexico, Argentina on and off, Colombia, Peru, Venezuela, and most of the smaller countries. Some have had negative growth for many of the years in the 1970's, such as Chile and Uruguay, although Uruguay showed some recovery last year while others were slowing down.

4. Overall data are also incomplete because they say nothing about income distribution. Latin America, despite its general advocacy of third world ideology in international forums, an ideology which sometimes argues the need to close the income gap between rich and poor countries, is not very egalitarian in its domestic economic and social structure. There are exceptions. The countries accounting for the bulk of Latin American population are not exceptions. This has potential political and social implications whose elaboration I will leave to others. The social justice ethic of the Alliance for Progress, unfortunately, did not really take hold.

5. Despite the self-evident great differences among the Latin American and Caribbean countries in their economic, social and political structures, they do try to deal with us as a bloc. The Latin American Economic System, or SELA as it is called, is the most recent organized manifestation of this. Like third world cohesion in United Nations bodies, much of Latin America's outward unity is for pressure against others for negotiating purposes. I do not wish to denigrate this, since concessions often come only after pressure is exerted, but we should recognize this for what it is—a pressure tactic. Latin America's economic status is enough more affluent than that of most less-developed countries, and enough less affluent than that of the developed countries, that it does not fit easily into either group. It has chosen the path of the third world for the obvious reason of seeking concessions from the wealthier countries, but the relationship is not a wholly comfortable one, and I suspect not a durable one.

6. I raise this question of unity for pressure's sake to lead into what I think are the major economic issues facing Latin America, since these latter are not amendable to solution by pressure on others. For most of the countries, and for almost a decade prior to the oil price increases of late 1973 and early 1974 and then the deep recession in the developed countries, balance of payments issues

were not Latin America's number one headache. Balance of payments issues were important, but not primordial. The issues during that period were not the terms of trade, not really the paucity of external resources—that is, not really the issues for which bloc pressure was used by third world countries.

The deeper issues in Latin America in my judgment were excessive population growth, excessive unemployment, and grossly unequal distribution of the benefits of its societies. Raul Prebisch focused on these issues in his study in 1970 for the Inter-American Development Bank called "Change and Development," and he thought that increased economic growth could help to solve them. Perhaps they can, but to date they have not. The balance of payments problems re-emerged in 1974 and 1975, but they are likely to subside again in 1977, while great internal inequality will still be there. In my judgment Latin America has not been focusing on the issues of greatest importance to most of its economies. Or to put this another way, one gets the feeling that some Latin American leaders are stressing external pressure since they do not know how best to deal with the more transcendental internal economy and social problems they face.

In the remainder of this paper, I will examine some of the consequences on Latin American trade and balance of payments of the oil price increases of 1973 and 1974 and then the economic recession in the developed countries in 1974 and 1975. I will discuss briefly the levels of unemployment and inflation in some key countries. Finally, I will give some judgments as to what is likely to happen to Latin American economies in the near future and, flowing from this, what the major internal economic issues will be.

Trade

World events of 1974 and 1975 had a major impact on Latin American and Caribbean countries.

The oil price increases obviously augmented the resource availabilities of the oil exporting countries of the region, such as Venezuela, Trindad and Tobago, Ecuador and Bolivia. They left some countries, those relatively self-sufficient in petroleum, in a relatively unchanged position. Argentina, Mexico and Colombia are in this category. The oil price increases had a severe adverse developmental impact on countries heavily dependent on petroleum imports. This includes such countries as Brazil, Chile, Peru, Uruguay, Jamaica, and Central America. Between 1973 and 1974, Brazil's petroleum import bill, adding together both crude oil and products, went up from some $725 million to more than $2,800 million. Some of this increase came about because of Brazil's overheated economy in 1973, but most of it was the result of oil price increases. Comparable data could be given for other seriously affected countries, although scaled down in absolute numbers given their smaller economies.

In 1974, some Latin American countries benefited from higher prices for such primary commodities as sugar and bauxite, but the prices for most commodities declined again in 1975. Exporters of sugar, copper, wool, meat, and other commodities, felt the impact of these price declines last year.

The biggest impact on Latin American trade in 1975 resulted from the world wide recession. Because of lower demand in the developed countries, and lower commodity prices, Latin American exports declined from about $44.5 billion in 1974 to $42.5 billion in 1975. The inflation in some of the key Latin American countries, such as Brazil and Mexico, which was higher than in the United States and Europe, also was a factor in dampening the exports of these countries in 1975. In the case of Brazil, the exchange rate was not adjusted sufficiently to compensate for the effects of inflation, and the Mexican exchange rate was not adjusted at all.

The developed countries were suffering not only from recession in 1975, but also from higher than normal levels of inflation. As a result, while their import demand declined, export prices for their manufactured goods increased, and this had its reflection in Latin America. Latin America imports increased between 1974 and 1975 from $50 billion to about $53–$54 billion.

Latin America's trade deficit was about $5.5 billion in 1974 and about double this last year. Moreover, if the trade of the key oil exporting nations is excluded, last year's trade deficit was about $16 billion.

I have included some tables at the end of this paper showing data on Latin American trade with the world and with the United States (Tables 1, 2 and 3), its major trading partner. At this point I would like to include a simple tabulation showing the changes in United States-Latin American trade between 1974 and 1975.

Changes in United States-Latin American trade between 1974 and 1975

	Millions
U.S. exports to Latin America and the Caribbean (fas)	$1,305
U.S. imports from Latin America and the Caribbean (customs basis)	−2,349
Change in trade balance	3,654

Source: Bureau of the Census.

As Tables 2 and 3 at the end of this statement show, the United States trade balance with the world changed from a deficit of $2.5 billion in 1974 to a surplus of $10.7 billion in 1975. This turnaround was due to several factors, such as the depreciation of the dollar since 1971, a decline in prices of many of the primary commodities we imported, and increases in the prices of many of our manufactured exports. However, the turnaround was mainly a result of our recession. Our trade balance has turned negative again thus far this year because of our economic recovery.

One point is worth stressing about the table presented above. More than $3.5 billion of our $13.2 billion turnaround between 1974 and 1975 was the result of the deterioration in Latin America's trade with us.

Balance of payments

Latin America's current account balance of payments was in deficit by $6.3 billion in 1974. However, the four oil exporting countries (Bolivia, Ecuador, Trinidad and Tabago and Venezuela) had a combined current account surplus that year of $6.3 billion. If they are excluded, the rest of the region had a current account deficit in 1974 of about $12.6 billion. While I do not have final data, there apparently was a further deterioration in 1975.

In 1975, as I have just noted, the United States corrected its trade balance and its current account position as a result of its recession; we needed less imports as our economy declined. Latin America went through a similar process in 1975. Latin America's deficit was as low as it was because economic growth rates slowed down (fortunately they did not turn negative, as they did in the United States) and slower growth called for fewer imports. Socially, a slowdown is not the healthiest way to correct a trade and current account deficit, particularly for relatively low-income countries, since it further impoverishes the poor.

Latin American deficits in 1974 and 1975 were financed in a variety of ways: borrowing from private and official sources; net foreign investment (Table 5 at the end of his statement summarizes private direct U.S. investment in Latin America); and some drawdown of reserves. These borrowings increased the debt and immediate debt servicing obligations of many of the Latin American countries. However, assuming that exports pick up again because of economic recovery in external markets, debt service problems are likely to be manageable for the major countries where the absolute numbers are the greatest. The most common way to measure a country's debt service ratio is by measuring what percentage its interest and principle payments on public and publicly guaranteed debt is of its exports of goods and services. This ratio was about 15 percent for Brazil in 1975. (The ratio was higher, perhaps twice as high, if the interest and amortization on all external debt is counted). A 15 percent debt service ratio is not unusually high for a developing country. Other countries, such as Chile, do have higher debt service ratios, and in Chile's case, this does impose a severe present burden.

However, a debt service burden is not a static figure, nor is any single percentage a sufficient measure of a country's debt service capacity. If Latin America's export of goods and services do increase this year and next, this obviously can alter the burden of debt service. Paying back a debt depends in part on the amount required payment, and in part on prospects for increased earnings and future refinancing.

As I indicated at the outset of this statement, I believe that Latin America's balance of payments pressures are likely to be transitory. This is not to say that individual countries may not face serious balance of payments problems. However, the bigger countries, such as Brazil, Mexico, Argentina, Colombia, have diversified economic bases and what used to be called "nontraditional exports" in some of them, have attained substantial importance in their balance of payments pictures. These exports should increase as the economies of the developed countries recover. I used the conditional verb "should," since export recovery will require keeping exchange rates competitive. In addition, prices of commodities which Latin America exports are on the way up again. Recent increases in the price of coffee are one example of this. The balance of payments pressures on Peru and Chile have been exacerbated by the low price of copper, and these pressures will ease if copper prices increase.

I would like to broaden this balance of payments discussion by looking at the kinds of capital flows that come to different Latin American countries. There flows come from both official and private sources, and increasingly from the latter. In its annual report for 1975, the Inter-American Development Bank gave a figure of $7.6 billion for the net flow of official and private external financing towards Latin America in 1974, of which the private portion was $5.4 billion. Most of this went to the bigger countries, particularly, Brazil and Mexico, but also Argentina, Chile, and Peru.

This skewness of private flows can be shown from another figure. Publicized Eurocurrency credits to Latin America were about $4.5 billion in 1974, and $5.3 million in 1975. In 1974, Mexico and Brazil obtained more than 70 percent of these loans and in 1975 their proportion was 80 percent.

These balance of payments data lead to some conclusions for United States economic policy towards Latin America. As already has been stated, some countries, such as Mexico, Brazil, Argentina, increasingly Colombia, have diversified economic bases, and the main aspects of our economic relations with them are in trade and investment. These are countries which do not need concessional loans and increasingly can rely on private capital markets for their borrowings. For other countries, those which are primarily exporters of such basic commodities as bananas, coffee, sugar, bauxite, and tin, demand for and prices of these products will dominate our bilateral relations. The poorest countries, such as those in Central America and the Caribbean, still require assistance on concessional terms, and our relations with them are likely to be dominated by this fact.

Latin America may seek to pressure us as a bloc, but our response will have to be differentiated since the separate countries will receive different benefits from the various policy steps we take. As one examines the different ways individual countries acquire foreign exchange for their development programs, it becomes evident that our Latin American policy must be discriminating country by country.

These balance of payments data lead also to another policy observation, this one somewhat more conceptual. More and more Latin American countries are developing a broad range of economic activities. The countries of the region are seeking markets in addition to the United States for their products, they are borrowing more on world markets, and they are generating increasing amounts of savings internally. At the same time, our own aid programs are diminishing. The result of these developments is that we are becoming less important to Latin America economically than used to be the case. We still matter, and for most of the countries in the region, we are the dominant external power. American supporters of the European Common Market used to argue that a more equal U.S.-European relationship would be a healthier relationship. An analogous argument could be made with respect to U.S.–Latin American relations, that a less dominant U.S. economic position would be a healthy development.

Income, employment and inflation

Apart for the slowdown in growth in the region in the last several years, there have been other related problems.

Inflation is one of these. In Brazil, to cite the most important country, the general price index, whose annual increase has been brought down to about 15 percent in 1972 and 1973, jumped to almost 35 percent in 1974 and was close to 30 percent in 1975. In Argentina and Chile, the rate of increase if the consumer price indexes have been in the hundreds. In Peru, the annual increase in the cost of living index was less than 10 percent in 1973, more than 15 percent in 1974, and almost 25 percent last year.

Mexico's rate of inflation was close to 25 percent in 1974 and more than 15 percent last year. Inflation rates of this magnitude have their greatest domestic impact on the poor in the various societies. If not corrected for in exchange rates, and generally the corrections have not been complete in the past year, these excessive levels of inflation have exacerbated balance of payments pressures.

However, I do not wish to overstress balance of payments problems. They obviously were a constraint on development in 1975. and may be again in the future. Such pressures are not new to Latin America. In Chile, cyclical booms and busts in copper have been typical and since copper exports have been dominant in that country's total export proceeds for decades, economic planners have always had to integrate the balance of payments constraint into their growth models; like Joseph and the pharaoh, good planners made provision for good years and bad. However, the balance of payments constraint was not the main impediment to growth in the major Latin American countries in the latter 1960's and the early 1970's and is unlikely to be the major constraint for most countries in 1977 and hopefully in 1978 and some years thereafter. This prediction assumes some durability to the economic recovery in the developed countries.

If this prediction turns out to be correct, it should also prove possible for Latin American countries to reattain growth rates they enjoyed before the events of 1974 and 1975.

High rates of macro-economic growth facilitate dealing with issues like unemployment and income distribution, but do not assure their resolution. Unemployment and underemployment are high in almost every Latin American and Caribbean country. Data are not reliable, particularly for translating underemployment into some kind of unemployment equivalent, but some orders of magnitude can be presented. In Chile, where the economic slowdown this past year has been severe (real per capita GDP declined by more than 15 percent last year), unemployment appears to have risen to more than 20 percent. In Peru, the unemployment equivalent of both underemployment and unemployment is in excess of 20 percent. In Brazil, reliable unemployment figures are hard to obtain, but what clearly has happened since mid-1974, when rate of economic growth declined sharply, is that the rate of growth of employment in manufacturing similarly declined. Unemployment in Mexico is close to 20 percent, and when the underemployment equivalent is added, the figure probably is around 30 percent. In Colombia, unemployment seems to be close to 15 percent plus underemployment. In Jamaica, the figure is between 11 and 20 plus percent, depending on how the calculation is made.

Many countries make no precise unemployment calculations, or do so selectively or indirectly in particular cities, such as Sao Paulo for Brazil and Santiago for Chile. In some places, such as Jamaica, anyone who shows any interest in wanting to work, even though he or she is not seeking a job, is counted as unemployed, which is different from the U.S. measuring standard. However, I do not believe that the figures I have cited are overstated. Societies unable to provide work for able-bodied persons willing and able to work are unlikely to be stable societies over the long run, and this is a ubiquitous situation in Latin America.

This problem is compounded by the related one of gross inequality in income distribution. The Brazilian economic miracle involved lowering real wages over a sustained period and thereby aggravating income disparities. More recently, the wage formula in Brazil has been modified to try to reverse this trend, but this has coincided with the period of economic slowdown and the success of this policy is uncertain. In Chile, the brunt of the anti-inflation program and the constraints imposed on domestic economic activity by the balance of payments problems resulting from the decline in copper prices have fallen mainly on the poor. In Mexico, the pressures of high population growth rates, high unemployment, and low incomes for those at the bottom of the economic scale, have manifested themselves in domestic turbulence and in a large inflow of illegal workers into the United States. This, too, is interdependence, when population-employment-income pressures in Mexico show up in the United States.

These are difficult issues. We learned under the Alliance for Progress that societal and economic structures do not change easily. People move from the countryside to the cities to find greater opportunities, which presumably most of them do find, else they would not continue to come, but this complicates the problems of the cities and may even worsen the recorded unemployment data. Perceptions of social and economic injustices contribute to revolutions (as in Cuba), to the electoral choice of Marxism (as in Chile), and to domestic turbulence (as in many countries, such as Argentina, Mexico, Jamaica).

Conclusion

I have tried to show how the Latin American economies are affected by what happens here and in other developed countries with a lag. As our economies decline, so do their economies, and as we recover, so will they. Our recession in 1975 was the main factor in our balance of payments improvement, but it led to a balance of payments deterioration for Latin America. Our present recovery is leading to a deterioration in our trade balance, but it is helping to stimulate Latin American exports to us. The events of 1974 and 1975 led to increased Latin American borrowing to finance their increased current account balance of payments deficits, and the recoveries of the developed countries should help to mitigate Latin America's future debt service problems.

Looking ahead over the next several years, there should be an improvement in Latin America's balance of payments position from what was the case during the last two years, and there should be a resumption of past growth rates. The major problems are likely to be internal, in dealing with inflation, unemployment, and in achieving a greater sense of economic participation in the various societies.

TABLE 1.—LATIN AMERICAN TRADE

[In millions of dollars]

	1974	1975
Exports (f.o.b.)	44,460	42,663
Ecuador	1,062	912
Trinidad and Tobago	2,015	1,757
Venezuela	10,833	10,214
Exports excluding three countries	30,550	29,780
Imports (c.i.f.)	50,012	[1] 53,372
Ecuador	948	943
Trinidad and Tobago	1,847	1,470
Venezuela	4,247	5,359
Imports excluding three countries	42,970	[1] 45,600
Balance:		
All countries	−5,552	[1] −10,709
Excluding three countries	−12,420	[1] −15,820

[1] Contains estimate for 4th quarter of 1975.

Source: IMF International Financial Statistics.

TABLE 2.—LATIN AMERICA'S ROLE IN U.S. TRADE: 1975

[Dollar amounts in millions]

	Exports (f.a.s.)	Imports (customs basis)	Balance
Total U.S. trade with world	$107,652	$96,940	$10,712
Total Western Hemisphere	$38,873	$38,245	$628
Percent of total with world	36	39	
Canada	$21,759	$22,170	−$411
Canada as percent of Western Hemisphere	56	58	
Latin America and the Caribbean	$17,114	$16,075	$1,039
As percent of world	16	17	
Oil-related countries:			
Venezuela	$2,243	$3,625	−$1,382
Ecuador	414	463	−49
Trinidad and Tobago	256	1,171	−915
Netherlands Antilles	228	1,559	−1,331
Subtotal	3,141	6,818	−3,677
Latin America and Caribbean less oil countries	13,973	9,257	4,716

Source: Bureau of the Census.

TABLE 3.—LATIN AMERICA'S ROLE IN U.S. TRADE: 1974

[Dollar amounts in millions]

	Exports (f.a.s.)	Imports (customs basis)	Balance
Total U.S. trade with world	$98,507	$100,997	−$2,490
Total Western Hemisphere	$35,745	$40,710	−$4,965
Percent of total with world	36	40	
Canada	$19,936	$22,286	−$2,350
Canada as percent of Western Hemisphere	56	55	
Latin America and the Caribbean	$13,715	$13,272	$443
As percent of the world	14	13	
Oil-related countries:			
Venezuela	$1,768	$4,679	
Ecuador	326	473	
Trinidad and Tobago	192	1,273	
Netherlands Antilles	193	2,018	
Subtotal	2,479	8,442	−$5,964
Latin America and Caribbean less oil countries	11,236	4,829	6,407

Source: Bureau of the Census.

TABLE 4.—ANNUAL VARIATIONS IN GROSS DOMESTIC PRODUCT, 1961–74 [1]

[In percent]

Country	1961–70	1970	1971	1972	1973	1974
Argentina	4.4	5.4	4.8	3.1	6.1	7.0
Barbados	4.9	9.8	3.5	−2.3	2.3	−6.5
Bolivia	5.1	5.2	3.8	5.1	6.9	6.7
Brazil	6.0	9.5	11.3	10.4	11.4	9.6
Chile	4.5	3.6	7.7	−.1	−3.6	4.3
Colombia	5.3	7.3	5.8	7.8	7.1	5.9
Costa Rica	5.8	7.1	6.5	8.9	7.7	4.3
Dominican Republic	5.4	10.6	10.6	12.4	11.2	8.9
Ecuador	4.8	11.5	5.4	8.6	17.6	11.7
El Salvador	5.7	3.0	4.6	5.7	4.3	6.4
Guatemala	5.5	5.7	5.6	7.3	6.8	5.5
Haiti	.8	.6	6.5	.9	8.2	6.9
Honduras	4.7	3.7	3.5	3.7	5.1	.5
Jamaica	5.0	7.5	7.1	6.4	3.2	5.8
Mexico	7.0	6.9	3.4	7.3	7.6	5.9
Nicaragua	7.1	2.7	5.4	3.0	6.3	9.2
Panama	8.0	7.0	8.7	6.3	6.5	3.5
Paraguay	4.5	6.2	4.4	5.1	7.3	8.3
Peru	5.5	7.7	5.4	6.1	5.7	6.3
Trinidad and Tobago	3.4	.2	5.2	3.3	1.9	3.7
Uruguay	1.6	4.7	−1.0	−3.4	.9	1.9
Venezuela	5.9	7.2	2.8	3.6	5.8	4.5
Latin America	5.6	7.2	6.6	6.6	7.7	7.2

[1] At constant market prices.

Source: From annual report 1975, Inter-American Development Bank.

TABLE 5.—U.S. DIRECT INVESTMENT IN LATIN AMERICA

[In millions of dollars]

	Yearend 1973	Yearend 1974	Change
All industries	16,484	19,620	3,136
Mining and smelting	1,682	1,439	−243
Petroleum	3,043	3,557	514
Manufacturing	6,456	7,487	1,031
Transportation and utilities	454	474	20
Trade	1,563	1,987	424
Finance and insurance	2,108	3,410	1,302
Other	1,177	1,266	89
Latin American as a percent of all countries	16	17	
Developing countries (number)	65	69	

Source: Survey of Current Business, October 1975.

Chairman LONG. Congressman Hamilton, we have decided that we will go ahead with all three witnesses before questioning.

Mr. Davis, why don't you proceed.

STATEMENT OF TOM E. DAVIS, DIRECTOR, LATIN AMERICAN PROGRAM, CORNELL UNIVERSITY

Mr. DAVIS. Representative Long, I have a rather long prepared statement, which I trust will be included in the record.

Chairman LONG. Without objection, it is so ordered.

Mr. DAVIS. And that being the case. I would like to concentrate on a few points where I think that my testimony diverges from that of Mr. Weintraub.

Basically, I think the divergence is this Mr. Weintraub has presented a picture of Latin America as a continent characterized by "growth with problems," those problems essentially being problems of unemployment, of unequal income distribution, and also of inflation. I would like to present a picture of Latin America, particularly, looking forward to the end of the 1970's and the 1980's as a continent that will be characterized by "problems of sustaining economic growth."

I have tried to reflect this morning on some of the differences that I think underlie our two points of view. One of these, I think, is the differing assumptions that we are making about comparative growth rates for the OECD countries in the next decade as compared to the last decade. Mr. Weintraub mentioned that Latin America had some historically very high growth rates during that period. I think we should also recognize that the growth rates in the OECD countries during that same period of time were even higher; that is to say, that the differences between Latin America and the developed countries was in fact increasing.

I don't see that kind of growth for the OECD countries continuing for the next decade. I believe it will not continue because of the substantial capital transfer that is taking place and will take place in direction of the OPEC countries.

I believe that we are in for a period of much slower world economic growth and historically that has meant much lower levels of commodity prices that are so important to enable Latin America to maintain the export earnings that are required to pay for its goods and services imports.

Another basic difference, I think, is the way that Mr. Weintraub and I look upon the balance of payments data. The usual picture, I think, that we have is that Latin America is a substantial net importer of goods.

This is a very deceiving picture, because it carries with it on the capital side the notion that there is a substantial transfer of funding from the developed countries to Latin America. This conception comes about because we consider as part of services Latin American imports the payments that Latin America makes on capital; that is to say, the payments that are made for dividends, interest payments, and repatriation of capital. And those payments greatly exceed Latin American deficits on current account.

Let me try to put it in a slightly different perspective. Sometimes it is difficult for us and for other OECD countries to recognize that the United States is a rentier Nation, it is a rentier Nation in the sense that the United Kingdom was a rentier nation in the first 40 years of this century; that is, it is a nation which is paying for its goods imports through its earnings on past capital investment, not only in Latin America, but throughout the world.

What are the implications of this? The implications are very clear that these so-called service imports into Latin America and other LDC countries are going to rise substantially over the next several decades.

It also means that Latin American countries, unless they can increase their export earnings, will have to further curtail their imports of goods. Those goods imports 20 or 25 years ago used to consist of final products. It was a question of belt tightening in many cases, doing without imported luxury goods. In those 25 years, the economy of Latin America has changed substantially. Those imports today are not final products. Those imports today are raw materials, fuels, intermediate products—in other words, they are the products that are absolutely necessary not only to keep the domestic economy functioning, but also to maintain levels of manufactured exports.

There is another area in which I believe my point of view differs from Mr. Weintraub's And that is in the area of the debt service requirements. Let's take Brazil where he has given us a figure of 15 percent of export earnings as the debt service requirement. I would put that figure at closer to 35 or 40 percent. And the discrepancy here is due to the fact that he considers simply the service requirement on publicly guaranteed debt. And I think any banker in this country will tell you that the relevant figure is not the public or publicly guaranteed debt, it is the total debt. The LDC's are indebted to the banks in the world to the tune of $145 billion. Roughly $60 or $70 billion of that corresponds to Latin American indebtedness. That is not public debt. It is not publicly guaranteed debt. But it is debt on which there have to be interest payments, amortization payments, just the same as for the public or publicly guaranteed debt.

The combination of these massive flows, coupled with the reduced ability of Latin American countries to restrict imports, leads me to view the future as a period that will be characterized by massive defaults on the part of Latin American countries. Some of this has already occurred. Chile has defaulted, and most recently as reported in the New York Times last Wednesday, Peru defaulted. When this happens on an individual country basis, one at a time, so to speak, these defaults can be handled, and they don't produce a profound impact on United States-Latin American relations. But we have just seen the beginning, in my judgment, of this phenomenon.

When those defaults occur in a large number of countries, and when they occur in the larger countries, it is going to become very, very difficult indeed to arrange for a debt moratorium. We are going to talk about defaults that, in their aggregate, can exceed the equity position of the major national banks.

In my judgment, some mechanism simply has got to be found to enable the Latin American countries to increase their earnings on export accounts. Some mechanism will have to be found for providing credits to allow these existing debts to be extended in time. As I look at the structure of the international banking community today, it is not robust enough to handle this problem without the assistance of national governments. And I am not speaking primarily even of the United States in this respect. There is a heavy responsibility and heavy interest on the part of major European countries in this respect as well. And many of these loans are contracted with the European subsidies of large U.S. banks. The individuals that will be primarily affected and the governments that will be primarily affected will be these European governments. It is an area which, if we don't seek early resolution of problems, could be a thorn in the side of not only United States-Latin American relations, but also United States-European relationships. As we know, the responsibility both for the regulation and also for the maintenance of the liquidity of these banks, is not a problem of the U.S. Government, it is a problem that will have to be resolved as a result of the closest sort of United States-European cooperation in the monetary area.

These are the points which direct themselves not so much at the past, but rather looking at the next 10 years of our relationship with Latin America.

And I simply can't close without saying that I find the point of view that the Latin American countries stress external pressures because they don't know how to deal with internal problems and internal pressures a bit self-serving in this forum.

I am not sure, frankly, that there is any Western country that can pat itself on the back when it comes to talking about the way in which it has dealt with problems of unemployment, with problems of income distribution, and with problems of inflation. There are Latin American countries today suffering from inflation that never suffered from inflation previously. The inflation that I see today in the Caribbean, in Central America, and in Venezuela, are not historic problems. It is the Chiles, the Argentinas, the Uruguays and the Brazils that have had historic experience with inflation.

What we see today is not an inflation that is a unique problem of Latin America. We see a problem of inflation which is a worldwide phenomenon. And in dealing with that problem of worldwide inflation we are essentially talking about slowing down the rate of worldwide economic growth. And that slowing down in the rate of worldwide economic growth may be necessary. But as we pointed out, as a result of the effect that it will have on commodity prices in international trade, it is not the basis for being terribly optimistic about the future of the Latin American economy.

Thank you.

Chairman LONG. Thank you, Mr. Davis.

[The prepared statement of Mr. Davis follows:]

PREPARED STATEMENT OF TOM E. DAVIS

THE FUTURE OF UNITED STATES-LATIN AMERICAN RELATIONS

Summary

Economic relationships appear likely to provide many sources of friction in inter-American relations during the next fifteen years. Specifically, the market for Latin American exports, both in the U.S. and in the OECD countries, will expand less rapidly than in the past fifteen years both because the OECD countries will grow more slowly and because these countries will liberalize their protective system at a much slower pace. As a result of this slower growth, capital markets

in the OECD countries will expand less rapidly and will be increasingly dependent for funds on the OPEC countries (that may develop their own capital markets) and will be less capable of supplying Latin American (and other LDC) borrowers than they have been in the recent past. The "cerdit worthiness" of Latin American nations will decline as a consequence of large and increasing balance-of-payments deficits (resulting from the substantial higher cost of food and energy) and existing indebtedness positions that already loom large in relation to export earnings. To avoid default on expiring credit lines, many countries will be required to severely curtail the growth in imports. Such action will reduce domestic consumption, production and employment particularly in the more industrialized countries. In such circumstances, Latin American governments will be forced to limit political participation and suppress dissent; the temptation to "blame" the international economic system (and particularly the leadership of the United States in the economic arena) will be very strong. Tighter exchange controls, restrictions on remittances, debt defaults (or "moratoria") and nationalization of foreign investment are likely responses.

These circumstances will confront virtually all non-oil-exporting countries to a greater or lesser degree; consequently, Latin American governments will tend to negotiate collectively with the U.S. on economic issues. Many issues have already been identified: reform of the international monetary system (to increase the role of SDR's linked to development assistance), unilateral trade concessions on the part of OECD countries (on agricultural products as well as manufactures), formation of commodity agreements or cartels (designed to raise substantially the price of traditional Latin American exports). Additional initiatives towards economic integration (and the exclusion of foreign controlled firms from the benefits of such integration) as a mechanism to stimulate regional import substitution also appear likely.

Immigration to the United States, illegal as well as legal, will accelerate markedly, and in certain states (Florida, New York, Texas, California and possibly Illinois) will become a significant political issue.

Nuclear power will expand significantly because few Latin American countries have coal resources of consequence to supplement their limited hydro-electric potential.

These trends portend a period of antagonism, a strong resurgence of nationalism and protectionism. Such developments may be attenuated if the OECD countries (and the United States, in particular) open their economies to manufactured imports, pay higher prices for commodity imports, increase (or at least halt the continuing decline in) net income transfers as a percentage of G.N.P., "legalize" the clandestine immigration that has taken place, and assist in the development of a collaborative Latin American nuclear energy agency.

Basic framework of international relations

This scenario rests upon an assumed framework of international economic and political relationships that has at its core the perpetuation of basic antagonisms between the Soviet Union and China. That situation will permit a continuation of the policy of détente with each of these super-powers. Within that over-all policy of detente, frictions both within OECD countries, with the OECD, and between the OECD and the developing countries (in particular Latin America) will develop without endangering the fundamental security of the United States. In short, China-U.S.S.R. differences represent the *sine qua non* for the detent policy, which in turn regulates the common security interests of the West to a secondary level of importance and allows national (and group) self-interest in economic and political matters to come to the fore, specifically, in inter-American relations.

The policy of detente also guarantees that the Latin American countries will represent no challenge to the security of the United States, which in turn implies that no national consensus within the United States is likely to emerge on the subject of U.S.-Latin American relations. For example, trade unions that are adversely affected by imports of Latin American manufactures will not be persuaded nor frustrated by the argument that such measures are necessary to "check Communism or protect the vital interests of the United States in Latin America." Latin American policy will continue to be determined in the "rough-and-tumble" of pluralistic interest-aggregation in the U.S. and will vary through time and frequently prove inconsistent as a consequence. Neither the financiers nor the MNC's will dictate U.S. policy towards Latin America (and vice-versa), despite their substantial investments in the region.

Similarly, in Latin America, national interests, unleashed by the policy of detente to a far greater extent than was the case in the immediate post-war period, will be defined by groups, corporations, parties or classes whose political fortunes will vary through time. In particular, detente will permit Communist parties (where they exist) or sympathizers to assume more independent, national positions and to form more easily alliances with Socialists and other proletarian-based parties (as in France, Italy and Portugal). As a consequence, the representation of the interests of any particular Latin American country, to say nothing of any collective Latin American position, will vary substantially through time, making it unlikely that U.S.-Latin American relations will rigidify for any extended periods of time.

Outside of the East-West orbit, the OPEC countries will continue to be the most powerful influence on the course of international relations. Within OPEC, Saudi Arabia will continue to exercise a "veto power" as a result of the fact that Saudi Arabia unilaterally could increase the oil supply sufficiently to lower significantly the price of petroleum and break the cartel. Despite detent, Saudi Arabia will continue to depend, in large part, on the security forces of the United States, and as a consequence, will not permit oil prices to be raised to the point where they would strangle completely economic growth within the OECD countries. On the other hand, within the framework of detente, Saudi Arabia will not perceive a much slower rate of growth in the OECD countries (resulting from the present level of petroleum prices and transfer of oil resources to the OPEC bloc) as prejudicial to her long-run security interests and will withhold supply to maintain such prices, even at the cost of a substantially smaller share of the market.

Present levels of energy prices will not bring forth a domestic supply response that will keep pace with the growth of demand. The United States (and *a fortiori* the other OECD countries) will accept increasing dependency upon imported petroleum premised on the willingness and ability of Saudi Arabia to continue as the "supplier of last resort." The Saudis will thus be capable of preventing a Project Independence (even limited to the United States) from ever getting off the ground.

The OECD countries will accept a slower growth rate and the loss of real income that represents the counterpart of the massive transfer of resources to the OPEC countries. In the context of detente, a slower rate of growth will not be perceived as inimical to the security interests of the OECD countries. The OPEC countries (especially Saudi Arabia and Kuwait) will continue to accept financial claims on the OECD countries (primarily in the form of government debt) and thus minimize the real resource transfer. This, in turn, will mitigate the inflationary impact of the higher level of oil prices during periods when resources are fully employed in the OECD countries. The accumulation of financial claims, which could be perceived as the frightening specter of "denationalization" and potentially de-stabilizing exchange transactions, will reassure the OECD nations that the owners of these assets would have little interests in rocking the financial boat that holds their claims.

Under such circumstances, why should the growth rate of the OECD countries slow at all? Won't capital formation that previously was financed by the savings of "the little old widow in Peoria" (who now must pay more to heat her house, fertilize her garden, and drive her car) now be provided by the sheiks? Unfortunately from the standpoint of OECD growth, many of the OPEC countries (especially Iran) are taking real resources in the form of armaments, transportation equipment, engineering services, plant and equipment. In the context of the present depressed economies in the OECD countries, this phenomenon may cost the OECD countries very little (and may even increase aggregate output and employment by more than the amount of the transfer) ; but as the OECD nations approach capacity utilization of facilities, those facilities will be smaller by virtue of the fact that the new steel plants will have been built in Venezuela, fertilizer plants in Iran, etc. The OECD countries will "bump their heads" on the capacity ceiling far more quickly, and at far higher levels of unemployment, and then will apply the monetary brakes to avoid inflationary recurrences. This phenomenon is likely to occur much more rapidly in Western Europe and Japan than in the U.S. and Canada because the latter have substantial unutilized capacity in their primary sectors.

Quite apart from the capacity "problem," many of the OECD countries may alter their expansionary policies in face of increasing deficits on current account and its counterpart, namely, increasing indebtedness either directly to the OPEC countries or indirectly as a result of increased indebtedness to the third countries (principally the United States) where the OPEC countries have deposited (or invested) their surpluses. Great Britain and Italy have already used the existence of higher than average balance-of-payments deficits on current accounts to devalue and take protectionist measures. While both measures increase the costs of imports, historically protection has appealed to politicians far more than devaluation. If unemployment in OECD countries remains high as a result of the lower capacity ceiling, the appeal of protectionism may prove politically irresistible. If, so, "beggar-they-neighbor" policies, as they become generalized within the OECD countries, could have the consequence of lowering further the "capacity ceiling."

Even if devaluation is the chosen policy response (and growing indebtedness, valued in foreign currency, reduces the attraction of this option) there will be a continuing temptation to minimize the need for (and extent of) devaluations by employing restrictive monetary and fiscal policies that result in lower levels of output and employment in order to reduce imports and encourage exports, and thus minimize the current account deficit.

Finally, a number of OECD countries are finding it difficult (and increasingly more expensive) to borrow to cover their current account deficits.[1] Banks that are borrowing "short" from the OPEC countries are in a dangerous position when they lend "long" (or when nominally "short-term" loans must be continually renegotiated) to cover current account deficits. As a group, the indebtedness of the OECD countries is growing rapidly in relation to exports. The "credit worthiness" of the OECD group diminishes and the probability of default grows. A point is ultimately reached when a financial system based on convertibility of debt into foreign currency is necessarily compromised. Either creditors must accept payment in the national currency of the bank (which even then may require assistance from its government or national central bank) or must accept part of the bank's portfolio (at par) in lieu of convertible currency. In short, the OPEC countries ultimately must accept the debt of the countries with the persistent current account deficits rather than the obligations of the "strong" countries, i.e., countries with persistent current surpluses or minimal deficits. Long before this point is reached, however, countries with persistent current account deficits will feel the pressure to protect, deflate or devalue.

As seen above, a number of routes lead to the same destination, namely, slower growth for the OECD countries during the next decade. Within the OECD, the United States appears to be in a relatively favorable position, with a substantial current account surplus, an "undervalued" currency, a relatively low "savings rate," and, as noted earlier, excess capacity in the primary sector. In addition, the U.S. firms hold substantially greater investments in other OECD countries (in relation to G.N.P.) than do the firms of other member countries. Repatriation of the surplus (revenues minus direct operating costs) generated by these enterprises would further reduce capital formation in the other OECD countries.

Impact in Latin America

This global scenario impacts on Latin America with a vengeance—both directly and indirectly. The direct impact is essentially similar to that in the OECD countries—only with a greater degree of severity that grows out of the fact that Latin America has virtually no substitutes for petroleum (aside from limited supplies of metallurgical grade coal found in Chile and some developmental opportunities in Colombia). To complicate matters further, Latin America has substantial (U.S. $3.56 billion) current account deficits prior to October 1973, and had increased its foreign indebtedness substantially during the previous decade.

For many Latin American countries, the ratio of interest, dividend and amortization payments to export earnings approached the .35/.40 level that has typically represented the reasonable limit of foreign indebtedness. (Even this limit reflected an assumed continuation of the rapid growth of exports that occurred since the initiation of the Alliance for Progress.) During this period, population growth in Latin America, coupled with price controls designed to provide relatively cheap food grains, animal products, vegetable oil and sugar for the rapidly growing urban concentrations, converted many Latin American countries from

[1] *Business Week*, Mar. 1, 1976, p. 36.

the position of a net exporter to a net importer of food. To compound the problem, Latin American agriculture increasingly relied upon imported fertilizer to sustain production.

The October war and the resulting upward movement of relative prices for energy and foodstuffs simply aggravated an already difficult situation. This was disguised in many countries (e.g. Peru and Chile) during 1974 as a result of rapidly rising prices for many other primary products (e.g. fishmeal and copper). This situation quickly reversed in 1975 as the OECD countries reacted with restrictive monetary and fiscal policies to the inflation produced by the encounter with capacity ceilings. The prices of these primary products fell to less than half their previous levels (e.g. copper fell from $1.40 to $.55 on the London Metals Exchange). As a consequence, Latin American holdings of official foreign exchange reserves which peaked at $13.5 billion in July 1974 had fallen to $9.0 billion one year later and now are thought to represent less than half their maximum level. Primarily responsible, of course, was the increase in the deficit on current account from $3.6 billion in 1973 to $13.3 billion in 1974. (A further increase may have occurred in 1975.) In this context, some of the most adversely affected countries, such as Chile, had to appeal for extensions on the maturity date of existing debt.

Latin American countries did receive some assistance in financing oil purchases directly from the Venezuelan government and indirectly from the oil facility created by the International Monetary Fund. Credit from these sources, however, could not prevent the rapid erosion of foreign exchange balances and only added to the total of foreign indebtedness.

Already by the end of 1973, but particularly in 1974, many Latin American countries that had a remarkable record of monetary stability in the previous decade (Bolivia, Dominican Republic, Guatemala, Honduras, Haiti, Mexico, Panama, Paraguay and Peru) experienced double-digit inflation along with the OECD countries. Some of these countries have already adopted restrictive monetary policies, which in the case of Nicaragua has been carried to the point of substantially reducing the money supply. Consequently, the response ot the rise in relative prices of food and fuel appears to be only quantitatively, rather qualitatively, different in the case of Latin America.

In the long run, however, the indirect impacts that reverberate throughout Latin America as a consequence of actions taken in the OECD countries will loom as important, and probably even more important, that the direct effects of the rise in the relative price of food and fuel as a consequence of the dependency of Latin American economies on the system of international trade and finance. Three postulated reactions in the OECD countries are particularly salient: (1) the decline in the rate of real economic growth: (2) the reduction in the rate of trade liberalization; and (3) the slower growth of capital markets.

A slower growth rate in the OECD countries will result in lower relative prices for Latin American primary exports (and perhaps a lower growth rate of primary exports as a response to these lower relative prices). In any event, traditional exports will not be a leading sector in the non-oil-producing countries.

To sustain economic growth, increasing reliance must be placed upon nontraditional exports, particularly in the area of manufacturers. Starting from a very low base, such exports grew rapidly since 1960 as a consequence of trade liberalization in the OECD countries.

The prospects for the next decade are not particularly promising. The unemployment generated throughout the OECD countries as a result of the anti-inflationary policies of 1975 exceeds the maximum level reached since the economic recovery from the ravages of the Second World War. As the OECD economies continue to run periodically into constraints posed by capacity limitations, periods of inflation followed by restrictive monetary and fiscal policies (often referred to as "stop-and-go" policies) will sustain these relatively high levels of unemployment.

The relative large increase in the fraction of the population in the 20-30 age group (a product of the post-war baby "boom") and the continuing influx of females of all ages has the effect of swelling the labor force in the face of the slackening pace of demand. In such circumstances, continued trade liberalization (and especially *unilateral* concessions in favor of the LDC's) will continue to encounter staunch opposition, particularly in the highly organized industries.

Of greatest immediate consequence for Latin America is the prospect of declining rates of growth in the OECD capital markets. LDC indebtedness to the U.S.

banks now approaches U.S. $145 billion.[2] In Wall Street parlance, the U.S. banks are no longer the creditors of Argentina, Brazil and Mexico—the major borrowers—but their "partners." Such financial "shotgun" marriages, however, generate friction especially when the banks have the opportunity to upgrade their portfolios. Not only are some of the far more "creditworthy" OPEC countries (e.g. Iran) increasing their borrowing to sustain ambitious development programs, but the prospective decline in OECD "savings ratio" (resulting from the transfer to OPEC) and the prospective capital shortage (due to present capacity limitations) in the OECD countries will make it unnecessary for the banks to seek out "marginal" LDC borrowers as they have in the past. Given the prospects for trade and aid, a significant reduction in Latin American indebtedness to the U.S. banks appears unlikely; "rollover" agreements will predominate, but a number of defaults would appear to be inevitable and could prove to be contagious (even in the case of the major borrowers).

The Latin American response

The October War occurred at a point when many Latin American countries had reformulated the development strategy that they had followed immediately after the Second World War. In the 1960's, the "import substitution" policy appeared increasingly deficient. I had failed to sustain the growth of per capita income and employment in the manufacturing sector in the early-industrializing countries (especially Argentina), it had increased dependency upon imported food, fuels ad raw materials, as well as intermediate products and capital goods; it had developed industries that catered to the upper-income echelons, created a "labor aristocracy," and may have aggravated the inequality in the income distribution. In contrast, in several Asian countries (Hong Kong, Taiwan, Singapore and South Korea) exports of manufactures had stimulated rapid economic growth; world international trade had expanded at historically unprecedented rates; the prices of primary exports had certainly not declined secularly (and for some products had reached all-time highs) ; and foreign exchange was readily available (at a price) in international financial markets. These developments were not totally without setbacks, e.g., the application of the (Nixon) import surcharge to imports from Latin America (despite the continuing U.S. trade surplus with Latin America). Nevertheless, various countries adopted policies (e.g., the "crawling peg" or periodically upward adjusted price of foreign exchange) that were designed to stimulate exports and to reduce the degree of protection accorded to domestic producers.

To the extent that the abandonment of the "import substitution" policies rested upon the rapid growth of the OECD countries, pervasive trade liberalization, ready access to capital markets, and higher relative prices for primary products, elements of that policy will return. In particular, it will prove difficult to avoid a return to progressively overvalued domestic currencies if industries are thwarted in their attempts to open export markets in the OECD countries and rely increasingly upon the domestic market. Similarly, if imports must be curtailed in order to eliminate current account deficits, surely limitations on remittances (dividends, interest, amortization, royalty payments, etc.) by foreign (and domestic) enterprises will follow. Such actions will lead in part to clandestine capital exports (via underinvoicing of exports and overinvoicing of imports) and in part to acquisition of domestic enterprises. Either activity will generate pressure for nationalization. It is difficult to envisage such conflicts being resolved "amicably" if they occur on any substantial scale. Since a large fraction of manufactured exports in many Latin American countries represent transactions between affiliates of the same MNC, the volume of such exports will decline even if the nationalization is "amicable," which, in turn, reduces the likelihood that it would be so. In short, both the bankers and the MNC's will be adversely affected by a reversion to "import substitution" policies in Latin America.

The very success of the OPEC cartel, despite its adverse consequences both direct and indirect, has evoked little criticism within Latin America. In part, this reflects a growing solidarity within the Third War based upon the pervasive notion that the gains from trade are distributed most unequally in favor of the developed countries and, in part, upon the hope that cartels of producers of copper, bauxite, coffee, bananas, iron ore, etc., will also result in substantial

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[2] *Forbes*, Feb. 15, 1976. The long-term component approximates $25 billion (of which Argentina, Brazil and Mexico account for $6.8 billion). *Business Week*, March 1, 1976.

transfers from developed countries to the less-developed. While the objective conditions do not favor such cartels in the long run (at least as compared to OPEC) they already have come into existence and some (particularly in the bauxite industry) have had a measure of success. If the OECD countries (or *a fortiori* the United States individually) act to break these producers' cartels, this will produce frictions and resentment in the Third War generally (and Latin America, in particular).

An alternative to cartelization, particularly for those commodities like coffee, cacao, bananas, iron ore, etc., whose wide diffusion reduces the prospect of success for a producer's cartel, is the international commodity agreement. From such an agreement, the Latin American producers expect to obtain higher average prices (than would otherwise obtain) as well as greater stability of price (and supply). The participation of the consuming countries is required to "police" the producer's quotas, established in amounts that will cause the market to clear at the higher, agreed-upon price (or within a range of price). Even after the commodity agreement is successfully negotiated, producers suspect that the consuming countries are not faithfully discharging their "policing" function in order to assure a lower market price. It is not altogether clear that such agreements reduce the frictions in inter-American relations.

The foregoing represent some of the responses that are anticipated from individual Latin American countries or several countries acting in concert with other Third World nations (as in the case of cartels or commodity agreements). In addition, a number of collective responses are likely to emerge as a consequnece of the increasing collaboration among Latin American countries, especially in economic affairs.

Increased emphasis on economic integration within Latin America should emerge as an extension of domestic policies of import substitution. During the past decade, the economic integration movement within Latin America lost its momentum, at least in the "southern cone," Mexico and Central America, even though international reserves were increasing rapidly, thus reducing concerns about deficits—and the requirement to repay in reserve currencies—that were prevalent in the discussions in the late 1950's that led to the creation of LAFTA and CACM. Several factors played an important role. At least from the point of view of the Andean countries, the benefits of economic integration appeared to be disproportionately distributed, initially to the large countries (Argentina, Brazil and Mexico) and within these countries to foreign, rather than national, enterprises. To counter these tendencies, and to attempt more rapid movement in the direction of eliminating internal tariff barriers and of establishing a common external tariff, the Andean countries (including Venezuela) established a common market within the LAFTA structure and adopted Article 24 of the Andean Pact which limits tariff concessions to enterprises that are predominately national (.80 equity).

Centrifugal forces could also be observed within the Central American Common Market. Population pressure in El Salvador spilled over into neighboring Honduras and produced a harvest of discontent that erupted into violence at a soccer game between the respective national teams. The continuing antagonism between El Salvador and Honduras added to the internal differences that already existed between Costa Rica and the remaining members. Costa Rica as the most inflationary country in the bloc (that operated with an essentially fixed exchange rate system) tended to run recurrent deficits that served to deplete its foreign exchange reserves. This situation threatened to detach Costa Rica from the Central American Common Market on various occasions.[3]

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[3] Another manifestation of this same problem occurred within the highly inflationary "southern cone" (Argentina, Brazil, Chile and Uruguay). These countries operate with fluctuating exchange rates, but rate changes frequently fail to reflect the differences between the rate of inflation in the respective country and its trading partners. Suddenly, exports may become unprofitable or imports non-competitive and as a consequence the country may experience abrupt changes in its current account balance. The amount of credits provided within the LAFTA structure are limited, and deficits ultimately represent a drain on foreign exchange holdings. In such circumstances, trade between one branch of a multi-national firm and a branch located within a foreign country is more likely to develop because the gains and losses from exchange fluctuations are internalized within the enterprise. In this sense, economic integration does appear to have favored foreign as compared to domestic enterprises. Nevertheless, given these uncertainties attached to the progress of economic integration, foreign firms tend to locate in those countries that offer the largest internal markets.

Despite the obvious problems that have slowed progress toward economic integration, any decline in the relative attractiveness of the international market will spur new initiatives in this area. One has already surfaced: the creation of Latin American MNC's.

Regardless of which broad development strategy (import substitution or export promotion) if followed, however, there is little expectation that sufficient employment (at family-subsistence income levels) will be generated to accommodate new entrants into the labor force. The service sector will continue to expand relatively to the primary and secondary sectors. The expansion in secondary and university-level education will continue to create pressures for further growth of the public bureaucracy. Such expansion will be financed in part by increased taxation (most probably by value-added taxes) and in part by monetizing government deficits. It is difficult to envisage a period of respite from inflationary pressures in those countries in which the relative size of the public bureaucracy is large (e.g. Argentina, Chile and Uruguay).

The anticipated balance-of-payments deficits will mandate periodic stabilization efforts in these countries. While the prospects for success in the future are certainly no brighter than in the (unsuccessful) past, they will be a continuing source of friction between the inflationary countries and International Monetary Fund (or more exactly with the OECD countries that dominate policy determination with the I.M.F.).[4] In particular, I.M.F. pressures to restrict rates of growth of the money supply will translate into pressure to reduce public sector deficits, and, in turn, the rate of growth of employment and real wages in the public sector. Coupled with the educational expansion that has been encouraged by the loan program of the Inter-American Development Bank and the World Bank, which increasingly emphasize social overhead investment, any shrinkage in public sector growth rates will generate "white-collar" unemployment, and a progressively impoverished "white-collar" class. These decisions will be difficult to sustain in societies in which the public bureaucracy bulks large, and will require a substantial reduction in the representation of "white-collar" interests within the political decision-making process, and perhaps an increase in repression to achieve that end. In such circumstances, a substantial increase in "white-collar" migration should act as a political "safety-value," and will be tolerated, if not actively encouraged, by Latin American governments.

Emigre colonies will continue to proliferate within Latin America and immigration, both legal and illegal, to the United States will become increasingly important, especially from those countries bordering on the Caribbean. Illegal immigration will be most troublesome in the context of U.S.-Latin American relations. Illegal immigrants are subject to vicious forms of exploitation; nevertheless, forcible repatriation creates bitter animosity. Despite the absence of reliable data, substantial communities of illegal immigrants from Mexico, Colombia, Haiti and the Dominican Republic are known to exist in our largest cities and in the Southwest. These populations will become a political issue in the coming decade—both because they will be competing in slack labor markets (generally in the least desirable occupations) and because they represent a potentially mobilizable political force.

Emigration of manual workers (except Mexicans) will be minimal despite the fact that employment prospects (at family-subsistence wage levels) are at least as bleak as for "white-collar" employees. As long as public benefits (e.g. education, health services, sanitary infrastructure, subsidized power and transportation) are distributed disproportionately to urban populations, however, the exodus of manual workers from small towns and rural areas to the larger cities

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[4] The relative importance of the I.M.F. as a supplier of loans to cover balance-of-payments deficits in the LDC's will increase as the private financial institutions "upgrade" their portfolios. I.M.F. resources should not be required to finance balance-of-payments deficits in the OECD countries to the same degree under the present fluctuating exchange rate system as previously under the Bretton Woods fixed-exchange rate system, largely as a result of the relatively smaller deficits in trade among OECD countries and because of the "swap" agreements arranged directly by the Central Banks in these countries. Financing deficits between OECD countries and OPEC could absorb even larger proportions of I.M.F. resources, unless such transactions are compartmentalized in the newly-created, and separately financed oil facility. The "leverage" of the I.M.F. will increase vis-a-vis the LDC's, but so will LDC pressure on the I.M.F. to expand the issue of SDR's and to allocate them to the LDC's in amounts larger than their respective I.M.F. quotas, thus using SDR's as a form of development assistance.

(and particularly the capital) will continue. These newcomers will flow into the low-wage component of the tertiary, or service, sector (domestic service and petty trade) which will continue to expand relatively to the high-wage component (public bureaucracy, banking, etc.) to say nothing of the primary and secondary sectors. This inflow will press upon the limited urban social infrastructure, which served as the primary source of attraction for the migrants, and will justify the continuing priority given to this component of public capital expenditures.

These rapidly growing urban centers place heavy demands upon the available supply of energy, not only for heat, light and power but also for urban transportation and for the transport of food-stuffs to the urban areas. Petroleum represents the principal source of incremental energy for most of the region, although some major hydro-electric power projects are coming on stream that will make important contributions to the economy of southern Brazil, Paraguay and Uruguay.

Colombia may be supplied by (and may export) as yet under-developed but conveniently located supplies of coal. In the main, however, the region (with the exception of Venezuela and Ecuador) requires a Project Independence to a far greater extent than the United States. At present, nuclear power appears to be the only viable alternative source. Argentina, Brazil and Mexico are developing nuclear programs. Certain technologies for the production of nuclear power can be easily adapted to weapons production. This virtually guarantees that other countries will follow suit, and the end result will be costly nuclear programs at best and perhaps nuclear weapons proliferation as well. This area will constitute an important source of friction not only in inter-American relations, but also with the French and the Dutch/German governments that see Latin America as a major market for their nuclear technologies in the coming decades.

Implications for U.S. policy

The continuation of the policy of detente with the Soviet Union and China will allow the United States to protect its security despite the development of points of friction both with the OECD countries and certainly with Latin America, and the Third World generally. Any setbacks for detente will increase the urgency of eliminating at least some of the frictions in U.S.-Latin American relations. At the same time, it should increase the likelihood that the appropriate policies will be forthcoming from our pluralistic, interest-aggregating political system. (A bi-partisan foreign policy could re-emerge!)

Short of such a breakdown in "detente," friction-reducing policies (e.g., approval of the Canal treaty) will encounter strong opposition. It would appear to be a characteristic of our political system that policy shifts tend to the extreme—whether it be Cold War or detente. Given the vagaries of international politics, however, it would seem unwise to place all of our eggs in the "detente" basket. A measure of leadership is the avoidance of extremes, specifically the eliminations of points of friction in U.S.-Latin American relations.

Some of these points of friction have already been identified by Latin American nations, individually and collectively, and several concrete proposals have emerged. Clearly, the most immediate concern is that economic growth (that for the region as a whole, largely as a result of the "Brazilian miracle," exceeded most of the economic targets set by the Alliance-for-Progress) will be stifled as a consequence of the international economic situation, specifically because of inability to pay for the imports required to sustain that rate of growth. The battery of proposals that would contribute to reducing the problem have been "on the table" for some time: unilateral trade concessions, commodity agreements, extension of debt maturities, creation of SDR's to assist LDC's, increased "official development assistance" as a fraction of G.N.P., etc.

All of these measures imply some sacrifice (and frequently income transfer) on the part of the OECD countries, and upon some group, sector, industry, etc., within those countries. There is obvious reluctance to pay that "price" when national security is not an issue. However, it would appear very unrealistic to expect that the various Latin American nations during the next decade are simply going to "tighten their belts," meet their obligations and sacrifice their growth rate, accept lower levels of consumption, production and employment.[5] It is far more likely

[5] *Business Week*, Mar 1, 1976.

that the OECD countries (and especially the United States) will have to pay the "price" (and possibly even a far higher price) via exchange controls, defaults and nationalization (without prompt, effective compensation). The price may prove to be greater because these various forms of retaliation will have the effect of reducing the flows of goods, services and factors of production and thus produce losses of real income (throughout the hemisphere) that would greatly exceed the income transfers required to avoid this chain of events. Finally, dissipation of the accumulated bitterness on both sides would require decades, and might persist despite fundamental changes in international politics.

Other major areas of friction lend themselves even less readily to a narrow economic calculus of income (or resources) transfers. A change in the legal (and therefore in the economic and political) status of clandestine immigrants would represent a humanitarian gesture that would offer a measure of protection to individuals presently easy prey to exploitation. Perpetuation of such circumstances within the U.S. undermines the mutual respect that constitutes the basis for improved hemispheric relationships.

Finally, the encouragement of *collaborative* development of appropriate nuclear technology for peaceful applications (and particularly for diffusion techniques of power generation) could avoid a costly nuclear competition and weapons proliferation. Success in such an effort would require European cooperation, but might prove to be the single most important measure that could be taken to safeguard our national security.

Chairman LONG. Mr. Weintraub, Mr. Lowenthal, in his statement, also seemed to be substantially more concerned with outside the hemisphere or outside the individual country problems than you. He stated in his prepared statement that he is struck by the very serious capital shortage and international debt problems in the region. This seems to me to be a little more in line with the position taken by Mr. Davis in this regard than with yours. Mr. Davis has had an opportunity to comment with respect to your position on the matter. Would you like to comment? I think this is a basic conception that perhaps needs some exploration.

Mr. WEINTRAUB. Well, we are predicting about the future. And as is normal in these cases, it is uncertain. The actual debt service burden of many of the Latin American countries, after taking inflation into account, may not be much higher now than it has been in earlier years, looking at it on a year-to-year basis. I frankly would pay little attention to total debt which countries owe, because the figures are not in themselves terribly meaningful. The critical element is that which has to be paid each year in relation to what a country will earn. Mr. Davis is correct that I did not stress the private debt service, although that fact is mentioned in the prepared statement. When you add that to the public debt service, the debt service burden in Brazil comes to more than 30 percent. But that figure cannot be compared with figures from other less developed countries of the world, because we do not have those latter figures. The burden of a debt is a function of available credit and of other activity and depends also on what kinds of business activity takes place overseas in a country's export markets.

I have assumed a reasonable level of sustained growth over the next 4 or 5 years, perhaps not 7 percent a year but 5 or 6 percent a year, for the developed countries. I think that under these conditions a lot of the debt burdens are likely to be more manageable for many countries than Mr. Davis believes. He cited a series of individual country defaults which might occur, and he is quite correct that these are possible. But we have had individual defaults in the fifties and the sixties on the part of some major countries. Argentina was a major example at that time. The recent Chilean default has been exacerbated because of the low price of copper.

If there is a default in a major country, this would be quite different from defaults in less important countries. But I think our assumptions, Professor Davis' and mine, differ as to what will happen in the developed countries. I am not as complacent as he seems to think I am. But I do not think that the Latin American debt problem is likely to be as cataclysmic as he says it will be.

Chairman LONG. Mr. Lowenthal, do you have any comment on that?

Mr. LOWENTHAL. I don't think I ought to get myself into a disagreement about the future of various Latin American economies, since I am not as well qualified as Mr. Davis and Mr. Weintraub, and they do fully agree.

But I would emphasize a point which I mentioned in my statement, that we should consider the political consequences and implications of the bind which both economists agree exist. They disagree only about how difficult a bind they think it is, and that judgment depends on an assessment of things which happen outside this hemisphere.

Chairman LONG. Professor Weintraub, in his statement, said that he thought Latin America's relationship with the Third World was neither comfortable nor durable. And yet, Professor, Mexico, as you mentioned, and Peru, and perhaps to some extent Venezuela, have been in the vanguard of the Third World leadership. OPEC is a good example of it. Do you have anything further on that? I am particularly interested as to whether we can learn anything about it. Latin America can be a bulwark in our dealings with the rest of the Third World if we work out some of our problems with them. I think the rest of us will agree that our problems should be easier to work out with the Latin American countries than they would be with the other Third World countries, first because of the historical relationship, and second, because of the more severe nature of the problems in the other parts of the Third World. Do you have any further comment on that?

Mr. WEINTRAUB. Let me try to respond briefly, if I may, Mr. Chairman.

The reason I said the relationship was not wholly comfortable is because Latin American countries like Venezuela, Brazil, Argentina, are so much more affluent than many of the countries in Africa; and while unity on certain issues is possible, on other issues Latin America is looked upon as an area of affluent, sort of middle-income countries rather than of very poor countries. This has come up in many cases already in Third World dealings. When special funds were set up both in the World Bank and in the IMF for helping the poorest countries, there was a tremendous amount of internal negotiation and bargaining as to what Latin America's share of that was. And these types of problems come up frequently in Third World dealings.

Now, as to whether or not the United States ought to deliberately go out to bust the Third World bloc, if you will, in its dealings with the Third World countries, I would say no. I think the natural sort of tendency will be for countries to pursue their own interest. I think they will stick together when their interests are common, and I think they will diverge when their interests are not common.

On the other hand, I agree with you, Mr. Chairman, that we can probably deal more easily over time with some of the Latin American countries, than with other Third World countries: one, because of historical relationships, and two, because of greater affluence than we find in Third World countries as a whole. And to repeat, I would view this not in the sense of trying to break up unity, but as a natural type of relationship.

Chairman LONG. There seems to be a substantial political question, Mr. Lowenthal. Do you have any views on this?

Mr. LOWENTHAL. I feel that the future of United States-Latin American relations could go either way at the fundamental level we are talking about. That is, I think we would be wrong to assume that because we have had a historically close relationship with the countries of Latin America that we are necessarily going to be able to deal with them without conflict on these broad questions of international economic orders which are of such concern throughout the Third and Fourth World. It may turn out to be the opposite, it may turn out that the historic closeness leads to a sense of greater expectation, and of some frustration, which leads to animosity, and to conflict in this hemisphere in a more direct way than will occur between the United States and other countries in the Third World. I don't want that to happen. And I don't necessarily expect it to happen. But it could happen.

I think whether it does or not depends largely on the overall U.S. policy toward the problems of the international economic order. If the U.S. Government were able in a stable and coherent way, over a number of years, to implement the kind of policies which Secretary Kissinger outlined in the U.N. special session, I think that might very well lead to a more constructive set of relationships not only with the Third World but particularly with the salient Latin American countries in the Third World.

Chairman LONG. I might comment, Mr. Lowenthal, I agree with what you say. I don't think that the geographical proximity necessarily means that it leads to an easier solution of the problems. And as you point out, the reverse might be true. Perhaps Cuba is an example of that. It was for that reason that I felt that we needed to develop a policy with respect to the treatment of this. If we do allow these problems to go to the extent that Cuba went—and some of the others are, in my opinion, in danger of going in that direction, maybe more in the Caribbean than in the mainland of Latin America—we would be presented with another very, very difficult political problem as a result. I think the best way to do it would be to have a policy and to give it some attention and to look at it objectively. Unless we can do it with a cool head, rather than waiting until it gets down to being a situation that is impossible to deal with—if you take the passions that become involved it will be impossible to solve.

Mr. LOWENTHAL. I think the Cuban example you cite and the general point you make is very apropos. In this context I would suggest you look at the U.S. relations with Brazil. I am not a Brazilian specialist but there are many, and I have learned from a number of them. I have a sense that we tend to assume in this country, and that Secretary Kissinger on his recent trip seems to have assumed that there is a very strong and almost inevitable alliance between the United States and Brazil. I think if you will look at the kind of issues that are likely to be of concern to Brazil over the next 10 to 15 years that you could make a good case that there may well be a great deal of conflict and tension between Brazil and the United States. The kind of historic political alliance that there has been between the United States and Brazil as they apply to policies in this hemisphere may continue. But I think that the questions of greatest concern are going to be questions of countervailing duties on Brazilian products, or questions of access to international credit, and questions of this debt structure we have been talking about; questions about the sovereign capacity of a country like Brazil to determine its own foreign policies with respect to a number of issues, fishing rights and so forth, with regard to a lot of economic issues, and to questions of participation in international rule-making, whether on nuclear power or economic and monetary questions. All these are issues which may very well lead to conflict between a country like Brazil and the United States over the next 10 or 15 years.

Chairman LONG. Mr. Davis, do you have any views on this subject?

Mr. DAVIS. Well, at the risk of gross oversimplification, I think it is fair to say that just as the dominant view in this country is that we have a mutual benefit association in the hemisphere, the same position with one major qualification, is the conception of inter-American relationships that predominates in Latin America as well. That major qualification, of course, is the fact that the Latin Americans feel that within that relationship they get the short end of the stick every time. And while the United States has made some concessions, for example, contributions to the Inter-American Development Bank, et cetera, still by and large the Latin Americans have to be presenting a united front and pressing very hard to inch up on the stick just a little bit.

I think that from my own experience, in terms of dealing with Latin America, there is one very, very positive factor, at least as I look comparatively at the world. And it is that Latin Americans are terribly sophisticated people. They have some very, very intelligent economists, many of whom have been trained in this country. They tend to view the world, and they tend to look at tradeoffs in very much the same way that we do.

That is the first step in any kind of bargaining situation. If you don't even look at the world in the same way, your chances of reaching any amicable settlement are very, very small. We at least have that in our dealing with Latin America.

Now, our interests, particularly in the short run, are very divergent. And just because they know the facts, and they tend to see them the way we do, I think they can make this bargaining process sometimes a very difficult one, and sometimes a very prolonged one in time. But at least in terms of relationships with Latin America, in my opinion we have the basis to continue a discussion, to continue a dialog. Those conditions may not exist in some other parts of the world.

Chairman LONG. Congressman Hamilton.

Representative HAMILTON. Thank you very much, Mr. Chairman.

I might say to our distinguished panel that as a person who does not follow Latin American affairs as closely and with the intensity that you do, that the total impact of your testimony this morning has made me feel as though I have been hit with a bucket of icewater about the problems of Latin America. All of you seem in one degree or another at least to have conveyed to me a real sense of real pessimism about the future of Latin America.

There is a glint of optimism here and there in your statements.

I was especially impressed, Mr. Lowenthal, with your summary of developments over the last 15 years. And when you run through that list—and it has been fortified by some of the things the other panelists have said—it really amounts to a very discouraging record. Only two democratic regimes, and all kinds of violations of human rights. The state has become more powerful, there is maldistribution of the growth in the economies, a lessening of our influence in that area, a population explosion, and all of the other problems that you talk about. Now, these matters, of course, have been of great concern to our State Department and the administration. Secretary Kissinger in recent weeks has proposed a series of steps to deal with the problems of the less developed countries. What I would like you to do is to comment on his proposals—and I will mention them in a moment—and give me your idea of what American policy ought to be toward Latin America specifically and the less developed countries I guess more generally, in the light of the very discouraging trends that you have called to our attention in Latin America in these past 15 years or so.

The Secretary, as you know, talked about an international resources bank at Nairobi that would focus, as he put it, on energy and raw materials, that would act as a multilateral guarantor against noncommercial risks, as a facilitator of production sharing and technology transfer. In Santiago, he proposed a means of dealing with transfer of technology on a broad scale. The Secretary mentioned specifically Latin America's access to the National Technical Information Service. He also called for more consultation on the whole problem of commodities with an effort to stabilize, I presume, prices. There are many people in the administration speaking strongly against that.

These are some specific proposals he has put forward in a broader context than Latin America. I would like to get your reaction to them as American policy toward Latin America in the next few years.

Mr. LOWENTHAL. I would like to begin by saying that though I think you are certainly right to find reason for discouragement about various aspects of Latin American development over the last few years, I would also underline, both from the statements and from what was not said, various points about which you should take some comfort.

Representative HAMILTON. Stress those, because I need to have my spirit boosted.

Mr. LOWENTHAL. In general, I suppose the last 15 years have not been anyone's most encouraging period; we have had severe problems here at home too. But in the Latin American context, certainly as Professor Weintraub emphasized in particular, there has been a dramatic economic growth, and we shouldn't ignore it, and there has been a tremendous explosion of education in Latin America, a tremendous expansion of literacy, and also expansion at the higher education level. The very fact, for instance, that Latin Americans can deal in international conferences with the problems of technology transfer, implies that there in capacity in many of the countries of Latin America to do something about technology, to harness it effectively.

In general I think the capacity in Latin America to exercise sovereignty over a variety of problems is something from which we should take comfort even when in some instances it leads to bilateral conflict between us and the given Latin American country. In the larger scheme of things, the fact that they have the capacity to struggle about these questions is healthy. It is analogous, I think, to labor-management conflicts in a domestic context. The fact that there is some struggle over the rules of the game is probably a good sign, overall.

You asked me to comment on the various specific proposals that Secretary Kissinger has made in recent months and weeks. I must confess to you that although I have read the proposals he made in Nairobi, although I have read them in general but I have not yet studied them with sufficient care to really want to express opinions. Perhaps the economists here would be able to do that. But I did look with greater care at the earlier proposals the Secretary made in the speech on the seventh special session of the United Nations, which was really the first major statement at the rhetorical level of an overall changed U.S. approach to the problems of North-South relations and to the demand for a new international economic order. This demand has been coming, as you said, not just from the Latin American countries, but from countries in the Third and Fourth World around the globe, although we should recognize the important role that the Latin American countries have had in this entire equation.

My own feeling as I studied the proposals made in the U.N. speech was that they were a potentially significant step forward. If they can be taken seriously and translated into specific and implementable policies, they would represent the kind of change which would be welcome in Latin America and the rest of the world. They wouldn't solve all the problems of the world. No one set of proposals is going to do that. The United States can't solve all its own problems. But those certainly could be steps forward.

But I think the whole discussions in these special sessions were really at the "shape of the table" stage of international negotiations on economic order. And therefore the United States could get away with a rhetorical statement which camouflaged differences of opinion and emphasis within our own Government, differences which exist among the Third World countries as well, which also are camouflaged by this capacity to come to this kind of forum in which you really don't have to bargain about the nitty-gritty of details. When the countries get down into the specifics, things may be different. There was a disheartening development right after the U.N. special session in the international cocoa negotiations in which, right after committing itself to a general commodities approach, the U.S. Government found itself unable to follow through.

I think there are going to be lots of specific issues that come up in the next several years in which we must test the will of the United States to seek solutions which actually wind up having an overall redistributive effect from the richer countries to the poorer countries. I think that is what it all comes down to in the end, whether we are willing to pay some price for a more stable international economic and political order. That is going to involve a price, and we ought to be prepared to deal realistically with that question in Latin America as well as the rest of the world.

Representative HAMILTON. Professor Weintraub.

Mr. WEINTRAUB. Let me elaborate a bit. I won't repeat my areas of agreement with Professor Lowenthal, because I agree with most of what he said. But let me make a preface before I answer your specific question.

I don't necessarily find it unhealthy that U.S. economic power has diminshed in Latin America relative to Latin American total worldwide interest. I also don't find it a terribly unfortunate or unmanageable thing that there are trade conflicts from time to time with Latin America, stemming from Latin American exports to us of one commodity or another. We have similar disagreements with the European community and Japan. The issue is not the disagreement but the negotiation process by which disagreements are resolved. The disagreements can be resolved if the negotiating process is reasonable, and I think the latter is more important than the earlier fact of disagreement.

On some of the other points Professor Lowenthal made about the more encouraging features of our relationship with Latin America, I think these are correct, and I agree with them.

Some of the things that have been proposed by Secretary Kissinger both at the seventh special session of the United Nations and subsequently at UNCTAD, could be useful. But I wouldn't overstress them in terms of how much they would help Latin America and other groups of countries. Some have been implemented. For example, the proposal to liberalize the compensatory finance facility of the International Monetary Fund has been accomplished since the seventh special session. It has been drawn upon quite extensively by less developed countries and it has been an extremely useful device. The trade negotiations are in process, and what emerges we will see in several years. And that will mean more to Latin America than to most other less developed regions of the world.

Representative HAMILTON. Would you put as the top priority for Latin America, the question of trade preferences?

Mr. WEINTRAUB. Not trade preferences; I would put successful negotiation in the multilateral trade negotiations and commodity policy at the top of our relations, those two elements. The price of coffee, cocoa, copper, and tin means more than most other things that we do.

One other thing I put at the top of our priority, even higher than any of these other things, is the rate of growth that will take place in the developed countries. I think that Professor Davis pointed out that one of the critical elements in what will happen in the future in Latin America is dependent on the rate of growth in the OECD countries in the years to come. I agree with that. But I am more optimistic than he is. If he is correct, the problems in Latin America will be immense. If I am correct, then I think this will have more importance than any particular proposal we make. But to repeat, I think liberalized trade with greater Latin American access to the U.S. market, and some sustained level of growth in the developed countries which will assist in some sustained reasonable prices of commodities, are really the crucial issues in our relationship.

Representative HAMILTON. Should the United States embrace the integral approach to commodity agreements, that the UNCTAD proposed?

Mr. WEINTRAUB. Not to agreements, but to financing. My own view is—I don't really know. It is a complicated issue, I thought earlier when I read the UNCTAD proposal that it made sense in economizing on financing. But I confess I don't really feel expert enough on this to give a judgment.

Representative HAMILTON. What is your reaction to the International Resources Bank that the Secretary has proposed?

Mr. WEINTRAUB. I don't think the U.S. Government has done all of its homework on this one. I haven't seen very much evidence that this type of guarantee is really needed. If that is demonstrated, I think the proposal is useful. If that is not demonstrated, I think it is marginal. And it is that demonstration which is yet to be shown.

Representative HAMILTON. How did Latin American countries vote at Nairobi? How did they respond to the Secretary's speech?

Mr. DAVIS. Favorably enough, I think for the very simple reason that the short-term impact of the accumulation of commodities would be very positive, presumably, on price. The United States would be a significant benefiter of some of that accumulation as well, particularly with respect to food grains. The longrun evidence, I think, is fairly clear, that when you build up these stocks and these stocks overhang the market, the longer term impact on commodity prices is very negative. And the Latin American countries know very well what the buffer stocks meant to commodity prices like tin, for example, in the period of the 1950's and even early 1960's. Latin Americans are looking upon this proposal at the very best as a very short-term expedient. Our evidence here is probably not as ample as it might be. But I think there is certainly some basis for this point of view.

I would like to add one other thing. I have expanded on it a bit in my prepared statement.

If there is one area in the broad sense in the technical field where I think some immediate action is required, it is in the area of nuclear policy in Latin America. I want to associate myself very closely with Mr. Weintraub's view. The United States should not always attempt to exert a guiding hand in Latin America. I think that there has been a bit of heavy handedness in the past, and that this has something to do with current attitudes as well. But if there is one area that might be important to our longrun security, it is the problem of nuclear proliferation in Latin America. And that is going on at a very rapid pace today. Latin Americans are going to have the capability of weapons grade production of plutonium in a 3- to 5-year period of time. Argentina, Brazil, and Mexico are certainly on that list. And that is bound to pressures in Venezuela and Colombia to duplicate this type of facility.

It would seem to me that if there is one thing that is called for, and perhaps still a step to be achieved, it is some sort of international arrangement and control for the production of weapons grade plutonium in Latin America. And that this is an area where perhaps the leadership in the United States could really make a longer term impact upon our national security.

Representative HAMILTON. Mr. Chairman, you have been very generous on time. Thank you.

Chairman LONG. Thank you, Congressman Hamilton.

Now, Mr. Lowenthal, a political question—like all of these questions—the political and economic ramifications are inseparable. In a number of international forums of which Congressman Hamilton was speaking, and others, the Latin American countries have come forward as leaders. Venezuela in OPEC is a good example, and Peru and Mexico and I think Mr. Weintraub was speaking of UNCTAD. To what degree do the Latin American countries perceive themselves as the leaders in the changing role of the United States-Latin American relations or their own relationship with regard to the Third World? Have you done any thinking or studying on this?

Mr. LOWENTHAL. I am not sure whether I understand your question.

Chairman LONG. Do they really think that they have a leadership role to play here? And are the two examples that I pointed out an indication that their role in this is really getting to be a substantial one? This is all going back to the basic question as to whether or not, in developing our relationship with Latin America, we can outline possible solutions to our relationships with the rest of the Third World?

Mr. LOWENTHAL. I think I understand your question now. I do think that the Latin American countries together feel much greater capacity to help shape international relations, both within the hemisphere and beyond. And we all on this panel agree that that is a healthy thing. I think one of the big breakthroughs was the consensus statement made by the then Chilean Foreign Minister in 1969, which represented a statement by the Latin American nations to the incoming United States administration at that time, reversing the general flow of most of the communications occurring at that level between Latin America and the United States.

I think you are right to single out several of the individual Latin American countries as playing, and perceiving themselves as playing, a particularly important role. I would stress Brazil, Venezuela, Peru, Mexico, and Cuba.

Chairman LONG. You see them as having the ability to make important contributions in this regard?

Mr. LOWENTHAL. I see them yes, as each in a different way making contributions. Brazil is a country which really shares a number of interests with the less-developed countries, but which also shares a number of interests with the industrial countries, and which plays a kind of bridging role. Cuba, which may play historically a similar bridging role between the socialist countries and the less-developed countries, plays a very interesting role internationally. It has been one of the few countries, for instance, to speak out explicitly against the tremendous increase in the price of petroleum, and to criticize the failure of the major oil producers to invest these funds in ways that would benefit Third or Fourth World development.

Peru and Venezuela, each of these countries, I think, has a capacity, and I think they have played their role responsibly. I think sometimes we have not given them credit for that. Certainly the Trade Act as it applied to Venezuela and Ecuador, for instance, was a gratuitous slap, for it affected these Latin American states which had desisted from the embargo.

Chairman LONG. Could we pursue that a bit more Mr. Davis and Mr. Weintraub? In the denial of the trade preferences to Venezuela and to Ecuador, what do you see as the political and economic fallout? Was it or was it not a wise decision? Should it be changed? Have you any firm, strong views on this matter?

Mr. DAVIS. I think the reaction in Latin America is that when there is something the United States wants there is a "special relationship" with Latin America. But when there is a problem, Latin American countries get treated just like everybody else gets treated. A case in point. When President Nixon put on the import surcharge in August 1971, it went right on Latin America as well as the rest of the world. The point that the Latin American made, of course, is that their imports from the United States are greater than their exports to the United States, that on balance Latin America exports to Europe and imports from the United States. There was no Latin American export surplus to the United States. And presumably the purpose of the surcharge was to reduce on a worldwide scale those exports surpluses. But here was Latin America, despite the "special relationship," being hit with the same surcharge.

I think the restriction on the OPEC countries was looked upon in Venezuela, and to some extent in Ecuador, in much the same light, that is to say, that again when the United States had an economic problem, when the United States is using its market as a bargaining tool in international economic relationships, despite the special relationship, Latin American countries get treated just as everybody else is treated.

Chairman LONG. Recently it has been reported in the press that the Foreign Minister of Costa Rica had proposed that the United States set up a special trading arrangement with Latin American countries, giving them the preference in trade with us that is not enjoyed by the other countries. I assume that this was something comparable to the European home arrangement with former colonial territories in Africa. And I think some of the Caribbean countries are included in that also.

Mr. DAVIS. The British Commonwealth countries.

Chairman LONG. What thoughts do you have on this?

Mr. DAVIS. Again, I think it all hinges on what we mean by "special relationship" or "continental relationship," and so forth. Our basic international trade position is a straight, liberal position. That is to say that our trade policies should be uniform, they should conform to the GATT Convention, and that there is no special relationship when it comes to trade. Yet our State Department policy vis-a-vis Latin America at various times has made much of the "special relationship" to suggest that Latin American countries ought to behave one way vis-a-vis the United States and another way toward other world hegemonic powers. Now, we have seen that the "special relationship" has been eroded to a very, very considerable degree in the last 15 years. But I do believe that a lot of these controversies and misunderstandings arise because we are not very consistent in our definition of what "special relationship" means in hemispheric affairs. The Latin Americans feel that if it means something as far as political behavior is concerned, if it means something in the way the Latin Americans vote in the United Nations, for example, it should mean something as far as U.S. economic relations are concerned. And they see it as meaning one thing in the political spheres where they are giving, and something else in the economic sphere where they might otherwise receive.

Chairman LONG. Let me go back to the specific point I was referring to in my earlier question, and that is the provision in the Trade Act of 1974, in which we denied Ecuador and Venezuela the benefits of the generalized system of preferences because of their membership in OPEC. If I am reading it correctly, we are getting a large amount of flak not only from Venezuela and Ecuador, but from all the Latin American countries because of our actions. Do you read it the same way I read it?

Mr. DAVIS. I read it exactly the same way. And I think that the way the Venezuelans and the Ecuadoreans read it is precisely as I indicated, that is to say, they want very much to develop their manufactured exports. If there is a "special relationship" in the hemisphere, there ought to be some concessions to Venezuela and Ecuador; they shouldn't be treated just as an OPEC member country.

Chairman LONG. It is awfully hard to talk about a special relationship when you deny them even the relations that are given to other parts of the world, isn't it?

Mr. DAVIS. Other parts of Latin America.

Chairman LONG. Latin America, too.

What is your feeling on this basic question, Mr. Weintraub?

Mr. WEINTRAUB. I think the provision in the Trade Act is incorrect and damaging.

Let me broaden that. The broader question you raised a few moments ago was as to whether or not there ought to be a special relationship on trade preferences between ourselves and Latin America. This issue came up before the United States adopted the general system. And most of the Latin American countries did not support the special relationship on trade preferences. They preferred a general system.

Let me make one other comment if I may. I think the coercive techniques that are frequently put into effect by the executive branch and the Congress really don't work well to coerce other people but rather only annoy them. They generally are failures. The Hickenlooper amendment is one example. And this is another. In all honesty, I think that these things will generally be failures. If they were practiced against us, we would respond with animosity and not by caving in. And I think we should expect much the same response from most other countries.

Chairman LONG. What do you think on this question, Mr. Lowenthal, of the political fallout?

Mr. LOWENTHAL. Certainly you are right. In fact I was trying to hint at that earlier. And certainly we pay a price for that. I am speaking now of the Trade Act.

On the more general question, I don't think the countries of Latin America by and large politically want what is implied by a special set of economic preferences for the region. I think they want a set of international rules which are of benefit to the Third World countries in general, and from which they will benefit in greater measure precisely because of their relatively higher degree of development, their relatively higher degree of capacity to manufactured goods for export, and so on.

If I might make another comment, as long as we have spent as much time as we have on this discussing this phrase "special relationship," and since it is a bridge to your hearings tomorrow on United States-Latin American relations, let me mention that I have been writing an article as part of the Bicentennial observance of Foreign Affairs magazine in which I have been dealing with the question of the general relationship between the United States and Latin America. I have come to think of the nature of that relationship historically as being akin to that of the distorting mirror at the circus that we are familiar with. You stand in front of this distorting mirror, and it takes various characteristics that are there, it doesn't really make anything up, but it distorts them to a disturbing degree. You will find yourself suddenly terribly tall or terribly fat. I think there has been something about the nature of the United States-Latin American relationships that has had that character, that has heightened various qualities of our society, and qaualities of our national relationships in ways that are disturbing. Not all of these are bad qualities. Some of them are noble—our interest in democracy, and our interest in economic change abroad.

It was our interest in democracy that led President Wilson to suggest at one time that we had better "teach them to hold elections and if they don't learn, we should teach them again." So many of our most noble qualities are also heightened to the point of being disturbing. I think that the relatively greater distance, dealing with soverign nations that make their own decisions and respecting these, will be a more appropriate U.S posture in the next century.

Chairman Long. I sat down and wrote out three things that bothered me most about the whole situation—and I would like each of you to give me the benefit of your views on it. One of them—and again recognizing that this is oversimplifying it, but I am asking for a general impression—is the question of whether Latin America has really developed and created an adequate entrepreneurial class to sustain development over a period of time, and should more emphasis be placed on this factor, and can it really be?

Mr. Davis, why don't you start out on that one. I am really looking at points of view in order to try to make sort of a value judgment on my own to figure out what I think about it.

Mr. Davis. That is a very difficult question to answer. And I think it is very tough to generalize. But some of the most recent research—which admittedly concentrates on some very special situations within Latin America, for example, Monterey, Mexico, and Soa Paulo, Brazil, Cali Medellin in Colombia—has demonstrated to me that there is a substantial managerial competence within Latin America. This research took the form of looking industry by industry in these admittedly advanced manufacturing economies and trying to pick out within those industries a foreign and a domestic firm comparable in terms of size, sales, or level of employment, and comparing their performances over the last 8 to 10 years in terms of growth, profitability, employment, technological change, new product innovation, and so forth. We couldn't establish any significance between foreign and domestic firms in any of these places in any of these categories.

Now, part of the explanation is obviously that these firms are managed by the same types of people. Many got their training in business schools or in engineering colleges, and very frequently the very same ones.

There is a managerial cadre in Latin America. It may not be as widely diffused as we would like to think, but it exists. And it is expanding every single day.

The other area in which I think we are going to see a growing managerial cadre is in the State enterprise sector. Mr. Lowenthal referred to that as part of the expansion of the public sector. But in countries like Peru, for example, with the expansion of firms like Petroperu and Mineroperu, there is rapidly accumulating an impressive managerial superstructure. One certainly finds this in Mexico, and also in Brazil. It exists in Argentina and other countries in the hemisphere. But of course there are wide, wide degrees of variation within Latin America. And to talk about these countries one can't leap immediately to assuming that the same would be true of Paraguay, Bolivia, and Nicaragua, or even of the Dominican Republic. So I think if the question is, has the last 15 years shown a very marked increase in terms of managerial capability, the answer is unequestionably yes. Has it been equally spread? Not as yet. But one suspects that it will spread increasingly during the next decade or two.

Chairman LONG. You have been helpful, thank you.

Mr. Weintraub.

Mr. WEINTRAUB. I agree with that. There is quite a difference, as Mr. Davis pointed out, between the best run plants in Brazil and Mexico, et cetera, and the general managerial level throughout the economy. During the days of the alliance for progress, the skills we found most lacking were middle management skills, particularly around the countryside, people who could run the local co-op or the savings and loan institution outside the capital. My impression is that that lack is still there, although probably diminished from what it was 10 or 15 years ago.

Chairman LONG. Mr. Lowenthal, can you think of any particular view or incident that you ran across that might be enlightening to us?

Mr. LOWENTHAL. Very quickly let me just cite one. I think our general images lag behind reality. I agree with the statements on the reality that Mr. Davis and Mr. Weintraub just expressed. I had an experience once in Peru, accompanying a very high official of the Ford Foundation who was taking a trip through Latin America on his visit to the American Embassy. And the appropriate Embassy officer who received us talked to us about the changes underway in Peru, and he questioned the managerial and administrative capacity of Peruvians to run all these things that they were taking over. I was young and inexperienced and did not know what to make of all of this. I asked the Ford Foundation official when we left the Embassy what he had made of what he had just heard. He was a man who had been around and about before, and he said, "I have heard all of that before, the Eyptians will never be able to run that canal."

We tend to assume that the capacity abroad is less than it is. There is evidence of substantial capacity in many countries in Latin America.

Chairman LONG. Mr. Weintraub, in your statement you were speaking of special preferences, such as special lending and other aid to those very poorest of nations in Latin America and the need for continuing that. Is our aid really helping these very poorest countries get on the road to being weaned ultimately away from this aid, or is it just a crutch that they are going to need from now on? Are some of them viable economic units?

Mr. WEINTRAUB. I find it hard to know what is a viable and what is not a viable economic unit, particularly looking into the future. They used to say that Libya was a nonviable economic unit, until they discovered oil. So I don't think we should always make judgments as to which countries can never make it.

Our aid may turn out to be a crutch forever, but I really don't think so. I think we have to continue it. I think it is useful. I think that some of the growth rates we saw in the 1960's and 1970's, which really were quite remarkable, were accomplished essentially by the countries themselves. But I think the outside assistance made some difference as well. In other words, I do think aid matters, not if it is handed out willy-nilly, but if it is given with proper safeguards. My feeling is that instruments like the Fund for Special Operations of the Inter-American Development Bank or our bilateral programs do matter for the poorest countries.

Chairman LONG. Do either one of you have views that you would like to express on this?

Let me ask you another question on which I would like the views of all three of you. The development in the last few years particularly—and we touched on this but didn't go into it in detail—in the countries of the English-speaking Caribbean have greatly concerned me. I don't really know what is causing it. I don't know whether it is a Cuban influence, or the basic economic situation, or maybe even more fundamentally the societies in Jamaica, Trinidad, and other smaller areas. They are really in serious trouble.

Mr. Davis, what is your view on that?

Mr. DAVIS. If I had to pick out an area where I would question long-run economic viability, I think I would probably single out these areas, and perhaps even more some of the smaller windward islands rather than Jamaica and Trinidad. Jamaica after all does have very substantial bauxite reserves, and Trinidad has some oil which it is exploiting at a very rapid pace. But Barbados, for example, I suspect will essentially be exporting population in the future as it has in the past, probably at accelerating rates.

There is a substantial flow of skilled capable people out of the ex-British West Indies into countries like Canada and into the United Kingdom, and to some extent to the United States, at the present time. And I believe that this phenomenon is going to constitute a very serious continuing economic drag on the English-speaking Caribbean for a long period of time.

Chairman LONG. Mr. Weintraub.

Mr. WEINTRAUB. I have very little to add. There is a malaise in Jamaica, for example. It is under a state of emergency. It's problems, I suspect, have had as much to do with the whole nature of society as with any specific factor. I do not know whether this is a correctable kind of problem. When I said before that I don't like to say which country is viable and which isn't, some of the smaller countries obviously will have trouble, certainly until tourism picks up. Some of this present condition has been exacerbated by our recession. However, I think the rate of recovery in the United States will make a difference there, even in those countries. I share the concern which you expressed about some of these countries, but I am not quite sure what combination of factors, domestic factors, economic factors internally and economic factors externally, really are the crucial ones. I think it is a combination of all of those things.

Chairman LONG. Mr. Lowenthal.

Mr. LOWENTHAL. I have given some thought to this question. Perhaps it would be appropriate to mention that I wrote for the Commission on United States-Latin American Relations an article, published about a year ago, entitled "Toward a New Caribbean Policy." In general, it seems to me that most of these Caribbean territories are a collection of small, weak, overpopulated insular units, with weak political institutions. They possess few known resources, except for the Sun, which is not an unmixed blessing itself because of the effects that tourism can have on the social structure. Many of these countries are "satellites in search of an orbit." And we in the United States have got to face up to that fact; to think about how to change that situation and to ask what set of policies might increase the chances for viability of the Caribbean territories, perhaps in some association with each other.

You have mentioned the Cuban influence. I would not regard Cuba as a cause for problems in the Commonwealth Caribbean. One could talk a long time about Cuba and we would have various opinions in this room. But in many senses Cuba has come closer than any other quarter to solving the problems of the Caribbean. Cuba, of course, started with some advantages. In any case, I don't think Cuban influence is the issue, except that the Cuban example may inspire some of her neighbors to do something about their difficult problems.

Chairman LONG. We would be most pleased to have your article, Mr. Lowenthal. It will be placed in the hearing record at this point.

[The article referred to follows:]

TOWARD A NEW CARIBBEAN POLICY

(By Abraham F. Lowenthal*)

The United States has long been deeply involved in the Caribbean. America's Mediterranean, but America's involvement has, on the whole, been far from happy. Time and again, administrations in Washington have found themselves dealing with the region, even landing troops there. One need not reach back fifty year to the days when the United States had soldiers in the Dominican Republic, Haiti, and Nicaragua, virtual protectorates in Cuba and Panama and an outright colony in Puerto Rico to make this point. Even in the past few years, a big share of our international "trouble spots" have borne Caribbean datelines: Guatemala, Cuba, Panama, the Dominican Republic.

The 1965 invasion of Santo Domingo. more than any other single incident, stimulated a concern here that the United States try to change the nature of its Caribbean relationships, particularly to break out of the unfortuate cycle of in-

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termittent, *ad hoc* military actions exemplified by the Dominican episode. Studies of this country's Caribbean policy were commissioned by the State Department and by such private organizations as the American Assembly, the Council on Foreign Relations, the Twentieth Century Fund, and the University of Pennsylvania.

Within three or four years, however, interest in the problem of Caribbean policy had dropped off. The Twentieth Century Fund's original project was never finished. The University of Pennsylvania's report was finished but never published or even circulated. The State Department's Caribbean Study Report was never actively considered. Only the American Assembly's report and Robert Crassweller's volume (prepared for the Council on Foreign Relations) were released; neither has received the attention or discussion it deserves.

An historic pattern has reasserted itself; between Marine landings, the Caribbean area is neglected by the United States. And a major corollary of this repeated pattern threatens also to renew itself: the premises of U.S. policies toward the Caribbean area go unexamined from decade to decade, causing hoary axioms and unquestioned assumptions to dominate the American approach.

Current concern with Cuba's gradual reentry into the hemispheric community offers a new chance to focus attention on the Caribbean area as a whole and to frame clearly the central question for U.S. policy: how, if at all, can the United States end its troubling pattern of Caribbean entanglements and achieve a mutually constructive relationship with the peoples of the Caribbean, our closest neighbors?

Analysts differ about whether to define the Caribbean primarily in geographical, cultural or political terms. For the purposes of analyzing U.S. foreign policy toward the region, however, the Caribbean is best conceived as that set of dependent enclaves, in or bordered by the Caribbean Sea, concerning which the United States has historically felt a special security interest, arising primarily from their proximity, their weakness, and their presumed vulnerability to external penetration. The active composition of that set has varied over the years, particularly as various territories have changed their relationship with metropolitan powers.[1] Both the range and the intensity of U.S. concerns in the area have fluctuated over time: with the construction of the Panama Canal and of various military installations, with the advent of submarine warfare and the introduction of intercontinental and then of sea-launched missiles, with the expansion and evolution of U.S. economic interests in the region, and also with shifts in the identity, strength, strategy, and tactics of this country's potential extra-hemispheric adversaries (and of our colonial friends). All along, however, the central U.S. interest in the region has been the same—to prevent any threat to America's security from arising so near our shores. The U.S. resolve to permit no challenge to American domination of this border area has been enshrined in the "Monroe Doctrine" and the "Roosevelt Corollary" and endorsed by the rhetoric and actions of John Kennedy and Lyndon Johnson; it has become an unchallenged reference point of American foreign policy, often acted upon, if rarely discussed.

What kind of region is the Caribbean today? What problems does it now present for American foreign policy? What are U.S. interests in the Caribbean, and how may they best be protected and pursued in the years ahead? Is the traditional U.S. approach to the Caribbean sound? Does the Caribbean region require special U.S. policies, or should it be treated as simply a part of Latin America as a whole, or of the Third World even more generally? If special U.S. policies are required, why, and what kind?

The Caribbean territories are remarkably diverse, yet overwhelmingly alike. Five different racial groups (native Indians, blacks, whites, Orientals, and East Indians) mingle with varying degrees of hostility. Even more different languages

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[1] My definition of the Caribbean would include, for current purposes of U.S. foreign policy-making, all the island territories (Cuba, Haiti, the Dominican Republic, Puerto Rico, Jamaica, Trinidad-Tobago, Martinique, Guadeloupe, Barbados, the Bahamas, the Netherlands Antilles, St. Lucia, Grenada, St. Vincent, the British and the U.S. Virgin Islands, Antigua, St. Kitts, Nevis, Anguilla, St. Christopher, Dominica and any I may have missed inadvertently), plus Guyana, Cayenne, and Surinam from the South American mainland and British Honduras (Belize) from Central America. My working definition would clearly exclude Mexico, Colombia, Brazil and Venezuela, although the last (at least) is certainly Caribbean from a geographic and cultural perspective, and all four—especially the last—are powers very much to be taken into account in framing Caribbean policy. Whether the Central American states should be included is essentially an empirical question, the answer to which depends on whether national and regional integration processes have by now provided these countries with the elements of continuing viability I suspect they have.

are spoken within the area some of them Indian languages and others variants of the European tongues brought to the region by the colonial powers. Economic organization runs the gamut from the Bahamas' tax havens to Cuba's socialist republic. And economic productivity ranges from the depths of Haiti ("the land of unlimited impossibilities") to the uneven but impressive performance of Puerto Rico, officially classified (by the World Bank) as among the rich countries.

But all these units share, apart from unsurpassed natural beauty, a number of painful characteristics. Economically, they are small, mostly overpopulated, heavily dependent on a few products and extremely susceptible to international fluctuations; they all have relatively few known resources (besides the sun), inadequate markets, insufficient financial capacity, and distressingly high un employment. Socially and culturally, they are insular, even those physically situated on the mainland of Central or South America. The Caribbean societies are still unintegrated (except for Cuba since its revolution) and searching for identify and meaning, their histories having always been shaped, and even written, from outside. Many, indeed, are more fragmented now than a decade ago; Puerto Rico's strife over constitutional "status" and that in the Commonwealth Caribbean over race are prime examples.

Politically, the Caribbean territories have been unable to resolve the "colonial dilemma" of "freedom or welfare"; economic dependence has persisted long after legal independence brought formal sovereignty to most states in the region.[2] Political stability and social peace have been elusive in the Caribbean; even the territories we used to think of as tranquil have erupted in recent years amidst class and racial tensions.

Internationally, like it or not, Caribbean units have become satellites in search of an orbit, requiring a regularized and predictable relationship with a central power, which increasingly has become the United States as the Western European nations have begun to withdraw from the area. By now, all the island states but Haiti and the Dominican Republic have either common market arrangements or preferential trading agreements with the respective metropolitan countries, and the Dominican Republic's significantly increased sugar sales to the United States in the past few years has had a strongly preferential flavor. More than half the external trade of most of the Caribbean units—perhaps 75% in the case of the Dominican Republic, for instance—is with the United States, increasingly so as the United Kingdom closes down its special preferences for the Commonwealth Caribbean.

The Caribbean trade and investment is not insignificant in turn, to the United States. This country's investments in the Caribbean region amount to over three billion dollars, mainly in bauxite, nickel, sugar, and tourist facilities; almost a billion is invested in Jamaica alone. Almost all the bauxite the United States imports (most of our consumption) comes from the Caribbean region, as does a substantial share of this country's sugar imports.

The links between the United States and the Caribbean are not limited to trade and investment. Most of the Caribbean economies, depend heavily on tourism, more each year, and cater mainly to the ubiquitous North American traveler. Some countries are even attracting significant numbers of retired Americans as permanent visitors. American culture pervades the area, at all levels and in all classes.

The interpenetration of the United States and the Caribbean is by no means one-way. Close to three million immigrants from the Caribbean have entered the United States, mostly since World War II; almost 20 percent of the region's total population as of 1945 has emigrated since that date. About half the immigrants have been Puerto Ricans; the island has been a net exporter of persons to the United States in all but three of the past 20 years, often substantially so, and official projections suggest this flow will continue. Most of the rest, the immigrants from other Caribbean territories, have entered since 1940. Half of all the West Indians who came to the United States from 1820 until 1972 have arrived since 1900; 620,000 Cubans, an estimated 320,000 Jamaicans, at least 260,000 Haitians, and 200,000 Dominicans, and easily 100,000 persons from Commonwealth Caribbean territories other than Jamaica Immigration from the Commonwealth Caribbean jumped sharply in 1966, following implementation of the 1965 Immigration and Naturalization legislation and nearly simultaneous but substantially more restrictive changes in British immigration policy; now there is a

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[2] See Annette Baker Fox, *Freedom and Welfare in the Caribbean: A Colonial Dilemma* (New York, 1949).

steady flow, legal and illegal, mainly to New York. What might have seemed at one time like a series of unrelated events—the influx of Puerto Ricans into the booming post-war United States, the exodus of Cubans abandoning Havana under Fidel, the diaspora of Dominicans fleeing that country's turbulent political struggles during the mid-1960's—appears increasingly to reflect a more fundamental, continuous, and probably irreversible response to regional overpopulation.

Despite its magnitude, the Caribbean immigrant population (except for the Cubans) has been largely "invisible," not distinguished for the purposes of public policy by national, state, or local authorities, nor by private institutions.

Little systematic analysis, not even simple monitoring, has been accorded to this Caribbean migration and its effects on this country and on the Caribbean. Lttle attention has been given to the problems of incorporating large numbers of non-white Caribbean immigrants, many of them non-English-speaking, who are entering the United States at a time of economic difficulties and amidst racial tensions here. What little information has been available suggest that there are few immediate prospects for reducing the migration flow, much of which is already illegal. And the scattered studies available show that Caribbean immigrants bring with them, and, or face on arrival, a series of economic, social, educational, linguistic, health, and legal problems which are importantly effecting the metropolitan areas where these populations are clustered. The politics, economics, society and culture (not to mention the cuisine) of the United States are being changed by Caribbean immigration.

How should the United States relate to the Caribbean region? What alternative policy approaches might be considered?

The traditional approach would be essentially to ignore the Caribbean area except for continuing vigilance against the possibility of a "security threat" in the region (with a low tolerance for ambiguity on that score).

A second approach, generally the one advocated in Robert Crassweller's study and the American Assembly report, would be for the United States government to supplement its historic policy toward the Caribbean by undertaking the kind of sustained commitment to Caribbean development our government has always avoided in the past.

A third possibility, consistent with revisionist thinking in American foreign policy generally, would be for the United States to disengage from the Caribbean, to diminish its concern with the area so that we not only cease sending in the Marines but drop any pretense that we care particularly about the region's fate.

A fourth stance, which I advocate, would be for the United States to transform the nature of its Caribbean involvement by relaxing its preoccupation with questions of military security and emphasizing instead a mutual concern for regional development and for helping to tackle the problems of Caribbean populations wherever they are, in the United States or back in the region itself.

THE TRADITIONAL POLICY

The traditional American approach to the Caribbean—studied indifference coupled with a keen sensitivity to potential "security threats" and a consequent aversion to regional instability—may be inglorious, but it is not likely to be abandoned. The historic policy's attraction derives from its low cost (at least to us, and in easily visible terms) and from its simplicity; it provides criteria which allow policy-makers to concentrate on other regions except under (more or less) clearly-defined circumstances: when Caribbean developments pose the danger that hostile extra- hemispheric powers will enter the region.

One key difficulty has always plagued the American approach to the Caribbean, however; although it is precisely weak, dependent entities like those dotting the Caribbean which experience instability and provide recurring openings for what this country has perceived as a "security threat" to develop, the United States has done little to help the Caribbean territories (aside from Puero Rico) overcome their disadvantaged condition. The Caribbean units have never been able to resist by themselves the encroachments of external power, which Washington considers threatening, but neither have they been able by themselves to undertake the processes of national (and regional) integration and development which might help foreclose foreign advance. The United States has taken an exceptional but only occasional interest in domestic political changes within the Caribbean, but has resisted engaging itself at a more fundamental level and in a continuing way; as with the rest of Latin American, we have been "foul weather friends." The United States has so often been drawn into unpleasant Caribbean entanglements, including military interventions, because our government has persisted in regarding the area as of vital concern to this country but has always failed to adopt the kind of positive, long-term measures such a concern might imply. We have cared enough about the Caribbean to send in the Marines (are they our "very best"?) but not enough to accept the kind of permanent involvement which might obviate the occasion for such extravagant displays.

So the pattern of intermittent intervention renews itself, with uncertain consequences. Hardboiled analysts may observe that the United States will always survive its occasional Caribbean adventures, and they would no doubt be right. But each American intervention has its costs, particularly within the region, either (as in Santo Domingo) by further undermining the possibility of self-confident national development, or, (as in Cuba) by increasing the likelihood that national development will eventually be based on virulent anti-Americanism. Each, unquestionably, strains the consensus on fundamental values of which we Americans have been so proud. And each, one fears, makes more distant the day when international law will have real force.

AN ACTIVE CARIBBEAN POLICY

The Dominican invasion of 1965 and other such interventions have given rise from time to time to calls for an active Caribbean policy, essentially for the historic U.S. approach complemented by a major American commitment to Caribbean development based on the supposed U.S. strategic and economic stake in the area. It is often said that the United States has "vital interests" in the Caribbean, that having another hostile nation or nations within the region would present the United States with unacceptable risks or even threaten national security. Rather than wait until a crisis requires the landing of American forces, the argument runs, the United States should head off crises by devoting continuing attention to the area and helping to solve its problems. The traditional American political approach to the Caribbean is not questioned, in other words, but a more sustained (and costly) technique is recommended to achieve this country's longstanding objectives.[3]

The familiar call for an active Caribbean policy draws on widespread dissatisfaction with America's Caribbean record, plus on a certain internal logic. But this formula is open to serious question, too, for it projects forward uncritically some assumptions which ought to be evaluated.

Before undertaking a more active (and potentially costly) Caribbean policy, the United States ought carefully to examine its interest in the area and whether the proposed approach would advance them.

The conventional case for special U.S. concern with the Caribbean mainly rests on its supposed military and strategic significance. America's need to protect its major maritime routes, including the Panam Canal and access thereto, has led this country to establish various naval bases in the region and to set up other military installations to facilitate undersea surveillance, missile tracking, and the like; it is argued that the United States must defend these facilities and must therefore prevent instability in the region.

The truth is, however, that changing technology has rendered traditional security concepts largely inadequate. The Panama Canal, for instance, is clearly indefensible against direct attack, or even against a determined saboteur. Naval bases around the region are of little use in the era of sealaunched ballistic missiles and MIRVs. The nature of "security" has changed considerably in recent years, and events in the Caribbean illustrate this well. From 1898 to 1969, for instance, no rival extrahemispheric naval force ever entered Caribbean waters, but Russian naval formations have been doing so regularly since mid-1969 without anyone getting particularly excited.

Three points are clear about U.S. security interests in the Caribbean. First, the United States cannot expect and does not require the same kind of total control of the region it formerly enjoyed. Second, the means for improving U.S. security, even within the Caribbean area, lie outside the region in great power relationships (such as the US-USSR "understanding" which keeps nuclear-

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[3] This position is stated in its crudest form in the University of Pennsylvania study, but it explicitly underlies all the other reports previously mentioned: by Robert Crassweller, by the American Assembly, by the Twentieth Century Fund, and by the State Department's Caribbean Study Group under Milton Barall.

equipped missiles out of Cuba and which apparently keeps missile-carrying submarines from being serviced there). Finally, it may be argued that the primary way to enhance American security within the Caribbean area would be to remove the irritants which might cause anti-American outbursts in the region. From that standpoint abandoning Guantanamo and ceding sovereignty in the Canal Zone to Panama might protect this country's interest better than grimly hanging on to these bits of territory.

Apart from the military security motive, the second reason offered by proponents of an active U.S. policy for the Caribbean is to protect U.S. economic interests, also "strategic" in a sense. U.S. investment and trade interests in the Caribbean *are* substantial, and some raw materials imported from the Caribbean *are* important for America's economy. Having national policies which protect these interests makes sense. It does not necessarily follow, however, that traditional U.S. policies, or their equivalent, will best advance those interests. Direct U.S. investment in natural resource extraction is a particularly dubious proposition, for instance, as successive governments move to assert national control over resources. Ordered market relations for the transferring of capital, technology, and marketing skills—modes which avoid sensitive issues of sovereignty and autonomy—are more likely than old patterns of direct investment to advance U.S. interests, and these relations may not require any special attention to the Caribbean area. On the contrary, an obtrusive American policy in the Caribbean, even a return to the presumably benevolent activism associated with the Alliance of Progress, might well produce nationalist reactions which could endanger the U.S. economic stake in the region.

CARIBBEAN DISENGAGEMENT

If increased American attention to the Caribbean is not required by immediate U.S. economic or military interests, what about the third approach to U.S. policies, to disengage as much as possible from the region? According to this view, increasingly popular in some academic circles if still unthinkable in Washington, the United States has little or nothing to worry about in the Caribbean and can safely disregard the area. American policy-makers and attentive public and eventually the electorate at large, should be educated to accept a substantial U.S. withdrawal from Caribbean involvement, therefore, and we should condition ourselves out of an instinctive (or at least inherited) nervousness about Caribbean turbulence. We should leave the people of the Caribbean alone, it is argued: to develop or to stagnate, to revolt or to ally, or to stew in their own juices, of whatever flavor.

Many of us are much more attracted to the thought of disengagement and withdrawal from foreign involvements than we used to be. Certainly, with particular regard to the Caribbean, we can recognize that our national concern with domestic politics there has been due often to shibboleths sanctified by repetition but unsubstantiated by analysis. Certainly we all recognize that the United States ought to avoid the intense, not to say frantic, meddling in Caribbean affairs which John Bartlow Martin chronicled so fully in *Overtaken By Events*, his memoirs after serving as U.S. Ambassador in the Dominican Republic. More generally, surely we recognize by now that the United States can and should tolerate a much wider range of political expression in the Caribbean (and elsewhere) than we have accepted in the past. American security will not be threatened by such a loosening of our grip; it may even be enhanced. Given the instability of Caribbean politics and the likelihood (indeed the likely beneficial effects of substantial socio-economic transformations there, one advantage of the disengagement approach would be to facilitate routine diplomatic and commercial relations with all territories, and to reinforce each Caribbean people's own urge to avoid dependence on other powers. Nationalist regimes in the Caribbean, even professedly anti-American ones, would be likely to reject foreign military involvement unless they regarded it as necessary to defend against U.S. hostility.

The notion of reduced U.S. government activity and involvement in the Caribbean and an end to exaggerated concerns about "security threats" in the area, all as part of a generally more modest American role in the world, is appealing. Those who favor U.S. disengagement from the Caribbean mislead themselves (and others), however, if they think that disengagement there would be easy to accomplish and if they believe, even assuming that disengagement were feasible, that its effects on the people of the Caribbean would be unambiguously benign.

The first and fundamental point is that, whatever Washington's policy, the United States cannot withdraw from its Caribbean minimum border by a unilateral act of will, as it might (though even then with some difficulty) from the extended borders we have drawn in Berlin, along the 38th Parallel in Korea, in the Taiwan Straits or near the 17th Parallel in Vietnam. The facts of geography —strongly reinforced by history, politics, and economics—make it likely that American interest and involvement in the Caribbean will continue to be high. Anchored in the American lake, the Caribbean units cannot escape the shadow of the United States. Nor can we in this country completely avoid the Caribbean and its difficulties, which inevitably spill over onto our shores, through emigration especially.

The Caribbean, then, is very closely tied to the United States. The Caribbean entities are not, in turn, linked to Latin America, nor are they likely to be able to gain integration into a broader hemispheric community excluding the United States. A visiting Chilean historian once opened his survey course in Latin American history at Harvard by announcing that he would not deal with the Caribbean because it "corresponds to the domestic history of the United States." This concept of the Caribbean is widely shared in South America. The South American states are willing to admit the Caribbean nations into membership in the Organization of American States (though even that willingness is unlikely to be further extended to the smaller territories), but they are generally uninterested in the Caribbean and unresponsive to Caribbean needs.

Given the vulnerability of the Caribbean territories, and the indifference toward them of the South American states (with the significant exception of Venezuela), the United States is bound to have a major impact on the region, no matter what policy is adopted by an administration in Washington. Even were the U.S. government to muster and maintain the virtually unprecedented self-restraint necessary to remain uninvolved in the Caribbean for long, it is difficult to conceive of a voluntary withdrawal from the area by U.S. private interests. American influence will inevitably be sharply felt in the microstates and ministates of the Caribbean region; we can only choose to exert our influence more or less consciously or to do so in different forms and degrees.

TOWARD A NEW CARIBBEAN POLICY

Instead of either the traditional or a slightly modified American neglect of the Caribbean or else a new neglect, based on the urge to disengage, I propose a new American concern for the Caribbean and its peoples, a decision by the United States to inscribe the tackling of Caribbean development problems high on our national agenda.

I am not calling for a "new imperialism" much less a return to the old. What I am suggesting is that the United States take a special interest in the Caribbean and its peoples, not just beyond but instead of the traditional American desire to protect U.S. investments and military installations. The United States should adopt policies designed specifically to have a favorable impact on the prospects for Caribbean development.

Indeed, the United States should cease to think of Caribbean problems as "foreign policy" questions; they ought to be considered a major concern of our own community.

The case I am advancing, a new American policy toward the Caribbean, would survive the decreased significance of American military bases or private investments in the region. My argument is based, not on immediate interest or advantage, but on a longer-range view that the interests of the United States are more likely to be advanced if this country's neighbors benefit from their relations with the United States than if our policies exploit them or facilitate their exploitation. It is based, as well, on the view that a rich and powerful nation, at least one with our country's professed values, has some positive responsibility toward its poor, weak, dependent neighbors. "Responsibility" is a much abused and discredited concept to be sure, but I do believe the United States has a moral obligation to act generously towards its neighbors, whose problems have historically been greatly exacerbated by this country's impact. And it is based, finally, on a sense that the problems of the Caribbean populations are, increasingly, our own, as hundreds of thousands of Caribbean immigrants stream to the mainland.

We ought to care about our impact on the Caribbean, then, for two reasons: simply because it is right that we be concerned about how we affect others—especially our nearest neighbors, whom we affect so importantly—and also because it is likely that festering problems in societies so closely related to our own will eventually affect our community adversely. Rather than interpret the absence of an immediate military security challenge within the Caribbean as reason to disengage entirely from the region, probably impossible in any case, we should consider the current period as providing an exceptional opportunity to deal directly with the issues of development and dependence in a region very much affected by our policies, and whose peoples are increasingly intermingled among our own poulation. By responding to the needs of the Caribbean peoples themselves, rather than to some outside threat posed via the region, the U.S. could concentrate, for the first time, on helping to resolve the underlying problems of the Caribbean.

What shape would such an American concern for the Caribbean take, more specifically?

I do not have an elaborate, detailed program. Even if I did, I would not want to propose specific U.S. measures to confront problems which, by their very nature, cannot be solved without prior initiatives from within the region. North American decisions and actions alone cannot, of course, solve Caribbean problems. A long-term commitment of U.S. attention and resources, however, might encourage various Caribbean leaders to approach their task with renewed energy and confidence. Even then, one cannot be sure that resolution of the area's problems will be much advanced; many are long-standing and intractable. But even amelioration of Caribbean problems, in the face of their recent steady worsening, would be a major step forward.

There is reason to believe, I think, a commitment by the United States to support Caribbean development plans would lead to concrete proposals on the part of various of the Caribbean nations. A remarkable degree of consensus already exists within the Caribbean on several points:

(1) that the area's problems are general and require regional solutions;

(2) that functional cooperation among the Caribbean units would be more promising than formal international institutions;

(3) that regional agricultural diversification, especially away from sugar in most countries, is both necessary and difficult;

(4) that the sugar production and marketing system needs to be rationalized;

(5) that the domestic processing of raw materials and agricultural products should be encouraged and that U.S. policies often hinder attempts to do so;

(6) that improved access to the North American market, for both unprocessed and manufactured products, is a requisite for expanding many segments of the Caribbean economy;

(7) that the region's demographic situation requires both population control and sustained emigration;

(8) that any comprehensive attempt to deal with the Caribbean's fundamental problems must incorporate Cuba and take into account its needs; and

(9) that few, if any, of these points can be pursued without the understanding and cooperation of the United States.

American public financing is needed by the Caribbean Development Bank and related institutions. Favorable American legislation would be required to enable the region to rationalize its sugar production and marketing and to facilitate diversification by some countries into other crops; American measures, private and public, are needed if local processing is to expand within the Caribbean; legislation in the United States would be needed to grant Caribbean exports better access to our market and to eliminate artificial restrictions which now affect Caribbean producers adversely; liberalized U.S. immigration policies and imaginative resettling programs would be needed to facilitate a long-term solution to the Caribbean demographic problem. And a favorable U.S. posture would facilitate Cuba's being considered and eventually participating in regional planning.[4]

These last points, that the Caribbean's major difficulties can only be confronted with U.S. cooperation and that many Caribbean residents and leaders recognize this fact, need to be emphasized. No regional solution is possible in the Caribbean, an area perhaps more "Balkanized" than any other, without the support of the United States, the power which bounds and even defines the region (unless it be a regional solution overtly antagonistic to the U.S. which is hardly what we ought to aim for).

American power, private and public, can be used either to keep the Caribbean territories fragmented, or to help the Caribbean units work together. A passive

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[4] I do not favor special preferences for the Caribbean alone, nor necessarily for Latin America. Preference granted to all less developed countries would have particular significance, however, for Latin America and particularly for the Caribbean units so close to the United States. Both agricultural commodities and light manufactures from the Caribbean would enter the U.S. at competiaive prices if LDC's received general tariff preferences.

U.S. government role, derived either from the traditional posture or from a possible attempt at disengagement, would continue as it does now, to reinforce fragmentation and dependence. A more positive American policy, concerned about this country's impact on the Caribbean, would curb and regulate U.S. private interests when necessary and would encourage them, using appropriate incentives and disincentives, to contribute constructively to Caribbean development. Admittedly, that kind of government vigilance of and influence on major corporate enterprises is difficult, as some recent examples vividly illustrate, but if there were a will in Washington there might be a way!

In calling for a positive U.S. policy toward the Caribbean, I do not sound a clarion call for return to the Alliance for Progress there. An effective effort to support Caribbean development would require the most self-restrained North American talk and action, and would depend on a willingness by the United States to let the Caribbean nations experiment without our interference. An overt and meddlesome American approach, even one apparently benevolent in intent, would stifle Caribbean initiatives, and would be politically unacceptable in most territories, perhaps in all by now. An influx of American personnel into the Caribbean territories would also certainly be counterproductive; only the most exceptional outsider has the cultural knowledge and sophistication required to be helpful in the Caribbean. We need to find ways to aid Caribbean development programs without overwhelming the region.

We can begin by concentrating on helping to restructure the economic terms and conditions on which the United States relates to the Caribbean, so that the interest of promoting regional development is made, and kept, paramount. We can accept the notion of continuing to pay better prices for Caribbean resources, including bauxite and sugar, as part of a reshaping of consumer-producer relationships which can provide more secure access in exchange for more stable and favorable prices. We can support compensatory finance and other arrangements for assuring that less developed countries, including those of the Caribbean, are not affected by international fluctuations beyond their control. We can provide soft capital and technical cooperation especially for programs of agricultural diversification and expansion, population control, export promotion, the improvement of harbors and other infrastructure facilities, the further development of tourism, etc. In doing so, we could increasingly operate through multilateral organizations, which would protect the region somewhat from our impact.

And we can work, right here, to help the rapidly expanding Caribbean-born population of the United States achieve the kinds of progress which will permit them to contribute, as Puerto Ricans have done, already to development in their "home" territories. Services modeled on the Cuban Refugee Program could be extended to other Caribbean immigrant groups in the United States. High-quality bilingual education programs could be multiplied and better supported, and social service programs could be designed with each specific immigrant group in mind. Caribbean immigration to the United States is largely an ignored phenomenon so far; attention should be focused on its causes and effects both in the Caribbean and in this country, and on assuring that its consequences are beneficial as possible for all those affected.

I do not mean, either, to advocate a "Puerto Rican solution" for the entire Caribbean. Those personally engaged in making the Puerto Rican experiment work have often offered the island's experience as a possible model for the whole region. Various aspects of the Commonwealth's program have, in fact, been emulated elsewhere in the Caribbean. Throughout the region, however, the overall Puerto Rican approach is perceived, perhaps correctly, as having involved the exchange of (eventual) national sovereignty and even cultural self-respect for favorable economic treatment. Whatever the past and future of Puerto Rico, an equivalent status is not acceptable to most Caribbean residents outside the Commonwealth. But the kinds of policies here suggested need not entail the aspects of Puerto Rico's experience which are elsewhere perceived as disagreeable. The United States need not and should not exact any *quid pro quo* for its willingness to support Caribbean development, except for its continued insistence that hostile military bases be kept out of the region. American companies will not have the advantages of special tax shelters in the rest of the Caribbean, and there is no reason to expect or desire the consequent Americanization of the economy and culture which has so affected Puerto Rico. American participation in the internal political affairs of Caribbean territories can and should be avoided.

Finally, in proposing a positive, and perhaps ultimately expensive American commitment to Caribbean development, I do not expect to win instant acceptance. Everyone's conventional wisdom these days includes the notion that further commitments, especially new expenses, are to be avoided. Maybe it would be more prudent to hold back a presentation like this until the *ambiente* is less unfavorable. But the Caribbean's needs do not change with America's moods. We have ignored them long enough.

Appendix 1

ESTIMATED U.S. INVESTMENT IN THE CARIBBEAN

	1966	1970–71
Barbados	3	25
Bahamas	900	1,000
Dominican Republic	150	150
Guyana	50	29
Haiti	51	55
Jamaica	500	850
Netherland Antilles	150	330
Surinam	30	[2] 30
Trinidad and Tobago	500	600
[1] Other West Indies	12	[2] 12
Total	2,346	3,081

[1] Considerably higher by 1973.
[2] Rough estimate.

Source: State Department.

Appendix 2

Population of individual Caribbean territories

Territory:	*Population*
Cuba	8,553,395
Haiti (1971)	4,205,755
Dominican Republic	4,006,405
Puerto Rico	2,712,033
Jamaica	1,865,400
Trinidad-Tobago	945,210
Guyana	714,000
Surinam	324,211
Martinique (1967)	320,030
Guadeloupe (1967)	312,724
Barbados	238,141
Netherlands Antilles (1960)	188,914
Bahamas	175,192
Belize (British Honduras)	199,645
Saint Lucia	101,100
Grenada and Grenados	94,500
Saint Vincent	89,100
Dominica	70,300
U.S. Virgin Islands	62,468
St. Kitts, Nevis, Anguilla, St. Christopher	56,591
Antigua (1950)	54,304
Montserrat	12,302
British Virgin Islands	10,484
Turke and Caicos	5,500
Total	25,237,704

Source: United Nations Statistical Yearbook, 1971. 1970 estimates except where otherwise stated.

APPENDIX 3

Estimated rates of population growth

[Estimated rate of annual increase (in percentage terms)]

Territory:	
Cuba	2.1
Haiti	2.0
Dominician Republic	3.6
Puerto Rico	1.7
Jamaica	1.5
Trinidad-Tobago	2.7
Guyana	3.0
Surinam	3.1
Martinique	2.0
Guadeloupe	1.4
Barbados	1.1
Bahamas	4.1
Belize (British Honduras)	3.5
St. Lucia	2.3
Grenada	1.5
St. Vincent	1.9
U.S. Virgin Islands	4.3
St. Kitts, Nevis, Anguilla, St. Christopher	1.6
Antigua	0.3
Dominica	1.6
British Virgin Islands	4.3

Source: United Nations Statistical Yearbook, 1971.

APPENDIX 4

Caribbean immigration to the United States

A. Total Immigration from West Indies to the United States: [1]

1820–1950	496,696
1820–1960	619,787
1961–1972	597,151

Source: Annual Report (1972) Immigration and Naturalization Service. Table 13, 51–53.

B. Estimated numbers of Caribbean residents of United States, by country of origin:

Puerto Rico [2]	1.8 million of Puerto Rican birth or parentage.
Cuba [3]	621,403 Cuban nationals entered Jan. 1, 1959–June 30, 1972.
Haiti [4]	Over 200,000 Haitians, including illegal residents.
Dominican Republic [5]	Close to 200,000 Dominicans, including illegal residents.
Jamaicans [6]	225,000 in New York and New Jersey.
Total	Over 3 million without considering other Caribbean territories.

[1] Annual Report (1972), U.S. Immigration and Naturalization Service. Table 13, pp. 51–53.
[2] Migration Division, Department of Labor, Commonwealth of Puerto Rico.
[3] Source No. 1, p. 3.
[4] Jean-Yves Urfie, "Les Illegaux, Boucs Emissaires." *Sel* (June 1973), 11.
[5] John Hogiogion, "The Dominicans in New York City," paper at Fordham University (May 1971).
[6] Max Iambie, 'The Jamaican-American Emigre and Repatriation: A General Overview of the Issue (September 11, 1972).

APPENDIX 5

COMPARISON OF CARIBBEAN EXPORTS TO UNITED STATES AND TOTAL CARIBBEAN EXPORTS IN U.S. DOLLARS

	1960: Exports to United States (34 percent)		1970: Exports to United States (40 percent)		[1] Units of national currency per U.S. dollar
	U.S. exports	Total exports	U.S. exports	Total exports	
Barbados	719, 248	23, 865, 273	7, 819, 000	39, 038, 000	1.71429
British Honduras	1, 003, 100	7, 871, 500	5, 555, 000	18, 801, 000	1.42357
Dominican Republic	109, 430, 000	174, 430, 000	179, 319, 000	213, 545, 000	1.00000
Guadeloupe	338, 257	34, 731, 196	9, 023, 000	37, 630, 000	493.706
Guatemala	62, 710, 000	112, 670, 000	82, 026, 000	290, 182, 000	1.00000
Guyana (British Guiana)	12, 174, 136	74, 263, 981	38, 504, 000	133, 988, 000	1.71429
Jamaica	41, 331, 247	156, 406, 990	177, 048, 000	333, 253, 000	2.8044
Martinique	1, 215	323, 026	25, 000	30, 037, 000	493.706
Netherlands Antilles	225, 426, 200	657, 920, 830	391, 374, 000	675, 539, 000	1.88585
Surinam	32, 765, 066	43, 052, 204	51, 860, 000	133, 931, 000	1.88585
Trinadad and Tobago	56, 618, 191	286, 905, 940	230, 474, 000	481, 526, 000	1.71429
Total	542, 515, 660	1, 572, 440, 940	1, 173, 027, 000	2, 387, 470, 000	

[1] Used to derive 1960 figures which were given in respective national currencies in U.N. Yearbook of International Trade Statistics, 1964; 1970 figures were listed in U.S. dollars in U.N. Yearbook of International Trade Statistics, 1970. Par values of International Monetary Fund (in International Financial Statistics, January–June 1963) used for all countries except Dominican Republic and Guatemala, which were given in exchange rates and Jamaica which was obtained from exchange rate for United Kingdom.

Source: Prepared by Laura Sands, Council on Foreign Relations.

APPENDIX 6

COMPARISON OF CARIBBEAN IMPORTS FROM UNITED STATES AND TOTAL CARIBBEAN IMPORTS IN U.S. DOLLARS

	1960: Imports from United States (19 percent)		1970: Imports from United States (25 percent)		[1] Units of national currency per U.S. dollar
	U.S. imports	Total imports	U.S. imports	Total imports	
Barbados	6, 389, 234	48, 500, 961	24, 754, 000	117, 269, 000	1.71429
British Honduras	7, 801, 645	13, 692, 713	11, 245, 000	33, 367, 000	1.42857
Dominican Republic	46, 100, 000	87, 020, 000	143, 300, 000	254, 121, 000	1.00000
Guadeloupe	1, 288, 212	48, 257, 464	7, 043, 000	127, 660, 000	493.706
Guyana (British Guiana)	17, 015, 790	86, 099, 784	32, 010, 000	134, 120, 000	1.71429
Jamaica	53, 193, 859	217, 343, 800	226, 070, 000	524, 304, 000	2.8044
Martinique	15, 576	471, 697	8, 146, 000	145, 816, 000	493.706
Netherlands Antilles	62, 316, 727	681, 252, 480	96, 247, 000	791, 336, 000	1.88585
Surinam	18, 400, 100	53, 980, 963	41, 072, 000	115, 414, 000	1.88585
Trinidad and Tobago	40, 623, 231	294, 343, 430	88, 872, 000	543, 444, 000	1.71429
Guatemala	67, 510, 000	137, 860, 000	100, 366, 000	284, 274, 000	1.00000
Total	320, 654, 568	1, 668, 913, 292	779, 125, 000	3, 071, 125, 000	

[1] Used to derive 1960 figures which were given in respective national currencies in U.N. Yearbook of International Trade Statistics, 1964; 1970 figures were listed in U.S. dollars in U.N. Yearbook of International Trade Statistics 1970. Par values of International Monetary Fund (in International Financial Statistics, January–June 1963) used for all countries except Dominican Republic, and Guatemala, which were given in exchange rates and Jamaica which was obtained from exchange rate for United Kingdom.

Source: Prepared by Laura Sands, Council on Foreign Relations.

Chairman LONG. Gentlemen, I am very appreciative of your coming and sharing your views with us. And I would like, if I may, to take the liberty of directing maybe three or four additional written questions to each of you that we would like to have your views on that we have not covered here today.

[The following questions and answers were subsequently supplied for the record:]

Response of Sidney Weintraub to Additional Written Questions Posed by Chairman Long

Question 1. A few years back, it was felt that land reform was essential to produce greater social justice and, hopefully, increased agricultural output. What has happened in the area of land reform in Latin America in recent years? Has it achieved greater social justice and/or increased agricultural productivity?

Answer. The language of the Charter of Punta del Este (August 17, 1961) is quite precise on the issue of land tenure:

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

Land reform programs were started in many Latin American countries in the 1960's, including Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Honduras, Nicaragua, Panama, Paraguay, and Peru. Most of these programs accomplished precious little reform. Reform was more substantial in various countries where the onset of the programs antedated the Alliance for Progress, such as in Mexico, Bolivia, Guatemala, and to some extent Venezuela. These latter land tenure reforms generally were accompanied by social and economic upheavals and land redistribution was part of the process of redistribution of economic and political power. Cuba has gone through major changes in land tenure patterns since its revolution in 1959 but not in the Punta del Este sense of giving ownership of land to the person who works it, but rather to create state farms. There was some land tenure reform under the Frei government in Chile, but it was modest in scope, and the later Allende reforms were obviously not followed by the current Pinochet Government.

Land tenure reform was advocated in the 1960's primarily for its social objectives goal. More recent literature has argued that productivity on smaller farms can be greater over time than on larger farms in less-developed countries because of greater incentives which exist when owners work their own land. In addition, more labor would be used. There are examples of successful land reform programs in which greater output accompanied greater social justice such as in Japan and Taiwan. In these cases, tenure reform was accompanied by those other necessary measures cited in the Charter of Punta del Este relating to credit, technical assistance, and marketing.

The answer to the question posed really is not yet in. Like what has been said about Christianity and other religions, it is too early to tell if land tenure reform works since it has not been tested sufficiently. My own view is that Latin America will not achieve the necessary productivity increases in agriculture over time without the necessary incentives to price, credit, marketing, etc., and on providing ownership to the person who works the land.

Question 2. From the standpoint of the Latin American countries themselves, are bilateral and multilateral aid programs more efficient in satisfying their development needs? In your statement you have suggested that special provisions must be made for concessional lending to the very poorest countries in Latin America and the Caribbean. Does our aid program really help them on the road to being weaned ultimately from aid, or is it just a crutch?

Answer. I prefer not to choose between bilateral and multilateral programs in terms of efficiency since this depends more on the content of the program than the financial channel used. Bilateral programs which contain conditions to force countries to buy products from more expensive sources obviously reduce the effective level of real resources made available from a given amount of money, but this is no longer really relevant to any great extent in our programs in Latin America.

Less-developed countries when they speak collectively generally advocate aid via multilateral institutions, presumably because this involves less overt political pressure. However, individual countries rarely eschew bilateral aid and might even prefer it if they think its distribution would favor them. The efficiency argument also can be dealt with by reasonable close coordination between bilateral and multilateral agencies so that their programs complement each other.

It is worth emphasizing that our bilateral concessional aid programs in Latin America are no longer substantial. The appropriation levels in each of the last two fiscal years have been around $230 million for development assistance, and about $50 to $60 millions of food aid each under Titles I and II of P.L. 480. By contrast, Inter-American Development Bank loans under each of its two windows, the concessional loans under the Fund for Special Operations and those under Ordinary Capital, exceeded $600 million last year. World Bank regular loans to Latin America were more than $1.3 billion in 1975. There were few loans last year to Latin America from the World Bank group's concessional window, the International Development Association (the figure was $35 million) because per capita incomes in Latin American countries generally exceed the IDA maximum for eligibility purposes.

What I had advocated was to reserve our concessional assistance, whether given bilaterally or indirectly via multilateral institutions, for the poorest countries since the better-off Latin American countries can use ordinary capital windows of multilateral institutions and private capital markets for their borrowings. Concessional aid is a crutch only if given as a welfare or charity device, i.e., if not accompanied by internal measures of the country to help itself. This aid can be an important development tool. Many countries have been weaned from concessional aid, such as Brazil and Colombia in Latin America. Most of the rest of South America is going through this weaning process right now. When they are fully weaned, this would then permit us to use concessional resources exclusively in the poorer countries in Central America and the Caribbean.

Question 3. In the late 1960's, there was a strong push in Latin America for regional integration and the reduction of intraregional tariff barriers. Do subregional organizations like the Central American Common Market, the Andean Pact, and the Caribbean Common Market serve a useful developmental purpose? Should the United States assist Latin American economies to achieve greater regional economic integration and, if so, how?

Answer. Assuming that there are industries which gain efficiency from greater scale, and the evidence is that there are, it makes sense for Latin American countries to seek greater regional economic integration. For such industries, the larger the tariff-free market, the greater the probability of successful industrial development.

However, the going has been rough in creating these subregional groupings. Given disparate levels of development among Latin American countries, incentives have been needed to locate some industries in the less advanced member countries. This does not mean that the integration effort should be given up, any more than it was in Europe after World War II, but that we should recognize that the process will not be easy.

In the past our policy on regional integration has been equivocal. We have said that we support regional economic integration, but our actions have not always lent verisimilitude to what we say. For example, the provisions of the Trade Act of 1974 seemingly give certain privileges in the section on trade preferences to regional groupings (the act permits groupings of countries to cumulate their values added to be eligible under our system), but then contain a Catch 22 which severely limits these privileges when exercised as a regional grouping (it puts the same limitation on competitive need on the grouping as it would for an individual country).

However, the major obstacles that must be overcome to have successful Latin American regional groupings are for the countries themselves to accomplish rather than what we can do for them.

Question 4. The U.S. Government has from time to time imposed or threatened to impose countervailing duties on Latin American exports to the United States when their manufacture has been subsidized. Some Latins complain that this runs counter to our policy of helping them in their economic development. Should the United States waive its policies of trade protection—countervailing duties and anti-dumping provisions—vis-a-vis Latin American economies?

Answer. The question of export subsidies may turn out to be one of the most difficult in the trade negotiations. Many Latin American countries have maintained high import duties in order to protect domestic industries and this procedure has also prejudiced the export competitiveness of many of their industries. Export subsidies are often used to compensate for these excessive import duties which have to be paid. Subsidies also have been used to compensate for overvalued exchange rates.

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I do not believe that we should waive the countervailing duty and anti-dumping provisions of our law (although it would be preferable to have an injury provision in our countervailing duty statutes), since the use of export subsidies can be abused resulting in injury to domestic industries. However, I think we should recognize that many Latin American and other less-developed countries may need to help many of their industries to enter export markets. We have stated that we are prepared in the context of the current multilateral trade negotiations to work out an international subsidy/countervailing duty code, and that we are prepared to give preferential treatment in this code to less-developed countries. There are several advantages to this approach: It would help open the markets of all developed countries under the same terms; it would permit subsidies by less-developed countries under agreed ground rules; and it could provide for the gradual elimination of these special privileges for those less-developed countries that no longer need them.

Response of Tom E. Davis to Additional Written Questions Posed by Chairman Long

Question 1a. From the standpoint of the Latin American countries themselves, are bilateral and multilateral aid programs more efficient in satisfying their development needs?

Answer. I doubt that one could establish any significant difference in the efficiency of bilateral, as compared to multilateral, aid programs. However, in terms of political acceptability in the recipient countries, I believe multilateral aid programs are clearly preferable at least in those countries where governments are responsive to a diverse public.

Question 1b. In Mr. Weintraub's statement he suggested that special provisions must be made for concessional lending to the very poorest countries in Latin America and the Caribbean.

Answer. Prima facie, a strong case for concessional lending to the very poorest countries can be made on humanitarian grounds. However, some of the very poorest countries limit their imports, admittedly by repressing political demands for more expansive economic policies, and maintain their capability to service external debt. Consequently, the countries experiencing recurrent balance-of-payments problems are frequently the more representative governments in the not-so-poor and relatively higher income countries. Furthermore, if humanitarian criteria are to be employed as a basis for granting concessional loans, it should be recognized that there are desperately poor people in all countries, including our own, and that these individuals are not necessarily reached when concessional loans are granted to governments of the repressive type. I would suggest that genuine efforts to alleviate poverty, and not average per capita income or the percentage of the population living at below subsistence levels, be made the criteria for concessional lending.

Question 1c. Does our aid program really help them on the road to being weaned ultimately from aid, or is it just a crutch?

Answer. Frequently, our assistance—whether bilateral or multilateral—is provided to enable a government to meet its external obligations. Such assistance is usually provided only after the government in question commits itself to a "stabilization policy." That policy, in turn, usually calls for a devaluation and restrictions on the rate of monetary expansion. Such policies have failed repeatedly in Chile and Argentina, but have been somewhat more successful in Bolivia and Peru. The most economically successful Latin American country—Mexico—has never been a significant aid recipient.

Question 2a. In the late 1960's there was a strong push in Latin America for regional integration and the reduction of intraregional tariff barriers. Do subregional organizations like the Central American Common Market, the Andean Pact, and the Caribbean Common Market serve a useful developmental purpose?

Answer. The subregional groupings are reflections of the failure of Latin America and the Caribbean to make rapid progress toward genuine economic integration. This is particularly true in the case of the Andean Pact which was created as a result of the frustration generated in the Andean countries at the slow pace of trade liberalization within L.A.F.T.A. While C.A.C.M. actually came into existence prior to L.A.F.T.A., it was expected that it would be merged into the broader regional organization. To date, it appears that the subregional groups have made more progress towards economic integration than would have been possible under the L.A.F.T.A. structure. So long as that remains true, they would appear to be serving a useful developmental purpose and their raison d'etre remains.

Question 2b. Should the U.S. assist Latin American economies to achieve greater regional economic integration and if so, how?

Answer. The current balance-of-payments problems confronting Latin America, generated in large part by higher relative prices of food and fuel, would appear to strengthen the case for increased economic integration as a development strategy. If concessional credits were given to the respective banks that finance trade and investment within the regional groupings, their ability to encourage regional trade would be enhanced.

Question 3a. To what extent have Latin American countries' ability to diversify their links to other industrialized countries enabled them to obtain needed capital and technology on terms preferable to that available from the United States?

Answer. Probably the most important reason for utilizing the capital and technology of other industrialized countries is to reduce dependence on the U.S. which is understandable on both economic and political grounds. The Brazilian-West German agreement to develop a nuclear capability in Brazil, after the United States had refused access to the relevant technology, is the classic case. Such diversification probably will continue, however, irrespective of the terms, conditions and cost of capital and technology from the United States for the reasons advanced above. It should also be noted that while the Latin American countries look to the United States for the bulk of its imports, Europe represents the most important market for its exports. This fact alone will make for greater diversification in the future.

Question 3b. To what extent has this push to diversify been motivated by largely psychological needs to decrease their dependence on the United States?

Answer. I find it difficult to separate out psychological needs for diversification from the compelling economic and political considerations noted above. If those economic and political considerations were to disappear, I suspect the psychological needs would disappear with them.

Question 4. A few years back, it was felt that land reform was essential to produce greater social justice and, hopefully, increased agricultural output. What has happened in the area of land reform in Latin America in recent years? Has it achieved greater social justice and/or increased agricultural productivity?

Answer. Land reform has slowed dramatically with the appearance of repressive governments in Latin America. Even the land redistribution that occurred in Chile under the Frei and Allende governments are being undone by the present regime. Peru, at the present time, is probably the most active country in Latin America in altering the traditional agrarian structure. It is virtually impossible, under these circumstances, to establish the impact of land redistribution on agricultural production. Gains in agricultural output appears to be most closely related to extensions of acreage under cultivation and particularly irrigated acreage. The so-called "Green Revolution" does not appear to have had great impact in nonirrigated areas. As far as greater social justice is concerned, probably the greatest gains have come from peasant organization and the extension of public benefits (e.g., family allowances) to the rural population.

Chairman Long. I am most appreciative of getting the benefits of your thoughts on what Latin America is and what its achievements are, and some of the problems. I know that this has been a very general approach to the problem. But we felt in building the record and going into it that we needed to do this before we started dealing with specific problems. I am sure that it has been most helpful to Congressman Bolling and Congressman Hamilton as well as myself.

Tomorrow at 10 a.m., in room 2216, we will continue with the second day of our hearings. And tomorrow, as I mentioned earlier, we will be trying to look at what the U.S. policy in Latin America ought to be, and what economic areas we ought to be giving more attention to, and what ought to be contemplated in any U.S. policy toward that particular region. We are going to have several witnesses tomorrow, including a representative of the State Department.

This hearing now stands recessed until 10 a.m. tomorrow morning. Thank you.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, June 29, 1976.]

U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

TUESDAY, JUNE 29, 1976

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

The subcommittee met, pursuant to recess, at 10 a.m., in room 2216, Rayburn House Office Building, Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long, Bolling, and Hamilton.

Also present: Sarah Jackson, John R. Karlik, and Lou Krauthoff, professional staff members; Michael J. Runde, administrative assistant; and Charles H. Bradford, minority professional staff member.

OPENING STATEMENT OF CHAIRMAN LONG

Chairman LONG. This session of the Subcommittee on Inter-American Economic Relationships will come to order.

Yesterday, the subcommittee was honored to have three distinguished scholars to discuss with us the problems and prospects of Latin America and the Caribbean. All three witnesses indicated that there was a lack of any defined policy, as far as they were concerned, toward Latin America and certainly more attention ought to be given to United States-Latin American relations.

Today, we are going to focus on what the relationship between Latin America and the United States should be. We want to talk about what United States interests in Latin America are, and about what we should do to promote those interests.

While this subcommittee's jurisdiction is economic, we know from yesterday's session that there is no use trying to separate political interests from economic interests because they end up as being two faces of the same coin.

In my view, from the limited study I have done in this field in the last few months, we have lost our sense of purpose in dealing with the hemisphere. Both Congress and the administration, in my view, have been so preoccupied with other problems that Latin America has been neglected and this neglect brings with it a certain degree of deterioration in our relations.

I think that deterioration has become apparent.

Perhaps one of the reasons that we do not have a policy is that we do not know clearly what is needed in terms of our economic relationship with Latin America.

Much of this problem certainly lies in the difficulty of the issues. There are certain natural conflicts between our interests as a developed nation on the one hand, and those of the developing nations. Latin America, though relatively wealthier than most of the developing nations, is no exception—and as we learned yesterday, the issues confronting our hemisphere are both substantial, and certainly all of us would recognize and admit they are complex.

Today we want to talk about policy. Secretary Kissinger in his most recent speeches still talks of a "special relationship"—particularly in his recent speech in Santiago—he speaks of a "special relationship" between the United States and Latin America. Should we have a "special relationship" with Latin America, or should we pursue a single global economic policy toward all developing nations? Are U.S. policies—trade, aid, investment, migration, commodities, technology—are they really adequate to meet the changes in Latin America and still serve America's interests?

I am hopeful we will be able to touch on a number of the sensitive issues. I suspect much education is needed in both Congress and the administration in view of the relatively recent developments in Latin America. I say "relatively recent" and I am speaking for as long ago as 15 years ago and certainly within the last 10 years, and very definitely within the last 5 years.

After yesterday's session, I think that many of us realize that developments in the hemisphere probably have overtaken our understanding of what the hemisphere is really like. I thought that Congressman Hamilton's comment was particularly appropriate when he said that after he sat down and listened to all the changes that occurred, it was like being hit in the face with a bucket of ice water. But I hope that this subcommittee will be able to play a useful role in, if nothing else, educating all that need to know or as many as we can of the changing circumstances that have come about in Latin America during the last few years.

For this morning's hearings we have four outstanding Americans to give us their views on the changing economic relationships between the United States and Latin America.

William D. Rogers, now Under Secretary of State and prior to that Assistant Secretary of State for Inter-American Affairs.

Jose de Cubas, a businessman and honorary chairman of the prestigious Council of the Americas.

Richard Fagen, a political scientist who teaches Latin American affairs at Stanford, and

Albert Fishlow, an economist who teaches Latin American studies across the bay from Mr. Fagen at the University of California at Berkeley.

Congressman Bolling, do you have any statement you would like to make before we begin?

Representative Bolling. No, thank you.

Chairman Long. Mr. Rogers, since you are the State Department witness for us today, we would appreciate it if you would lead off for us. I understand you do have another commitment this morning. And if it is acceptable to you, we will go ahead and hear your statement and ask questions immediately after that and before moving on to our other witnesses. I think we will handle them as a panel, as I feel that we will get a little more out of that kind of conversation interchange.

Though I have not researched the matter completely, I believe you and Deputy Secretary Robinson may very well be the first Latin American specialists that have moved from Assistant Secretary level up into the hierarchy of the State Department. Our congratulations to you on your assumption of your new responsibilities. I hope that this move is an indication of something new at the Department of State. We would appreciate hearing from you at this time.

STATEMENT OF HON. WILLIAM D. ROGERS, UNDER SECRETARY OF STATE AND FORMER ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. ROGERS. I am very grateful to you, Mr. Chairman, for the opportunity to say a word or two about our economic relations with Latin America.

I commend you for instituting this inquiry.

The economic conditions in this hemisphere are, I am sorry to say, as misunderstood as they are important. Your hearings can make an important contribution to public understanding of an important dimension of our present foreign policy.

The inquiry is particularly timely. The pace of change in international economic matters is almost feverish just now. I returned last night from the meeting at Puerto Rico, where the heads of state and governments of the seven most powerful free nations of the world addressed themselves to the full range of global economic issues, virtually all of which bear directly on the development aspirations of Latin America. Last week, Secretary Kissinger made major statements to the ministerial meeting of the OECD in Paris, which touched on the structure and tone of relationships between the industrialized democracies and the developing nations, including Latin America. Two weeks before, we both attended the General Assembly of the Organization of American States in Santiago—the best and most constructive inter-American meeting the Secretary has attended, I might add—in which he addressed the prospects of cooperation for development within the hemisphere in a comprehensive way. I believe his statements have been made available to you, and I suggest you incorporate it into the record of these proceedings.

Chairman LONG. I would like to do that. I will do it at this point in the record, if there is no objection.

[The statements of Secretary Kissinger follow:]

STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE, ON HUMAN RIGHTS, AT THE SIXTH REGULAR GENERAL ASSEMBLY OF THE ORGANIZATION OF AMERICAN STATES, SANTIAGO, CHILE, JUNE 8, 1976

One of the most compelling issues of our time, and one which calls for the concerted action of all responsible peoples and nations, is the necessity to protect and extend the fundamental rights of humanity.

The precious common heritage of our Western Hemisphere is the conviction that human beings are the subjects, not the objects, of public policy; that citizens must not become mere instruments of the state.

This is the conviction that brought millions to the Americas. It inspired our peoples to fight for their independence. It is the commitment that has made political freedom and individual dignity the constant and cherished ideal of the

Americas and the envy of nations elsewhere. It is ultimate proof that our countries are linked by more than geography and the impersonal forces of history.

Respect for the rights of man is written into the founding documents of every nation of our Hemisphere. It has long been part of the common speech and daily lives of our citizens. And today, more than ever, the successful advance of our societies requires the full and free dedication of the talent, energy, and creative thought of men and women who are free from fear of repression.

The modern age has brought undreamed-of benefits to mankind—in medicine, in technological advance, and in human communications. But it has spawned plagues as well, in the form of new tools of oppression, as well as of civil strife. In an era characterized by terrorism, by bitter ideological contention, by weakened bonds of social cohesion, and by the yearning of order even at the expense of liberty, the result all too often has been the violation of fundamental standards of humane conduct.

The obscene and atrocious acts systematically employed to devalue, debase, and destroy human life during World War II vividly and ineradicably impressed the responsible peoples of the world with enormity of the challenge to human rights. It was precisely to end such abuses and to provide moral authority in international affairs that a new system was forged after that war: globally, in the United Nations, and regionally, in a strengthened inter-American system.

The shortcomings of our efforts in an age which continues to be scarred by forces of intimidation, terror, and brutality fostered sometimes from outside national territories and sometimes from inside, have made it dramatically clear that basic human rights must be preserved, cherished, and defended if peace and prosperity are to be more than hollow technical achievements. For technological progress without social justice mocks humanity; national unity without freedom is sterile; nationalism without a consciousness of human community—which means a shared concern for human rights—refines instruments of oppression.

We in the Americas must increase our international support for the principles of justice, freedom, and human dignity—for the organized concern of the community of nations remains one of the most potent weapons in the struggle against the degradation of human values.

THE HUMAN RIGHTS CHALLENGE IN THE AMERICAS

The ultimate vitality and virtue of our societies spring from the instinctive sense of human dignity and respect for the rights of others that have long distinguished the immensely varied peoples and lands of this Hemisphere. The genius of our inter-American heritage is based on the fundamental democratic principles of human and national dignity, justice, popular participation, and free cooperation among different peoples and social systems.

The observance of these essential principles of civility cannot be taken for granted even in the most tranquil of times. In periods of stress and uncertainty, when pressures on established authority grow and nations feel their very existence is tenuous, the practice of human rights becomes far more difficult.

The central problem of government has always been to strike a just and effective balance between freedom and authority. When freedom degenerates into anarchy, the human personality becomes subject to arbitrary, brutal, and capricious forces. When the demand for order overrides all other considerations, man becomes a means and not an end, a tool of impersonal machinery. Clearly, some forms of human suffering are intolerable no matter what pressures nations may face or feel. Beyond that, all societies have an obligation to enable their people to fulfill their potentialities and live a life of dignity and self-respect.

As we address this challenge in practice, we must recognize that our efforts must engage the serious commitment of our societies. As a source of dynamism, strength, and inspiration, verbal posturings and self-righteous rhetoric are not enough. Human rights are the very essence of a meaningful life, and human dignity is the ultimate purpose of government. No government can ignore terrorism and survive, but it is equally true that a government that tramples on the rights of its citizens denies the purpose of its existence.

In recent years and even days, our newspapers have carried stories of kidnappings, ambushes, bombings, and assassinations. Terrorism and the denial of civility have become so widespread, political subversions so intertwined with official and unofficial abuse, and so confused with oppression and base criminality, that the protection of individual rights and the preservation of human dignity have become sources of deep concern and—worse—sometimes of demoralization and indifference.

No country, no people—for that matter no political system—can claim a perfect record in the field of human rights. But precisely because our societies in the Americas have been dedicated to freedom since they emerged from the colonial era, our shortcomings are more apparent and more significant. And let us face facts. Respect for the dignity of man is declining in too many countries of the Hemisphere. There are several states where fundamental standards of humane behavior are not observed. All of us have a responsibility in this regard, for the Americans cannot be true to themselves unless they rededicate themselves to belief in the worth of the individual and to the defense of those individual rights which that concept entails. Our nations must sustain both a common commitment to the human rights of individuals and practical support for the institutions and procedures necessary to ensure those rights.

The rights of man have been authoritatively identified both in the United Nations' Universal Declaration of Human Rights and in the OAS's American Declaration of the Rights and Duties of Man. There will, of course, always be differences of view as to the precise extent of the obligations of government. But there are standards below which no government can fall without offending fundamental values—such as genocide, officially tolerated torture, mass imprisonment or murder, or comprehensive denials of basic rights to racial, religious, political, or ethnic groups. Any government engaging in such practices must face adverse international judgment.

The international community has created important institutions to deal with the challenge of human rights. We here are all participants in some of them: the United Nations, the International Court of Justice, the OAS, and the two Human Rights Commissions of the UN and OAS. In Europe, an even more developed international institutional structure provides other useful precedents for our effort.

Procedures alone cannot solve the problem, but they can keep it at the forefront of our consciousness and they can provide certain minimum protection for the human personality. International law and experience have enabled the development of specific procedures to distinguish reasonable from arbitrary government action on, for example, the question of detention. These involve access to courts, counsel, and families; prompt release or charge; and, if the latter, fair and public trial. Where such procedures are followed, the risk and incidence of unintentional government error, of officially sanctioned torture, of prolonged arbitrary deprivation of liberty, are drastically reduced. Other important procedures are habeas corpus or amparo, judicial appeal, and impartial review of administrative actions. And there are the procedures available at the international level—appeal to, and investigation and recommendations by established independent bodies such as the Inter-American Commission on Human Rights, an integral part of the OAS and a symbol of our dedication to the dignity of man.

The Inter-American Commission has built an impressive record of sustained, independent, and highly professional work since its establishment in 1960. Its importance as a primary procedural alternative in dealing with the recurrent human rights problem of this hemisphere is considerable.

The United States believes this Commission is one of the most important bodies of the Organization of American States. At the same time, it is a role which touches upon the most sensative aspects of the national policies of each of the member governments. We must ensure that the Commission functions so that it cannot be manipulated for international politics in the name of human rights. We must also see to it that the Commission becomes an increasingly vital instrument of Hemispheric cooperation in defense of human rights. The Commission deserves the support of the Assembly in strengthening further its independence, evenhandedness, and constructive potential.

THE REPORTS OF THE INTER-AMERICAN HUMAN RIGHTS COMMISSION

We have all read the two reports submitted to this General Assembly by the Commission. They are sobering documents, for they provide serious evidence of violations of elemental international standards of human rights.

In its annual report on human rights in the Hemisphere, the Commission cites the rise of violence and speaks of the need to maintain order and protect citizens against armed attack. But it also upholds the defense of individual rights as a primordial function of the law and describes case after case of serious governmental actions in derogation of such rights.

A second report is devoted exclusively to the situation in Chile. We note the Commission's statement that the Government of Chile has cooperated with the

Commission, and the Commission's conclusion that the infringement of certain fundamental rights in Chile has undergone a quantitative reduction since the last report. We must also point out that Chile has filed a comprehensive and responsive answer that sets forth a number of hopeful prospects which we hope will soon be fully implemented.

Nevertheless the Commission has asserted that violations continue to occur, and this is a matter of bilateral as well as international attention. In the United States, concern is widespread in the Executive Branch, in the press, and in the Congress, which has taken the extraordinary step of enacting specific statutory limits on United States military and economic aid to Chile.

The condition of human rights as assessed by the OAS Human Rights Commission has impaired our relationship with Chile and will continue to do so. We wish this relationship to be close, and all friends of Chile hope that obstacles raised by conditions alleged in the report will soon be removed.

At the same time, the Commission should not focus on some problem areas to the neglect of others. The cause of human dignity is not served by those who hypocritically manipulate concerns with human rights to further their political preferences, nor by those who single out for human rights condemnation only those countries with whose political views they disagree.

We are persuaded that the OAS Commission, however, has avoided such temptations.

The Commission has worked and reported widely. Its survey of human rights in Cuba is ample evidence of that. Though the report was completed too late for formal consideration at this General Assembly, an initial review confirms our worst fears of Cuban behavior. We should commend the Commission for its efforts—in spite of the total lack of cooperation of the Cuban authorities—to unearth the truth that many Cuban political prisoners have been victims of inhuman treatment. We urge the Commission to continue its efforts to determine the truth about the state of human rights in Cuba.

In our view, the record of the Commission this year in all these respects demonstrates that it deserves the support of the Assembly in strengthening further its independence, even-handedness, and constructive potential.

We can use the occasion of this General Assembly to emphasize that the protection of human rights is an obligation not simply of particular countries whose practices have come to public attention. Rather, it is an obligation assumed by all the nations of the Americas as part of their participation in the Hemispheric system.

To this end, the United States proposes that the Assembly broaden the Commission's mandate so that instead of waiting for complaints it can report regularly on the status of human rights throughout the Hemisphere.

Through adopting this proposal, the nations of the Americas would make plain our common commitment to human rights, increase the reliable information available to us and offer more effective recommendations to governments about how best to improve human rights. In support of such a broadened effort, we propose that the budget and staff of the Commission be enlarged. By strengthening the contribution of this body, we can deepen our dedication to the special qualities of rich promise that make our Hemisphere a standard-bearer for freedom-loving people in every quarter of the globe.

At the same time, we should also consider ways to strengthen the inter-American system in terms of protection against terrorism, kidnapping and other forms of violent threats to the human personality, especially those inspired from the outside.

THE NECESSITY FOR CONCERN AND CONCRETE ACTION

It is a tragedy that the forces of change in our century—a time of unparalleled human achievement—have also visited upon many individuals around the world a new dimension of intimidation and suffering.

The standard of individual liberty of conscience and expression is the proudest heritage of our civilization. It summons all nations. But this Hemisphere, which for centuries has been the hope of all mankind, has a special requirement for dedicated commitment.

Let us then turn to the great task before us. All we do in the world—in our search for peace, for greater political cooperation, for a fair and flourishing economic system—is meaningful only if linked to the defense of the fundamental freedoms which permit the fullest expression of mankind's creativity. No nations of the globe have a greater responsibility. No nations can make a greater contribution to the future. Let us look deeply within ourselves to find the essence of our human condition. And let us carry forward the great enterprise of liberty for which this Hemisphere has been—and will again be—the honored symbol everywhere.

STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE, ON COOPERATION FOR DEVELOPMENT AT THE SIXTH REGULAR GENERAL ASSEMBLY OF THE ORGANIZATION OF AMERICAN STATES, SANTIAGO, CHILE, JUNE 9, 1976

For two centuries, the peoples of this Hemisphere have been forging a record of cooperation and accomplishment of which we can be proud. It is a record which gives good cause for the confidence we bring to the tasks we face today. But of greater importance is the truly special relationship we have achieved. The ties of friendship, mutual regard and high respect that we have forged here set this Hemisphere apart. The bond between the American republics is unmatched in the world today in both depth and potential.

First, we have maintained the awareness that our destinies are linked—a recognition of the reality that we are bound by more than geography and common historical experience. We are as diverse as any association of nations, yet this special relationship is known to us all, almost instinctively.

Second, ours is a hemisphere of peace. In no other region of the world has international conflict been so rare, nor peaceful and effective cooperation so natural to the fabric of our relationships.

Third, we work together with a unique spirit of mutual respect. I personally am immensely grateful for the warm and serious relationships I have enjoyed with my colleagues and other Western Hemisphere leaders. I am convinced that this sense of personal amity can play a decisive role in the affairs of mankind, and nowhere more so than in our Hemisphere.

Fourth, we share the conviction that there is much to do and that working together for concrete progress is the surest way to get it done. Even our criticism presumes the feasibility of cooperation.

Fifth, we respect each other's independence. We accept the principle that each nations is—and must be—in charge of its own future. Each chooses its mode of development; each determines it own policies. But we know that our capacity to achieve our national goals increases as we work together.

Sixth, despite the differences among our political systems, our peoples share a common aspiration for the fulfillment of individual human dignity. This is the heritage of our Hemisphere and the ideal toward which all our governments have an obligation to strive.

Finally, and of immediate importance, we are achieving a new and productive balance, based on real interests, in our relations within the Americas, within other groupings, and with the rest of the world. All of us have ties outside the Hemisphere. But our interests elsewhere do not impede our Hemispheric effort. Our traditions of independence and diversity have served us well.

This is both a strength and a challenge to us now, as this Assembly takes up the issue of development.

The United States is dedicated to cooperate in development throughout the world. But as we seek to make progress in all our global development efforts, we recognize close and special ties to the nations of the Americas. We regard the concerns of this Hemisphere as our first priority.

It is for this reason that we support the suggestions which have been made for a special assembly of the OAS to be devoted to Hemispheric cooperation for development. Such an assembly should deal with concrete problems capable of practical solutions. To this end, the United States proposes that a preparatory meeting of experts be held in advance of the special assembly.

But we do not intend to delay our efforts while we await the processes of international institutions and conferences. The United States Administration will begin now.

First, to give special attention to the economic concerns of Latin America in every area in which our Executive Branch possesses the power of discretionary decision.

Second, to undertake detailed consultations with Latin American nations to coordinate our positions on all economic issues of concern to the Hemisphere prior to the consideration of those issues in major international forums.

Third, to consider special arrangements in the Hemisphere in economic areas of particular concern to Latin America, such as the transfer and development of technology.

In addition, we will put forth every effort to bring about the amendment of the US Trade Act to eliminate the automatic exclusion of Ecuador and Venezuela from the Generalized System of Preferences.

The United States is prepared to proceed in these four areas whatever may occur in other development forums. But this Assembly offers an excellent opportunity to advance our joint progress. The United States believes that there are three major issues that this Assembly should address: commodities, trade, and technology. These involve:

more stable and beneficial conditions for the production and marketing of primary commodities upon which the economic aspirations of so many countries in Latin America rely;

expansion of the trade opportunities and capabilities that are an essential part of the development strategies of all countries in the Hemisphere; and

improved arrangements for the development, acquisition and utilization of higher technology to speed the modernization of the Hemisphere.

Let me address each of these issues in turn:

COMMODITIES

Most of our members depend heavily on the production and export of primary commodities for essential earnings. Yet production and export of these resources are vulnerable to the cycles of scarcity and glut, underinvestment and overcapacity, that disrupt economic conditions in both the developing and the industrial world.

At the United Nations Conference on Trade and Development last month, we joined in the common commitment to search for concrete, practical solutions in the interests of both producers and consumers.

Despite reservations about some aspects of the final resolution at Nairobi, the United States believes that the final commodities resolution of the Conference represented a major advance in the dialogue between North and South; we will participate in the major preparatory conferences on individual commodities and in the preparatory conference on financing.

One key element, however, is missing from the final catalogue of Nairobi's proposals: machinery to spur the flow of new investment for resource production in the developing countries. The US made a proposal aimed at that problem—an international resources bank. A resolution to study the IRB was rejected by a vote that can best be described as accidental. Ninety nations abstained or were absent. Those nations of Latin America that reject such self-defeating tactics can make a special contribution to ensure that the progress of all is not defeated by the sterile and outmoded confrontational tactics of a few.

As a contribution to the commitment we undertook at Nairobi to deal comprehensively with commodities problems, the United States proposes that the nations of the Hemisphere undertake a three-part program to secure the contribution of commodities to development in this Hemisphere.

First, I propose that we establish a regional consultative mechanism on commodities. This mechanism could well be under the aegis of the OAS. It should bring together experts with operational responsibilities and experience. The Inter-American commodities mechanism could precede, or at least supplement, those established with a global mandate, where we are prepared to exchange views regularly and in depth on the state of commodities markets of most interest to us—including coffee, grains, meat, and the minerals produced in this Hemisphere. Our objective will be to concert our information on production and demand in order to make the best possible use of our investment resources. These consultations will provide us an early-warning system to identify problems in advance and enable us to take appropriate corrective action nationally, regionally or through worldwide organizations.

Second, I propose we give particular attention to global solutions for commodities important to one or more countries of the Hemisphere. The United States has signed the Coffee and Tin Agreements; it is crucial to the coffee-and tin-producing countries of this Hemisphere that those agreements be implemented in a fashion that will most appropriately contribute to their development.

In Nairobi and at other forums the US proposed that we examine on a global basis other commodities of particular importance to Latin America—bauxite, iron ore and copper. I suggest that we in the Hemisphere have a special role to play in considering how these steps might be taken and in identifying other high-priority subjects for global commodity discussions.

Third, I propose that the consultative group take a new look at the problem of ensuring adequate investment in commodities in this Hemisphere under circumstances that respect the sovereignty of producers and provide incentive for investment. We should examine all reasonable proposals, especially those which would help to assure effective resource development financing. If global solutions are not possible, we are willing to consider regional mechanisms.

TRADE

Trade has been an engine of growth for all countries; and for many developing countries—above all those in Latin America—it is an essential vehicle of development. Recognizing the importance of trade to sustained growth, the United States has taken, within our global trade policy, a number of initiatives of particular significance to Latin America. We have reduced trade barriers, especially those affecting processed goods; provided preferential access to our market for many exports of developing countries; worked in the Multilateral Trade Negotiations in Geneva for reduction of barriers, giving priority to tropical products; and recognized in our general trade policy the special needs of developing countries.

Today, at this Assembly, we can begin to consider ways in which our commitment to trade cooperation can contribute to economic progress in our Hemisphere.

The United States sees three key areas which this Organization could usefully address:

(1) the need for providing opportunities for developing countries to expand and diversify exports of manufactured and semi-processed goods;

(2) the need to promote the Hemisphere's trade position through the Multilateral Trade Negotiations at Geneva; and

(3) the need for effective regional and subregional economic integration.

Let me turn to each of these three points.

No single element is more important to Latin America's trade opportunities than the health of the United States economy.

I can confirm to you today that our economy is in full recovery, with prospects brighter than they have been for years.

The preferences system contained in the United States Trade Act has been in effect since January. It gives Latin American countries duty-free entry on more than $1 billion worth of its exports to the United States. Even more important, it provides vast opportunities for Latin America to diversify into new product areas in its exports to the United States.

In addition to the effort we will undertake to end the exclusion of Ecuador and Venezuela from the benefits of the U.S. Trade Act, President Ford has asked me to state today that: He will make every effort to add to the preferences system products that are of direct interest to Latin America; the Executive Branch will bend every effort to accommodate the export interests of Latin America in all matters in which we have statutory discretion. President Ford's recent choice of adjustment assistance rather than import restrictions in response to the petition of the U.S. footwear industry clearly demonstrates the commitment of the United States Government to a liberal trade policy and the use of the Trade Act to expand trade in the Hemisphere; the President will direct the United States Department of Commerce to respond positively to requests from your governments for assistance in the development of export promotion programs. The Department of Commerce will make available technical advice on promotion techniques and personnel training, to help develop new markets for Latin American exports worldwide.

The United States believes that the Multilateral Trade Negotiations in Geneva warrant the special attention of Latin America. Our view is that the international codes on subsidies and countervailing duties and on safeguard actions now being negotiated should recognize the special conditions facing developing countries. To this end:

The United States will seek agreement at Geneva that the code on countervailing duties and subsidies now being negotiated should contain special rules to permit developing countries to assist their exports under agreed criteria for an appropriate time linked to specific development objectives.

The United States next month will propose that the safeguards code under negotiation in Geneva grant special treatment to developing countries that are minor suppliers or new entrants in a developed-country market during the period that safeguards are in effect.

The United States will send a trade policy team to Latin America shortly to identify ways to promote increased Hemisphere trade through the Geneva negotiations; we are prepared to intensify consultations in Geneva and Washington with Latin American delegations to explore both general issues and positions for specific meetings.

Finally, the United States supports the concept and practice of regional and subregional economic integration as a means of magnifying the positive impact of trade on development. Expanded trade, based on the development of industries that will be able to compete successfully within and outside the integration area, will strengthen the growth process of participating countries. We seek means to support the far-reaching integration plans that have been drawn up in the Hemisphere—for the Andean Group, the Caribbean Community, the Central American Common Market, and the Latin American Free Trade Area.

We are ready to support responsible efforts to further integration. The administration of United States trade laws and the improvement of our preferences system on matters such as rules of origin are two possible incentives to greater Latin American integration. We welcome your views as to a further United States role toward enhancing the momentum of economic integration in Latin America.

We are not persuaded, however, that we have fully exploited all the possibilties of how best to provide expanded trade opportunities to Latin America. We know that the issue is complex, and that it involves not only expanded access to the markets of the United States, but also measures to enhance opportunities for Latin American products in Europe and Japan—and throughout Latin America itself.

Some permanent, expert forum is necessary. We therefore propose that within the OAS there be established a special inter-American commission for trade cooperation. If the suggestion for a special General Assembly on cooperation for development prospers, we think that Assembly should set guidelines for the functioning of the commission. We see the commission as an opportunity, in major part through the Multilateral Trade Negotiations in Geneva, to bring together those policy-level officials most familiar with the actual trade problems and opportunities for trade creation, under a firm mandate to seek innovative means of cooperating to expand exports—expanding, in short, on a regular and long-term basis the catalogue of trade-expansion proposals I have elaborated above.

TECHNOLOGY

Technology is basic to economic development. It is technology that enables us to master the raw gifts of nature and transform them into the products needed for the well-being of our peoples.

But technology is not evenly distributed. There are impediments to its development, to its transfer, and most importantly, to its effective utilization. The United States believes that technology should become a prime subject of Hemispheric cooperation. The countries in this region have reached stages of development that enable them to adapt and create modern technologies. Our potential thus matches the urgency of practical needs.

At this point, what are the new directions we should take together? We have three proposals:

The United States believes we in the Hemisphere should:

(1) Take immediate advantage of promising global initiatives. To seek maximum benefit from the United Nations Conference on Science and Development set for 1979, we propose that the nations here today undertake preparatory consultations on that subject in the Economic Commission for Latin America, whose meeting has been prescribed as a regional forum within the Conference program. We will enlist the experience and resources of leading U.S. technology institutions in this Hemispheric preparatory effort.

(2) Increase public and private contacts on research, development and the application of technology. To this end, the United States will: open a technology exchange service for Latin America to provide information on US laws and regulations relating to technology flows and to sources of public and private technology; explore cooperative ventures in which small and medium-sized US firms would provide practical technologies to individual Latin Ameri-

can firms, along with the management expertise needed to select, adapt and exploit those technologies; and expand and strengthen Latin America's access to the National Technical Information Service and other facilities of the technology information network of the US Government, which covers 90 percent of the technical information that flows from the $20 billion of research that the US Government sponsors annually.

(3) Develop new regional and sub-regional structures of consultation and cooperations on problems of technology.

To this end, the United States proposes:

First, that we establish a consultative group under the OAS to address and provide recommendations on information problems that Latin America faces in acquiring technology.

Second, that the OAS, in line with the UNCTAD IV consenus, establish a regional center on technology. The center would facilitate cooperative research and development activities, drawing on both public and private sources. It could stimulate exchanges of qualified technical personnel. And it could begin to attack the problem of incentives to the thousands of technologically trained Latin Americans now living abroad to return to and serve with their own countries.

In the view of the United States, such a center should be a cooperative enterprise requiring commitment and contributions in funds, technological resources and personnel from all of the countries that take part.

To get us underway, I propose that we convene a group of experts to examine the need, feasibility, characteristics and role of an inter-American technology center and report to us before the next OAS General Assembly.

THE IMPORTANCE OF COOPERATIVE DEVELOPMENT

Economic development is a central concern of all nations today. The community of nations has become, irrevocably, a single global economy. We know that peace and progress will rest fundamentally on our ability to forge patterns of economic cooperation that are fair, productive and open to all.

We in this Hemisphere have a special opportunity and responsibility to advance the recent favorable mood, and the practical achievements, in cooperation between the developed and developing nations. We start from a firmer foundation today; our prospects for working together are brighter than ever before—more so in this Hemisphere than in any other region of the world. We should have reason for confidence in our ability to advance our own people's well-being, while simultaneously contributing to a more prosperous world. It is in this sense that I have sought today to advance our practical progress in important areas.

The United States stands ready to give its sister republics in the Hemisphere special attention in the great task of cooperation for development. We shall make a major effort to prepare for the special session on development. We shall listen to your proposals, work with you in a serious and cooperative spirit of friendship, and commit ourselves to carry on the great heritage of the Americas as we go forward together.

STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE, AT THE HEADQUARTERS OF ECLA, THE ECONOMIC COMMISSION FOR LATIN AMERICA, SANTIAGO, CHILE, JUNE 9, 1976

Mr. Secretary, I appreciate very much the complimentary remarks that you have made and I would like you and your distinguished staff to know, that while it is a meeting of the General Assembly of the Organization of American States that brings me to Santiago at this time, I value this opportunity to meet with you and to visit this renowned fountainhead of ideas.

You have much of which to be proud. You, Mr. Secretary, with all your well-known energy and wisdom have followed and successfully built upon the work of your very capable predecessors, Prebisch, Mayobre and Quintana. These men, like you, were well known within and beyond our hemisphere as statesmen. My colleagues and I have great respect for the work you have done and for the tremendous accomplishments of the Economic Commission for Latin America. This center of study and action has done much to ignite the consciences of men everywhere to take on the challenges of economic development. Your approach is progressive and, especially because it is non-political, it is effective.

As is only to be expected, we have at times not seen eye-to-eye with regard to certain problems or the prescriptions for dealing with them. But we have avoided ideological postures: our thinking and I believe yours have evolved. In the process we have moved closer together, with respect to many, if not most, essentials. We have listened and learned as this institution has led the movement for economic integration among the developing countries of this hemisphere. We have worked together on trade and development, and we have agreed with your shift in emphasis from import-substitution to export-oriented strategies.

The problem of economic development is not primarily a technical issue. It is profoundly a political and moral issue. It is not possible to build a world community which is divided between the rich and the poor. If we are to live in a world of peace and justice, all nations must have a sense of participation, and all nations must have the consciousness that the world community either takes into account their concerns or at least listens to their concerns.

This is why we attach such extreme importance to the dialogue that is now taking place between the developed and developing countries, for regardless of technical solutions we find, the spirit we can help engender can contribute to a world of peace and to a sense of community. And this is why we are concerned when there are attitudes of confrontation or technical majorities, because it is the essence of an international structure that solutions cannot be imposed by one group on another, but that a consensus must be established in which all share. The nations of Latin America have a very special role to play in this process. They are among the most developed of the developing nations or among the least developed of the developing nations. They belong to the Organization of American States and they are tied to us, a country which has a great concern with security and global equilibrium. But they are also a part of other groupings of the so-called Third World, and they can, therefore, in important respects act as a bridge between the views of the different groups that exist in the world today.

In the field of development, the United States has offered important proposals for dealing with current international economic difficulties. At the Seventh Special Session of the U.N. General Assembly we put forth suggestions and agreement was reached on a number of measures designed to enhance economic security and to cope with the cycles that in the past have devastated export earnings and undermined development, and we dealt with other issues relating to trade, technology, and capital flows.

In Nairobi, we advocated a comprehensive plan for addressing major commodity issues and set forth additional proposals for dealing with technology and other requirements for development.

Our proposal for the establishment of an International Resources Bank failed for reasons of an accidental majority. But I cannot scold every forum that I meet on this topic. I think we have made our point. The more fundamental problem I would like to put to this distinguished group is how to relate these general proposals for global development which are important, with the special requirements of the Western Hemisphere. My colleagues and I are doing a great deal of thinking on how in a global context of development we can at the same time reflect the special ties and the special values, and the particular institutions that have grown up in this Hemisphere, how we can avoid being caught between the extremes of dogmatic globalism and dogmatic regionalism. We favor regional integration of the Western Hemisphere or of the nations of Latin America, either in sub-regional groupings or in regional groupings, and we are going to give very serious study to how, within a global framework, we can spur the very special concerns for development of our old friends and associates in the Hemisphere.

Today, at the meeting of the OAS General Assembly, I made some specific proposals of what can be done within the framework of existing legislation and within the discretion that our Executive has, but I also pointed out that at the Special Session on Development that has been proposed by several members at the General Assembly and that we assume will take place next spring, the United States will be prepared to address the more fundamental questions that I'm putting to my friends here: how to relate the global concerns for development with the regional concerns of the Western Hemisphere, because it would be wrong to waste the traditions of co-operation and the special relationships that have grown up in this Hemisphere. I am providing your Executive Secretary with a copy of the paper in which we made a series of comments and recommendations regarding co-operation for development, and I hope that ECLA will find that it can play a role with regard to some of the arrangements we suggested on vital issues; for example, on technology for development. We hope also that you will not feel yourself confined to the proposals that we have made, and will feel free to offer your own suggestions. In looking at the record, the danger that you will feel yourself confined by our proposals is minimal.

The nations of this Hemisphere are bound by historical and other special ties and interests. The United States consequently supported and has been interested in the work of ECLA since its founding in 1948. I would also like to reciprocate the very warm words of the Secretary General, whose dedication to the cause of peace we admire and whose indefatigable efforts in all areas of world problems we support. I wish you and the Executive Secretary the very best as you carry on your important work, and I would like to thank you for this very warm reception I have had here.

Mr. Rogers. Next week I will be attending the meeting of the executive committee of the OECD in special session, and the midyear subministerial meeting of the Conference on International Economic Cooperation, both of which will carry forward the OECD and Puerto Rican submit initiatives as they bear on North-South economic relationships.

Let me touch on three themes which are emerging from the recent high-level efforts.

First, it is increasingly obvious that, though the Socialist countries talk a good game, it is the industrialized democracies which have provided the great bulk of the development assistance thus far, and that it is to them that the developing countries turn—not always tactfully—for the aid and redress they conceive they require for their future development. By that fact, it is increasingly apparent that the industrialized democracies should make greater efforts to aline and coordinate their efforts, their views and their positions in future international forums where development issues are considered.

Second, it is quite likely that an improved coordination of aid, both bilateral and multilateral, might accomplish much in the development effort.

And third, it is now timely that the industrialized democracies, rather than continuing merely to react to the agenda and the proposals for redress which the developing countries present en bloc, organize their own new vision of the future, and present their own collective proposals for effective growth of the poorer countries of the world.

It is within this context that we are now looking at the economic relationships within the Americas and our own future efforts to cooperate for the development of the nations of Latin America and the Caribbean. Our economic relationships are now firmly the first consideration of our policy in the hemisphere. We have moved beyond the earlier preoccupations with security to a new era of economic cooperation and joint effort.

In so doing, however, it is important that we take into account the economic diversity of Latin America, hence the corollary that no single policy or slogan is equal to the challenge of our relationships within the hemisphere. Though Latin America as a region has made significant economic progress over the past decade, this progress has not been evenly shared. Sharp and increasing disparities are evident.

There is first a group of 18 countries that face a set of similar development constraints emanating from their limited domestic markets and generally lower level of institutional development. These countries account for 16 percent of the population but only 11 percent of the gross domestic product of the region. Though some of them possess valuable raw materials, including oil, their abilities to utilize

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and channel these resources for economic development have been limited. Regional and subregional economic integration can serve to broaden the existing limited domestic markets of these countries and provide a framework for more effective utilization of economic and human resources. I might add that we are ready to support responsible efforts to further economic integration, and we have noted Latin American concerns that our generalized system of preferences may have the unintended effect of hindering integration efforts.

Six of the remaining seven Latin American countries—Argentina, Brazil, Mexico and to a lesser extent, Chile, Colombia and Peru—present quite a different picture. These countries encompass the bulk of the populations and wealth of the region. They are often referred to as midway in the process of development, the international middle-class countries that are too advanced to depend on grants and other extraordinary measures designed to assist the least developed out of their extreme poverty, but that are not yet able to rely exclusively on the normal market mechanisms for the resources needed to sustain an adequate rate of development. Finally, there is Venezuela. It is midway in the development process but it has sufficient foreign exchange earnings from petroleum to finance its own growth, and to aid others as well.

It is with this strong second group of countries that our traditional policies of financial and technical assistance for developing countries are proving inadequate. These countries are developing sophisticated and complex economies which are interacting with the international and our own economy in new ways. Their industrial development has enabled them to expand exports to manufactured goods which compete with our own domestic production. At the same time, development has enlarged their import requirements making them more important export markets for the United States. In fact, Mexico and Brazil rank fourth and eighth respectively among our largest export markets. The seven countries as a group imported over $13 billion from the United States in 1975 as against exports to the United States of $9.5 billion, for a U.S. trade surplus of $3.5 billion.

Even though these countries are expanding nontraditional exports of manufactured products, their economic development still relies to a great, if decreasing, extent on exports of traditional commodities. The boom-and-bust cycle of commodity prices wreaks havoc on their economies, as witness the 1974–75 decline in prices which contributed to unprecedented trade and balance of payments deficits for most of the Latin American countries. This short-term fall in foreign exchange earnings, coupled in some cases with the rise in the oil bill, posed increased constraints on the economic development plans of many of these countries.

Vital to the next phase of economic development in all Latin America is the increased application of more complex and productive technology. Technology is not evenly distributed. There are a number of impediments to its rapid and effective development, application and transfer. The more developed countries of Latin America are actually aware of the development bottleneck caused by inefficient technologies and are pressing for new arrangements that will buttress their development efforts.

These are some of the salient points of the economic agenda for the Americas. I refer again to the Secretary's statement to the OASGA for a more extended analysis. The key ingredients of our response include the following actions and proposals.

TRADE

Implementation of GSP a "generalized system of preferences," which has opened up significant trading opportunities for Latin America in the U.S. market. Even more important, it provides an incentive for Latin America to diversify into new product areas thereby broadening the base of its economic development.

Participation in the multilateral trade negotiations, in a fashion which takes special consideration of the trade needs of Latin America. In the course of the negotiations, the MTN aims at a further expansion of trade and reform of world trading rules, both of which should bring significant benefits not only to the countries of Latin America but also to the United States.

Reduction of tariffs against the exports of processed raw materials from developing countries. Lowering of these barriers would provide fresh incentives to expand and diversify exports, particularly in cases where tariffs now escalate with the degree of processing.

Avoidance of trade restrictive measures wherever possible. Latin America's economic development efforts are financed in large part by export earnings; if it is not able to export, development will suffer accordingly.

Exercise of statutory discretion to accommodate the export interests of Latin America. The authorization in the Trade Act for adjustment assistance and other provisions of the Trade Act permit us to demonstrate our commitment to a liberal trade policy that is mindful of the needs of our trading partners, including Latin America.

Extension of technical advice on trade promotion. The Department of Commerce will make available, if requested, technical advice on promotion techniques and personnel training to help develop new markets for Latin American exports worldwide.

COMMODITIES

Participation in global conferences on individual commodities to examine possible means of ameliorating the traditional boom-and-bust cycle of these commodities, particularly bauxite, iron ore, and copper which are key Latin American commodities.

Establishment of a regional consultative mechanism which would precede or supplement global mechanisms on commodities. This mechanism should bring together experts with operational responsibilities and regional experience that could provide an early warning system to identify problems.

Mechanisms to spur the flow of new investment for resource production in the developing countries like the International Resources Bank. If global solutions to this global problem are not possible, we are willing to consider regional mechanisms. This proposal is now being studied in the inter-American system.

EXTERNAL FINANCING

Expansion of access to the compensatory financing facility of the International Monetary Fund to help stabilize export earnings. Judicious use of this Fund will permit more orderly implementation of development programs as investment decisions will no longer be subject to a lack of adequate foreign exchange because of fluctuations in export earnings.

Increase of $6 billion in the resources of the Inter-American Development Bank of which the U.S. contribution is $2.25 billion over 4 years. The IDB has played and will continue to play a key role in financing the economic development of Latin American countries.

Operation of a technical assistance program for Latin American countries entering established capital markets.

TECHNOLOGY

Consultations on a regional level in prepartion for the 1979 U.N. Conference on Science and Development. This will enable the region to obtain maximum benefit from the conference. We will enlist leading U.S. technology institutions in this regional effort.

Increased public and private contacts on research development, and the application of technology. We propose to accomplish this by:

Establishment of a technology exchange service for Latin America to provide information on U.S. laws and regulations relating to technology flows and to sources of public and private technology.

Exploration of cooperative ventures in which small and medium-sized U.S. firms would provide practical technologies to individual Latin American firms.

Expansion and strengthening of Latin America's access to the National Technical Information Service and other facilities of the technology information network of the U.S. Government.

Establishment of a regional center on technology which would facilitate cooperative research and development activities, drawing on both public and private sources.

We recognize that economic development is the central concern of Latin America. Our task, which serves the mutual interests of this country and Latin America, is to forge patterns of economic cooperation that are equitable, productive, and open to all so that this hemisphere can serve as a model of development and prosperity for all the peoples of the world.

Thank you, Mr. Chairman.

Chairman LONG. Thank you, Mr. Rogers. Your statement sets forth a number of the proposals made by Secretary Kissinger at Santiago and in some of his other statements of more general applicability. The administration's catalog of these seems to me to be so never-ending—there are so many of them under consideration—that it is hard for me to ascertain what really is the crux of the U.S. policy.

Let me pursue that for a moment by looking at the question of how do you order their priority and what is the most important item in this catalog that has come down? Should Congress, for example, give priority to the Inter-American Development Bank? Should it replenish funds or give funds to establish the newly proposed International Resources Bank or to meet our existing commitments to the IDA?

Are the provisions to reduce tariffs, for example, more important than new commodity agreements? While recognizing that both of them are very important.

Which of these proposals, in looking at the overall list, would you say are the most important? How do you set an order of priority on how we attack this problem? This is where you might be able to give the Congress some real guidance.

Mr. ROGERS. Well, I think it is a profound question. Do you mind a moderately extended answer?

Chairman LONG. Not at all. I would appreciate it. It is a complex problem. I do not like oversimplified answers to complex problems.

Mr. ROGERS. Well, I have been around—perhaps I should not put it quite that way, Mr. Chairman. I have been interested professionally in the problems of Latin American development and the quality of our relationship—that is, the relationship of the United States to the process of development in Latin America—for a number of years. I was for a while, as you may know, Deputy U.S. Coordinator of the Alliance for Progress. I was subsequently president for the Center for American Relations in New York. The issue has been a matter of great concern for me, as I say, for almost two decades now. For a long period of time, when I was in private practice, I was directly related to the Economic Development Administration in Puerto Rico. So I have seen the development process in the hemisphere for a long time.

Now, my perspective on it today is that the development challenge has changed considerably during these last two decades. And I think that the change is illustrated by the difference in the challenge, and our response to it, at the present time as compared to the early 1960's. In the early 1960's, as you may recall, President Kennedy proposed the Alliance for Progress. Although the Alliance for Progress was a fairly sophisticated analysis of the development challenge in the hemisphere, it tended to revolve around the provision of massive U.S. assistance, that is public and official aid, on the one hand, and reform measures in Latin America on the other.

It was, therefore, a fairly easy concept to grasp. I mean there was no doubt about what the priority for U.S. action at that time was. It was to provide major appropriations, which we could then essentially translate into support for Latin American reform.

The problem is much more complex today because of the changes that have occurred in Latin American economies during the 1960's and early 1970's. The economies of the major countries of Latin America are considerably more sophisticated today. That is No. 1. No. 2, they are, in terms of their international economic relations, much more engaged in the manufacture and export of manufactured goods. They are now relying much more on private banking for the financing of their current account deficits than they are on public assistance.

Fifteen years ago it was quite the other way around. It is for this reason, Mr. Chairman, that in my judgment the problem is much more complex. There is now not the simple answer to your question of what is the priority, that there was then.

We have a number of priorities that we must continue to be concerned with and a number, quite frankly, of requests for congressional action. Not only is it important that we continue to provide the public assistance resources through the IDB replenishment and the IDA replenishment—and we must continue to do that—but that is only the beginning rather than the end of the U.S. legislative response to our effort to have an effective policy of development support for Latin America. These are a number of measures beyond the authorization and appropriation of assistance through the multinational organizations and through the direct bilateral assistance of AID. There are a number of other things we must continue to do, which I have touched on here: (*a*) Trade, including both a greater access of manufactured products to our markets and effective responses on commodities—and Congress has a major role to play with respect to commodity agreements, of course—and (*b*) technology transfers. We have a whole cluster of proposals on the technology question. This is a matter of vital interest to Latin America if it is to continue the momentum of development and the elaboration of its increasingly modernized economies. It must have greater access to our technology and greater capacity to develop its own technology.

In these several areas, in other words, we must continue to operate, in addition to the provision of public assistance.

My point is that basically the problem is much more complex today.

We have a policy. We do not have a slogan. Because of my own feelings about the utility of slogans, having watched the evolution and the history of our relationships with Latin America, I have made it, in the almost 2 years I have been in the Department, Mr. Chairman, a matter of first effort to avoid sloganeering the policy of the United States.

But you are quite right. We do have a large catalog of what I would regard as responsive proposals.

The U.S. efforts to support the development effort in Latin America does encompass active proposals. We have not packaged these all together into a single policy, which we can bring to you and say, "Here, this is it. It is called so-and-so. Your responsibility is limited to so-and-so." It is a much more complex situation today and a much more complex set of responses on the part of the United States. I wonder if this is helpful to you?

Chairman LONG. It is helpful. And I respect your decision against sloganeering because of the fact it is so easy today to oversimplify a very complex problem. Many of us attempt to do it. It is something that I perhaps overreact against. I just do not like it.

Maybe this is again an oversimplification but not too much of a one—but looking at the distinction between the 7 larger so-called midway countries in Latin America—and you acknowledged the differences between them, and I think it is generally recognized that they seem to be progressing relatively nicely—and the 16 smaller ones, who are really struggling very desperately, the implication and conclusion I reached from your statements, Mr. Rogers, is that they require a different policy for the 2 groups; that they each require a quite different policy. Yet I do not quite understand how these policies would differ and which of the catalog of programs you would emphasize in one as against those you would emphasize and give priority to, Mr. Rogers, for the other group. Would you talk on that for awhile?

Mr. ROGERS. Your questions are marvelously on target, I must say, because you are uncovering the really fascinating issues which policymakers face at the present time in Latin America. You are absolutely right. The mix of policy responses necessarily has to vary within Latin America because of the difference in the quality and character of the economic development stage in the various countries, the size of the internal market, and so forth.

Let me see if I can give you a simple answer to the question. For example, in the smaller countries with the lower per capita incomes, which are by and large more agricultural in terms of the total mix of their economies, our policy there gives greater emphasis to public assistance, in other words, official bilateral and multilateral aid projects. Central America is a perfect example of that. Basically the five nations of Central America are at a stage when they can most effectively use significant project assistance of a variety of kinds which will support their agricultural development, their institutional development, education, and so forth. And aid therefore, both bilateral and multilateral, constitutes a larger proportion of our policy mix for those countries than it does for other countries like Brazil.

We are out of the aid business in Brazil. Our efforts there to be responsive give much greater emphasis to their interests in commodity exports, Brazil's interest in the elaboration of technology, and those kinds of things. Those are much more significant aspects of our policy mix in countries like Brazil than straight aid.

Chairman LONG. Going into the specifics of one of these, the generalized system of preferences, and particularly Congress oral action on the Trade Act of 1974. Since I started digging into the subject in the last few months, I have continually run across people who say that this is one of the major problems, which needs to be resolved—even though it might be a psychological rather than a substantive one. I am not sure which it is and I think it is not really important which it is. This one problem is the exclusion, which was made to Venezuela and Ecuador under that Trade Act at the time.

In your view is this really causing a serious problem? What is your view on what we ought to do about it?

Mr. ROGERS. I will tell you quite frankly, Mr. Chairman, in the economic field I think it is our most serious problem in terms of exacerbating our relationships in the hemisphere. And I think that if you look at the record of the deliberations of the OAS permanent council, the OAS General Assembly, you will agree that it is the sour note in our relationships.

Chairman LONG. Has the State Department made a real effort to get Congress to change this? It is strange that I have not really seen it; I have not seen any major effort on the part of the Department of State to get us to change it. I think there is just a vast lack of knowledge among Congressmen about what the implications of it are and what the effects of it are. I do not think anybody has ever brought it to their attention sufficiently to motivate a legislative body to move to undo something that was done.

Mr. ROGERS. Well, in the first instance, Congressman, we have dealt with the relevant committees and subcommittees. In fact, we did testify before Congressman Green's subcommittee some time ago in support of an amendment which would remove the exclusion of Ecuador and Venezuela. And we have stayed in very close touch with his subcommittee and also the respective committees on the other side.

In fact, we have been anxious to have legislation put through—and have made that position clear with those who are initially responsible for the matter—and we have been leaning on them. But we have not been able to get very much legislative response or actual legislation on the floor, quite frankly.

But if I can say it now any more clearly than I have in the past, let me say it again. This is a most important aggravation to our economic relations in Latin America. That is No. 1. We are anxious to get it removed. And if there is anything we can do about that or if you have any suggestions how we can more effectively make that point clearly, I would like to know.

Chairman LONG. Would you make your point again for the benefit of Mr. Hamilton? I think this is an important point.

Mr. ROGERS. I think Mr. Hamilton knows our position.

Chairman LONG. I know he knows it. I know he has been familiar with it and he has worked on it.

Mr. ROGERS. Well, the question basically was whether the exclusion of Ecuador and Venezuela from the GSP was an important or real issue in terms of our relationship with Latin America. My response was that it was No. 1 irritation to our economic relations with Latin America. We hear about it constantly. It is regarded as very serious evidence of U.S. policy in the hemisphere. It is regarded as an indication that the United States wants to split the hemisphere; that we are prepared to use our economic power and our economic access—access to our markets—for illicit purposes for pressure, if you will; and it therefore is a very serious matter. We really would like to have it changed.

Chairman LONG. Pursuing this GSP question in a more general sense rather than in relation to these two countries, some people, who have analyzed this, have maintained that further reduction or even the elimination of tariffs on the imports from all countries would be more beneficial to the developing countries than the GSP. I gather that these people consider that permanent tariff reduction, without particular exclusions, would be superior to a GSP. Would you be distressed by a general tariff reduction in the present negotiations that dilute the preferences under the GSP?

Mr. ROGERS. No, I think this clearly in the long-term interests of all of the trading partners of the world system, including Latin America. The increasing liberalization of trade through a successful multinational trade negotiation in Geneva, both in terms of tariff and nontariff barriers, in my judgment, as I say, is a desirable objective for everyone including the nations of Latin America and the major trading partners there—particularly Brazil, Mexico, Argentina, Chile, and Colombia.

In other words, the GSP system is an asset of declining value; it should be, as the tariff cuts and the removal of nontariff barriers, which we hope will emerge from Geneva, begin to take effect. It will be an advantage of declining significance over the years. It is possible and desirable to take advantage of GSP by making investments now and getting export systems started. But it seems to me desirable that investment decisions made now, in the light of GSP, ought to be made on the assumption that that GSP advantage will be of declining significance to Latin American investors over the next decade. And I think that is a good thing.

Can I give you the benefit of a newcomer to this field? I have talked to a lot of people in the press who are specialists in this field in the last 2 or 3 months as I began to study it. I have talked to some people that are in fringe organizations that deal with it. I have talked to some companies where the executives of companies have major business investments in Latin America I think that perhaps all feel, as I generally feel, that there is basically no well-defined policy toward Latin America.

Perhaps this has come about, as I listen to you, as the result of an overreaction or adverse reaction to sloganeering for a number of years; that is, where we were relying upon slogans to such a degree. I think you rightly have said we have had enough sloganeering and now let's sit down and see if we cannot work out an effective policy to meet a complex problem rather than sloganeering it to death. But as I said earlier, I am sympathetic to that. I am understanding of it and sympathetic to it.

I do think that somewhere between sloganeering and the outline in fairly concrete and specific terms there might be a middle ground that might be worthy of your consideration. So I would say—just as an outsider and observer who gets these questions presented to him in talking to the people that are familiar with the area—that I feel they need to be instilled with a sense of confidence that the problems are being attacked and that they are being done in a systematic and priority type of manner and in a comprehensive type of manner. And I know I need this, and I think a lot of us do.

Congressman Hamilton.

Representative HAMILTON. Thank you very much, Mr. Chairman.

Mr. Rogers, we had several witnesses yesterday—I suppose you probably have not had an opportunity to look at their testimony—but one of the things that came across to me from their testimony was really a kind of discouraging assessment of Latin American progress in the last 10 or 15 years. It was not just economic areas, where they emphasized maldistribution—that is, there has been growth but not widely distributed—but also the political problems of the continent; how there are only two democratic countries now in all of Latin America; and then there was the population explosion and all the other problems that you are familiar with.

How do you feel about the near-term future of Latin America? What is your sense of it at this point—both in an economic and a political sense?

Mr. ROGERS. Well, on the political side, Representative Hamilton, I think that the prospects are not nearly as hopeless as a simple box score of democracy and nondemocracy would seem to indicate. And I would say there are more than two. There are two in South America but we must not ignore the Costa Ricas and the Trinidads and the Mexicos. But it is clearly true that in the southern cone there has been a turn toward authoritarianism. Underneath that, I think, for those who know the societies and the cultures of the nations—I would not say "exciting"—but there is at least an encouraging intellectual ferment. There is a greater degree of freedom by a considerable measure-ment than is the case, for example, in the Soviet Union, Romania, and other countries in the world.

Representative HAMILTON. Are you through, sir? Go ahead, sir, please.

Mr. ROGERS. I am not unhopeful, but I am concerned and anxious. I think that there is going to be a distinct relationship between the course of political development in Latin America and the economic circumstance in the hemisphere.

On the economic side there is no doubt that there are distinct problems internally in terms of distribution, population, extent of education, access, skewed income patterns, and skewed wealth distribution. All of these are characteristic of Latin American economies by and large. However, they have demonstrated that they can grow and change. They have done so in a dramatic way and a major way with big dimensions involved in the process of change.

And I, therefore, tend to be not pessimistic about that either. I tend to think that there are important prospects and promising prospects for Latin American economies in the next decade if we can begin to cooperate even more effectively with them on their major issues of concern: Export of manufactured commodities, commodity stabilization, and so forth.

So that I tend not to be that utterly grim about it or blue about it. And I think we have got to stay in there because I regard the hemisphere as an area of vital concern to us. I do not think it is a proper U.S. response even though there are things in Latin America we do not like, to pick up our marbles and go home.

You know, I could write a brief about the political and economic difficulties and inequalities and disappointments in Latin America, which would be as good a brief as anybody could write. But I do not think that is an adequate response. This is an area of vital concern to us, just in basic, primitive terms of our exports and our investments, but more significantly in my view in terms of the spiritual relationship we have with Latin America. And I think we have to stay in there and help.

Representative HAMILTON. If you look at the broad picture, our need for raw materials and access to those materials in Latin America is clear; their need is, you are saying, for markets for their manufactured goods. And it just strikes you that there is an enormous opportunity for the United States and Latin America to work together for their mutual benefit. Yet I am not sure that I have the sense that we recognize that opportunity and that we are taking advantage of it. And I have the feeling that the political atmosphere between us is not sufficiently healthy so that we are creating a favorable climate to deal effectively with these economic problems. You might comment on that. And add to your comment the reaction in Latin America, for example, to the Secretary of State's Santiago speech when he spelled out all kinds of specific proposals to improve the economic relationship. I would just like to know just how they responded to that in Latin America.

Mr. ROGERS. Good. Let me say with respect to the Secretary's speech, in a broad sense the relationship of Latin America to the United States begins with the first question, does the United States care? There was a time, most particularly between 1968 and 1972, when it was clearly evident that we did not care. In fact we had a distinct and affirmative and positive policy of a low profile. That era has come to an end. You now have Henry Kissinger, having traveled to Latin America twice in the year 1976, and having made a series of major statements with respect to United States-Latin America policy in that period.

In other words, the administration and the Department have attempted to demonstrate that we do care and we have some serious proposals on the table. The culminating set of proposals in the economic sphere was his statement on cooperation for development in Santiago.

I might say with respect to the Santiago meeting, Mr. Hamilton, it was everybody's characterization that it was the best and most productive inter-American meeting in the last 5 years. The reason for that is not unrelated in my view to the first point I made: Does the United States care, being the crucial question.

The response in Latin America to our low profile during 1968 to 1972, Congressman Hamilton—and I do not think this is too strong—was bitter. The atmosphere between the United States and Latin America had declined considerably by the early 1970's because we were frank in putting Latin America at a low point in our priorities in foreign policy.

Because we have now communicated to Latin America—largely through the symbolism of Secretary Kissinger's own trips—that we do care and that we have a set of proposals, the atmosphere has changed dramatically. I tell you that because I have been a direct witness to the atmosphere, then and now. It may not be a matter of historic record which you are aware of, but when I was in the private sector—I think it was 1973—I proposed that the atmosphere in the OAS had become so bad that the United States ought to withdraw. The conversation, the dialog, had deteriorated to the point where it was nothing but Latin America attacking the United States for its unresponsiveness, its inequity, its excessive use of power for lamentable ends. The character of the conversation in the OAS had deteriorated so badly that, in my judgment, it was time for us to get out.

Representative Hamilton. You think the political climate has substantially improved recently?

Mr. Rogers. In my judgment, it is better than it has been in 5 years.

Representative Hamilton. What happens after a speech like this? You have all kinds of proposals in here. I do not know how many. There must be 20 or 30 of them. What happens? What are you doing about it?

Mr. Rogers. In the economic sphere, Congressman Hamilton, there will be now—and in major part in response to the agenda the United States has constructed—there will be a special general assembly of the Organization of American States, which will probably meet in March and probably meet in Lima.

Between now and then, those issues which are appropriate for the inter-American system—for example, some of the science and technology proposals or some of the suggestions with respect to policy at the multinational trade negotiations in Geneva—will be discussed in groupings within the OAS system, itself, and there will be prepared then—for the special general assembly in Lima—action proposals. These will not be put on the shelf and forgotten about. We have organized an ongoing process for consideration and elaboration and action on those proposals.

Representative HAMILTON. Is it your judgment that you have had largely an affirmative response to this from the countries of Latin America?

Mr. ROGERS. Definitely.

Representative HAMILTON. They are interested in sitting down and negotiating hard on most of these proposals?

Mr. ROGERS. Absolutely. I think——

Representative HAMILTON. Yet a little earlier—and I was not here—but there was a question asked about the United Nations and Nairobi. Did you ask that?

Chairman LONG. That was yesterday.

Representative HAMILTON. Did not Latin America vote against us in Nairobi, by and large?

Mr. ROGERS. No. It was fascinating. Let me take three sentences on that point. The issue on which we had problems in Nairobi was our proposal for an International Resources Bank. As you know——

Chairman LONG. Excuse me for a minute, Mr. Secretary. Do you have another 15 minutes?

Mr. ROGERS. I am at your disposal.

Chairman LONG. Well, I am obligated to get you out in time to meet your next appointment. Congressman Hamilton and I have a vote on. We would really like to take 4 or 5 minutes and run over to vote if we may.

Mr. ROGERS. All right, fine. I do not want to let this question go.

Chairman LONG. The subcommittee will stand in recess for 5 or 10 minutes.

[A brief recess was taken.]

Chairman LONG. The subcommittee will come to order. Congressman Hamilton, you were discussing something.

Representative HAMILTON. Yes; I think the Secretary was responding to the question about the Latin American position in Nairobi. Go ahead.

Mr. ROGERS. It was very interesting. I think it illustrates something about Latin America's position within the developing world at the present time. At Nairobi, of the 33 votes against the international resources bank proposal, I believe there were only two Latin American countries—namely, Cuba and Guyana—in the "no" column. The others either abstained or were absent. A considerable number were absent. I remind you that the vote was taken about 4 a.m. the last day. And after two or three round-the-clock sessions, it was the culminating moment. And for some of the smaller countries of Latin America, not knowing when the vote was coming, they just did not have anybody there to vote. Several Latin countries voted affirmatively and were among the 31 who did vote in favor of it.

Now the difference was illustrated, I think, at the OAS General Assembly meeting. When we got there, we—that is, the U.S. delegation—were addressed by several of the other delegations who said—quite frankly we did not inspire this—

Look, we like this idea of the international resources bank. Do you have any objection if we introduce a resolution proposing a study of an international resources bank for the hemisphere?

We said:

No; we have no objection. We think it might work.

And they did that. There is now a proposal for analyzing the international resources bank for the Western Hemisphere.

Chairman LONG. Would the gentleman yield? That would be one of the things you would take up at the proposed conference in Lima in the spring?

Mr. ROGERS. And I think that could also come up. I think you are quite right, Mr. Chairman, I think the study is mandated to be completed by then. This was not one of the initiatives that Secretary Kissinger took in his own speech. This came from the Latin Americans.

Representative HAMILTON. My understanding is that Brazil has taken several protectionist steps in the recent period. Is that correct? And if it is, what does that mean in regard to the Secretary's proposal on trade, for example, to go in the other direction?

Mr. ROGERS. I am sorry. I am not able to testify about major——

Representative HAMILTON. You are not aware of any such measures by Brazil?

Mr. ROGERS. No; I am not. We have met with Brazil on several issues of trade policy. One of them has to do with Brazil's alleged export subsidy system.

Representative HAMILTON. Yes.

Mr. ROGERS. This has an impact or could have an impact both in terms of Brazilian exports to the United States and Brazilian exports to Third World countries. And as part of the consultative relationship we have had with Brazil, we have discussed that issue with them. And we now contemplate a resolution of the problem, which will avoid any conflict between the United States and Brazil. But I do not know about protectionist measures in terms of exports to Brazil.

Representative HAMILTON. In your prepared statement you note that "Our financial and technical assistance policies are proving adequate". At the same time, however, Argentina and Peru are restructuring their debts to avoid default. Chile likewise is involved in rescheduling its debt through the Paris Club. In light of these facts, can you say that our present financial and technical assistance approaches are proving adequate?

Mr. ROGERS. The only one that has actually rescheduled was Chile last year. Chile did not do it this year. I think there is no general rescheduling proposed for either Peru or Argentina, as I understand it, at the present time.

The problem, however, of debt is worthy of consideration. And as I said earlier in the testimony, there has been a considerable expansion of commercial debt financing of current account deficits.

Representative HAMILTON. Did the Secretary deal with the debt problem in his speech?

Mr. ROGERS. No.

Representative HAMILTON. He did not?

Mr. ROGERS. He did not. And the issue did come up——

Representative HAMILTON. Why would you omit that from a general discussion of the problems?

Mr. ROGERS. We think quite frankly, Congressman Hamilton, that the issue of debt is not appropriate for a general solution. It was proposed for a general solution by the UNCTAD Secretariat at the Nairobi meeting. And we explained that in our view the debt circumstances of the developing countries is vastly different, one from another. To suggest there is a general solution for the problem tends to imply there is going to have to be rescheduling of debt for a wide number of countries. We do not think that is correct. We think, in fact, if there is going to be any realinement of the debt structure, it is going to be limited to a very few countries and that the great bulk of the major countries of the developing world will be able to service their debt obligations in the future. So we do not want to give an impression we think there is a general solution required for a general debt problem. Is that responsive to your question?

In fact I might add that a number of the major developing countries feel the same way and are unhappy about suggestions by a few that there be a general solution to the debt problem because that begins to give the impression then that they may not be credit worthy and it would hurt their access to private banking, which they heavily rely on at the present time.

Representative HAMILTON. Thank you, Mr. Chairman.

Chairman LONG. Mr. Rogers, some time before you reentered the Government you wrote an article for the Washington Post which suggested that maybe the United States ought to get out of the OAS. In view of your 2 years or so being back in Government now, do you still share that view?

Mr. ROGERS. No; as I indicated earlier, it was my strong view at the time—given the character of the debate and the discussion to which our relationships had descended in the early 1970's—that it had become so exacerbated, so bitter, and so divisive and so critical of the United States, that I thought we were serving no useful purpose by being in the Permanent Council. My position has not changed; the circumstances have changed.

I think the atmosphere is so much better now. As I said when I attempted to characterize the OAS General Assembly meeting, I think it was the best certainly in this decade, in the decade of the 1970's. I think we are on a productive track. I think the atmosphere between ourselves and the Latin American governments is favorable.

I think we have major problems. But I think we ought to stay in there and I think we ought to keep trying to do something about the improvement of the economic relationships.

Chairman LONG. Is the OAS a viable vehicle by which this can be done?

Mr. ROGERS. Some things clearly belong distinctly in the OAS. Some things clearly you have to keep in the bilateral mode.

For example, we are concerned about prisoners in Mexico. That is not an issue for the OAS. We are concerned about export subsidies for Brazil. That is not an issue for the OAS because it is particular to the Brazilian system.

On the other hand, there are major issues that ought to be dealt with in the inter-American system: Security and human rights are two good examples. And therefore in my judgment we need to preserve an effective, viable, inter-American system.

I might say amongst all the other proposals we put on the table in Santiago is a major restructuring of the OAS to make it a leaner, tougher, more effective organization.

We are going to back those proposals and push them as effectively as we know how in the next 6 months, between now and the General Assembly meeting.

Chairman LONG. Could I ask you maybe three other questions? The demographic problem in Latin America, of course, is still pretty troublesome. Do you have any particulars, any views on it that might be of interest to us? I wonder if that is one of the things that you were going to take up at the Lima meeting, and particularly the problem of exporting population to where the economic opportunity is. And even if you build a fence between the United States and Mexico, they are going to try to find a way over it or under it if the population continues to grow and the economic opportunities continue to be up here.

Representative HAMILTON. Would the gentleman yield? If I may add a comment, Mr. Secretary, I was in Mexico a few weeks ago and talked to our embassy people about this at some length. As you probably know personally, they are deeply concerned about the exploding population, the staggering high unemployment, and the pressures that that is going to create on the United States in the years ahead. So I think the chairman's question is a very good one and I would just want to let you know of my interest in that also.

Mr. ROGERS. I think the population issue is first and foremost an issue of personal and local responsibility. There are very few instances that I know about in which statements from abroad have contributed to the constructive analysis of the problem.

This has been a matter of concern for me since 1962. I think I gave the first speech on population of any official of the Kennedy administration, long before the White House had made up its mind that it was a matter of interest. I thought I was going to be fired. I delivered the speech to the Planned Parenthood Association about the demographic problem in Latin America. I did not think they were going to let me back in Washington because you recall how seriously President Kennedy felt about that in those days.

Nevertheless, I continue to feel that this is an area in which we, the officials of the United States who are responsible for articulating United States policy, must conduct ourselves with exquisite tact. And I might go beyond that to say, however, that I do know from personal experience, Mr. Chairman, that this issue is a matter of concern in Mexico as well as in other countries in the hemisphere; responsible leaders in Mexico are addressing the problem: most particularly, that I think it is a fair characterization of the position of most officials of the Mexican government, Mr. Chairman, that Mexican solutions must be found for the problems of unemployment in Mexico. It is distinctly not the official policy of the Mexican government to export their unemployment. So they are searching for long-term solutions to the employment problem within Mexico itself.

Chairman LONG. Let me ask you one other question if I may. The two most noteworthy and well publicized investment disputes that exists in Latin America are the Owens-Illinois Affair with Venezuela, and the Marcona takeover in Peru. Would you give us an up-to-date report on where both stand?

Mr. ROGERS. Well, my understanding with respect to Owens-Illinois is the representatives of the company are meeting with the representatives of the government in an attempt to work out the terms of the arrangement.

With respect to Marcona, quite frankly I am a little bit behind on that. As you know, I was in Europe all last week and just got back at midnight last night. My understanding, however, is that conversations are still going on with the representatives of the government of Peru, and that no final figure or settlement arrangement has been agreed to at the present time.

Chairman LONG. I have heard that insofar as the situation with Owens-Illinois is concerned the government of Venezuela has perhaps pulled back, to some extent, from the rather arbitrary position they took at the beginning.

Mr. Rogers, we are most appreciative, and offer you our cooperation to try to work out a meaningful policy. And knowing that you just returned from Europe and you have been under a busy schedule, we are particularly appreciative of your coming and being with us.

Mr. ROGERS. Let me say this again. There is no area in the world which is closer to my heart than Latin America; there is no policy challenge to United States foreign relations which I find more intriguing and interesting than our relations with the hemisphere. I am really delighted that you have undertaken this inquiry, quite frankly. As I say in my statement, I have felt that our relationship has been plagued with a colossal degree of misunderstanding in this country. The more attention, the more careful analysis we can give to it, the better.

I want to emphasize to you again that you have touched—and I think quite properly so—on the question of priorities; where does Latin America rank in our priorities? I will say to you—and I don't think this is a response to my own personal engagement in the matter, but more accurately a reflection of what I think is in the Secretary of State's own mind and that of other major officials in this Government —Latin America now ranks high. It was not so 4 years ago. It was at the bottom. Today it is very high, as illustrated by the fact that the Secrtary himself has made two trips and two sets of major statements in Latin America; and the fact that, as he constantly has been saying recently, Latin America is the part of the developing world which is most advanced. If we are going to find solutions to the titanic problem of development in this world, we are going to find them first in Latin America. That is why we got to keep at it. Thank you.

Chairman LONG. Thank you very much. The meeting will stand in recess for 10 minutes.

[A brief recess was taken.]

Chairman LONG. The meeting will come to order. Gentlemen, let me apologize to you. This is always a rather frantic place, but trying to get all of our appropriations bills through under our new budget bill before we leave for the 4th of July and the Democratic Convention, has made it even more hectic. Generally the time up until noon is reserved, as most of you know, for committee hearings, but this morning we had two important matters up. I hope that we can proceed.

As I mentioned earlier and if it is agreeable with you gentlemen. I would like to proceed with a panel arrangement. I would hope that all of us will keep in mind Mr. Rogers' statement, as we proceed, since we are specifically focusing on the U.S. policy today. And I concluded or at least got the impression that perhaps where we are is not so much with a policy, but that maybe my suspicions are right; maybe we are in a position of trying to formulate a policy right now. And I don't know that that is bad. I think that perhaps Mr. Rogers' approach to is is right. But as we go along, if you would feel free to comment with respect to his views, I think that would be helpful.

Mr. de Cubas, we would be most pleased to hear from you first if you would so proceed.

STATEMENT OF JOSE de CUBAS, HONORARY CHAIRMAN, COUNCIL OF THE AMERICAS, AND CONSULTANT TO THE INVESTMENT BANKING FIRM OF KUHN, LOEB & CO., NEW YORK

Mr. DE CUBAS. Thank you, Mr. Chairman, I am delighted and honored to be here. I believe that the idea of this subcommittee can be extremely helpful at the present time. As you say, I think we are in the middle of a change in the policy of our Government.

I will read my prepared statement, which are my own ideas. It is not the position of the Council.

My name is Jose de Cubas and for many years, as senior vice president of the Westinghouse Electric Corp. and as president of the Westinghouse International Co. I am now retired. I have been deeply involved in the development of Latin America and in the activities of the U.S. private sector in the area.

I have served as president and chairman of the Council of the Americas and I am now honorary chairman of that association which was created "to further understanding and acceptance of the role of private enterprise as a positive force for the development of the Americas."

I am also a consultant to Kuhn, Loeb & Co., investment bankers in New York with widespread activities throughout Latin America, and I serve on the boards of IBEC and other corporations with Latin American interests.

Ladies and Gentlemen, I am honored and delighted to testify today before your subcommittee; I believe that it can perform a very useful and timely function in clarifying the relationships within our hemisphere and in developing constructive programs which hopefully will benefit our friends to the south and our own country.

I am speaking today as a man with a certain amount of experience in business from the long years I have been involved with Westinghouse, and also have experience in the Council in Latin America.

I believe that one of the important issues concerning Latin America is that our success in achieving an acceptable modus operandi within the Americas will determine whether we will be able to establish cooperative partnerships with the other developing nations of the world. I think it is much more important than just the hemisphere. There is little doubt in my mind that the intellectual leadership of the third world on issues of economic growth is firmly held by a sophisticated, imaginative, and dedicated group of Latin Americans. They have created the concepts of OPEC—which is really not an Arab invention; the Venezuelans developed it maybe 25 years ago—indexing, mini-devaluations and the fadeout theories. They are actively promoting the adoption of international codes of conduct, and further "control" of multinational corporations. When economic relations between developed and developing nations are discussed in international meetings, Latin Americans are the start performers—they are excellent people—and eloquent defenders of comprehensive working papers carefully prepared in Brazil, Mexico or Venezuela. And the fact it is a small group makes them doubly effective because there is a continuity, which maybe we lack.

Latin Americans are not only the theoretical leaders of the third world. They have pioneered new codes—they have had the courage—to apply the philosophies, laws and regulations in their own countries, thus endeavoring to implement in practice the principles of their technocrats and ideological leaders—and I think this is something new—in the hemisphere. These experiments are being followed carefully by other developing states, and may form the basis for similar programs in Africa, Southeast Asia, and elsewhere.

The issues between the nations of the Americas, between the rich and the poor countries, between the North and South, between the "Group of 77" and the OECD have clearly emerged in the last 3 or 4 years. They are on the side of the developing nations:

One, desire to exercise full control over their own economic destiny. And it is a strong desire and a definite desire. I don't think they will ever change. Now this involves many areas of concern: Overall decisionmaking within large corporations; local control of raw materials and public utilities; nationalizations and fadeouts; quest for codes of conduct; transfer of technology process; shift from equity to loan capital, that is a complete change in the development of Latin America.

Second, a desire to get a "bigger slice of the pie." They feel they have not been getting all they should. Areas of concern are: Where are they going to get the capital? Have there been excesses by foreign companies? Have there been excessive repatriation of earnings, royalties and fees? There are the problems of transfer pricing and the excessive reliance on foreign companies' local source of capital.

And the third issue of concern is a determination to develop a dramatic export expansion program. They feel in the long run the only way they can develop is through expanding their exports of all types of raw materials and manufactured products. Of course, here you can get a new set of issues: Balance of payments; balance of trade; cost of imported capital equipment, which is skyrocketing; the search for regular markets; and restrictions by licensors on exports.

On the other side, the United States as the leader of the rich nations, we, as businessmen, are concerned with, first, the threat of nationalizations and expropriations, the lack of a system, recognized by all involved, to settle international disputes.

Second—I would like to emphasize this because I think it is a problem—after more than a quarter of a century of dynamic expansion, a trend is emerging among the U.S. multi-national corporations to reappraise with care the overall advantages for their stockholders accruing from investments in developing countries—this does not only apply for developing countries; it applies everywhere—including Latin America. The jury is still out. But there is a definite trend among many large corporations to see whether this is a good idea, whether they should sell their foreign assets, whether they should reduce their activities. Of course, in the developing nations this can have a very, very important consequence. And I strongly feel that this maybe is not a problem, which has been recognized either in Latin America or perhaps here in the Congress, but I feel it is a real problem. I am in contact with many large corporations and many, if they could find a way, would get out. Others sit back and say, "Let's see if things get better," and they are reducing their foreign investments.

A third concern, of course, is——

Chairman LONG. If I may interrupt there? One point on that consideration, having spent as much time as I did as a lawyer in the banking and investment field, the driving force there for the multinationals is a continuing source of raw materials, isn't it?

Mr. DE CUBAS. That is right, but as in many cases you know, of course, it is getting more and more difficult to invest overseas to obtain raw materials.

Chairman LONG. I realize that.

Mr. DE CUBAS. Investments to obtain raw materials, of course, are the exceptions. But even there, a lot of people in the raw material field have found other ways of doing it: by management contracts with a guarantee of exports or something like that. But the rush of investments, which I participated in and which I thought was good for our country and for the world, is over and I am concerned if something does not happen soon, it is going to turn the other way. And this will have long-term effects. I will come to that later because I think that the switch from equity capital to loan capital is creating very serious problems in Latin America. It cost a lot of money. That is one of the reasons for their economic crunch. It is all tied up in politics, of course.

Third, fear of one-sided rules and regulations which restrict the operations of foreign corporations and handicap the free movement of capital profits and products.

The fourth point, of course, is the reluctance to sell technology cheaply. This has become an issue. The governments overseas in developing countries believe we should give it away; that it is an incremental cost and we should not charge anything for it. The large corporations have the feeling that this may be their most important asset today and they are insisting on some tangible quid pro quo. This is one of the cases where they could get raw materials in exchange for technology.

I could naturally talk for hours on all these issues and what the Secretary said, but to save time I would just restrict my presentation to a few points, which I think may be worthwhile commenting upon and are the results of many years of being involved in the area.

One, Latin American countries are at the same time amazingly different and surprisingly similar—the Secretary talked about this—thus, generalizations are dangerous but it should be remembered that our southern neighbors have learned that unity is essential when facing the powerful and in many cases, the powerful is synonymous with the United States. So that in many cases they will gang up on us, in other words. On the other hand, unity among the rich countries when dealing with the poor is difficult to achieve and has a slightly tainted odor. When rich countries unite we seem to be ganging up on the poor and I think this is one problem with our European friends.

Two, in complicated and emotional situations—and what international situation is not complicated and emotional? It is genarally advisable to try to identify and isolate the issues. I think this is important. It is wise to keep political, social, humanitarian and economic questions in different slots. Mixing the problems generally creates turbid eddies good for newspaper headlines but fatal for real progress.

Three, automatic trigger mechanisms, such as the old Hickenlooper Amendment, are nonproductive, dangerous, and, in most cases, eventually come back to haunt us.

Four, coming back to the issue of transfer of technology, most technology in the United States is owned by the private sector. It is not owned by the Government and cannot be transferred by the Government. It is a company-to-company and person-to-person problem. I spent 30 years in transferring technology and am convinced of this. It cannot be structured by professors and decreed by governments. It is a complex, expensive, and continuing process. It flourishes best when restraints are minimum. It can be both the cheapest and the most expensive "buy" for a poor nation. At one time it was an important part of the "investment package" and in some cases was provided at no charge, but no longer with this trend to get away from investment packages which the Latin American governments are insisting upon.

Five, governments, even those of weak countries, no longer need to fear the giant foreign multinationals. In most cases, they have complete control of what happens at home. At worst, a foreign corporation can only "leave" without being able to "pack up."

Six, in Latin America, as in most developing countries, the real need today is not to find ways to control foreign investors, but to find a means to attract them. It takes two management generations to get over one nationalization.

Seven, in trying to find solutions for the problems arising between the haves and have nots, governments, including our own, appear to have been remiss in not giving sufficient weight to the potentially constructive inputs which could be provided by the private sectors of the world. In fact, the opposite seems sometimes to be a more prevalent preoccupation. Unless a completely socialist philosophy is the desired objective, this trend, in my opinion, can only lead into a blind alley of economic frustration.

Eight, international guidelines, or international codes of conduct which are voluntary and not enforceable, are either a complete waste of time or a sneaky method to reinforce and to give international legitimacy to the antiforeign investment laws which already have been enacted locally. I think this is a very clear case of what we are seeing today.

I will end up with two generalities: In today's world, a U.S.-type democracy may not be an easily exportable commodity, but our respect for human dignity is still, I think, a very salable concept. I think we should divide them.

Latin American generals have ceased to be an element of conservative capitalistic stability. They, or the institutionalized system which they represent, have become powerful instigators ot change, whicn sometimes may not be to our liking.

Now we have three problems areas. The one which I would like to mention first is capital development, which I think is extremely important: "Capital for development."

Anyone who has traveled through Latin America, in fact anyone who has visited any developing country has realized that the hard core of the problem is that poor countries are poor, that developing countries are undeveloped and that completely unacceptable living standards are prevalent.

If poor nations are to become less poor in the predictable future, an adequate productive establishment and an adequate infrastructure must be developed and to achieve this development capital is required in increasingly vast amounts as costs escalate. I don't know if any of you have seen the price of a steel mill, but it is about three times the cost of 10 years ago. The same thing applies to a powerplant. Unfortunately, in most developing countries—oil producers are the exception—capital is not generated in sufficient quantities through local savings and thus foreign inputs are needed.

In the best of worlds these inputs would be in the form of direct investment capital, portfolio capital and long-term debt at low interest rates.

To a certain extent this is what occurred in Latin America during the 1960's and a base was established for the remarkable growth ratios achieved.

Unfortunately I fear that the system is breaking down as evidenced by soaring foreign debts, rollovers and de facto defaults, which we see everywhere, even in some successful countries such as Brazil and Mexico, which are having problems of financing their foreign debt.

Naturally, escalating oil prices and worldwide depression were the main causes but the present capital crunch is both a consequence of past problems and the source of new ones.

In the first place foreign investment is slowing down in many countries in part as a consequence of corporate policy reappraisals, in part because many foreign governments have made it quite clear that it is unwelcome except under severe constraints. In the second place debt capital is becoming not only extremely expensive but increasingly scarce. The World Bank is charging 9 percent and is running out of cash, the International Development Association is tottering through lack of U.S. support, the Export-Import Bank charges 8 or 9 percent-plus, for a decreasing percentage of a project—the other portion costs over 10 percent under a guarantee program—and, when available, loans in the international floating rate money markets cost 9 percent to 12 percent and have a 5- to 7-year repayment schedule.

I submit that in poor countries—and in others that are not so poor—sound development is impossible by borrowing at rates and conditions prevailing in the international money markets and provided by international institutions. Though naturally the maturities of project loans are made in accordance with development needs, amounts available are grossly insufficient and interest rates have reached a point where financing costs and not equipment and labor costs are becoming the major items. If you consider a powerplant or a steel mill today, the interest during construction is reaching the point where it is equivalent to the cost of the capital involved. If you add what it is going to cost during the life of the loan, it is maybe two or three times the cost of the capital equipment involved. It is becoming very lopsided.

Ironically vast reserves of capital exist today in the institutional markets of the United States—but they will remain a largely untapped source for Latin American development until ways are found to eliminate the risks of "foreign adventures."

With a few exceptions the forecast is bleak. Possibly a three-legged program should be initiated consisting of the following steps:

(*a*) Foreign capital must once more be enticed to make direct investments inLatin America. Naturally this will not be feasible without the close cooperation of the United States and the host governments. This is not going to be easy.

(*b*) Long-term debt capital must be effectively mobilized. It is not, as we know, the World Bank and the IDB are running out of cash and even the Export-Import Bank is running out of cash.

(*c*) Methods must be found to subsidize the rates of interest and to guarantee repayment of the loans under some sort of safety net system. There are many systems being thought out.

I believe that the economic crunch in Latin America is a serious one and I believe and think we should spend some time analyzing it.

Second, is there a "special relationship" between Latin America and the United States? I believe there is. I won't go into the point. I think it is there whether we want to call it that or not. I think we—North and South America—have maybe not profited as much as we could by this relationship, which I think exists. And I think that areas of cooperation are: Raw materials, energy, technology, investments, financing, taxation.

As to Panama, I would just like to say this could become an economic issue. I believe our Government is right in trying to work out an equitable solution. On the other hand. I don't think we should be scared by these horrible stories of bloodbaths, which I hear in my travel through Latin America. I think that is highly exaggerated. Thank you.

Chairman LONG. Thank you very much. You have gone directly and specifically into what we requested you to do; and that is from the perspective of a man who has had substantial business experience in the area, to give a businesslike analysis of the problems. And we are very appreciative. We will get back with a few questions in that regard a little later.

Mr. Fagen, would you proceed, please?

STATEMENT OF RICHARD R. FAGEN, PROFESSOR OF POLITICAL SCIENCE, STANFORD UNIVERSITY

Mr. FAGEN. Thank you very much, Mr. Chairman. I am going to waive any presentation of the material that is actually in my testimony, since it is in written form. I gather it can be entered into the record.

Chairman LONG. It will be made a part of the record.

Mr. FAGEN. Thank you. I would like to make only two points: One is to underline what may in fact have come out yesterday in testimony—which I have not seen—but which I thought was muffled somewhat, to put it mildly, in the testimony of Under Secretary Rogers. I refer to his statement, which was reiterated in a number of ways and from a number of angles, that from the period 1968 to 1972 the United States did not care about Latin America, and that in fact the low profile was essentially a profile of neglect, which the Government is now ameliorating or bettering by paying significant attention to Latin America. I think anybody who has studied the history of our relations with Chile, as the Senate and the House have done very effectively recently, will realize that the profile of "caring" was a very special profile, and the profile of neglect was also a very special profile. It was very clear that the United States "cared" enough to do certain things with respect to Chile, a country which was then perceived, as we know, by Mr. Kissinger and others as a massive threat to the interests of the United States.

So I think it is, shall we say, ingenuous—although understandable from a representative of the State Department—that the period of 1968 to 1972 is characterized as a period of "not caring enough." From the point of view of many Latin Americans, and not just Chileans, we cared a very great deal, but we cared about what they would characterize, and certainly I would characterize, as the wrong things: The stability of certain kinds of governments, the instability of other kinds of governments, and trying to make the hemisphere safe at a very late date for precisely the kinds of policies that Mr. de Cubas has been talking about over the last few moments—policies which, I think, can be seen by the very logic of his own testimony to have exhausted themselves historically as possibilities for making a significant contribution to Latin American development. So at some point I would hope—and perhaps I hope it was partially done in yesterday's testimony—that the record is set straight, because I think the Under Secretary's comments were ingenuous—to put it mildy.

Chairman LONG. Would you take a little of our time to explore that at this moment? I know you said you did not want to reiterate what you had in your prepared statement, but I would be extremely interested in exploring this. If you want to take another 5 minutes or so and maybe even 10 minutes and explore it a little as to what you see as an alternative to this, we would appreciate it.

Mr. FAGEN. Fine. Let me pivot my reply to more generally around what I would call the malfeasance or the malevolence of the United States in Latin America, speaking for a moment about my view of the "special relationship"; because I don't doubt for a moment that historically there has been a special relationship between the United States and Latin America; and that relationship deeply rooted in history. It may not, however, be as deeply cast in culture as both the Secretary of State and Mr. Rogers seem to believe.

But this special relationship is really a pernicious guide to present policy. It results specifically in the kind of bilateral praising and consultative arrangements that were negotiated with Brazil in the Secretary's recent trip through Latin America; and it strikes many, many Latin Americans as both patronizing and also as very misleading in the sense that it promises much more than can possibly be delivered. And in that sense I think the Under Secretary's comments, which were down to earth and in effect relatively modest—which is not to say easy to implement—run precisely counter, despite his and Mr. Kissinger's words, to the idea of a special relationship. Most if not all of the ideas he articulated are fully applicable to our relationships with all the rest of the developing world. I saw little in the Under Secretary's statement that was specific to Latin America. And if it is good policy for Latin America, it would in fact be good policy for our relations with the rest of the world—which is not to pass on whether it is or is not good policy, but rather to emphasize that it is globally applicable. What then in my view needs to be particularly eradicated from the notion of the special relationship?

It seems to be that what must change is precisely the kind of profound political coloration, that we have traditionally given to policy actions in the region. The two most dramatic cases, which are of course well known, are our historic relationship with Cuba and our relationship with Chile both before and after the military coup of 1973.

It seems to me that the only appropriate kind of general policy posture, which does not dictate specific policies but is rather a general posture toward Latin America, is what I call in my testimony ideological pluralism. Ideological pluralism means in effect, Mr. Chairman, the acceptance of the various and greatly diverse forms of political, economic, and social organization which is being created in Latin America at this time. One of the most signficant trends over the last 10 or 15 years in Latin America is that the hemisphere has diversified immensely. Today a Peru, a Chile, a Cuba, a Brazil, a Mexico, a El Salvador, a Jamaica, and a Guyana are not so easily comparable as they were in fact 10, 15, or even 5 years ago.

I emphasize in the testimony—and I think it is worth underlining because these are domains of congressional action—that a policy of ideological pluralism has very important implications for the manner in which the Congress in particular behaves in the three areas that I selected: Human rights, development assistance, and immigration and visa problems.

Let me highlight two more points and then I will finish. In the human rights area, we have experienced in Congress—and I consider it a healthy debate—attempts to tie the giving of developmental assistance, and particularly of course military assistance, to some kind of minimal performance in the human rights area. I consider this very salutory because what it says in effect is that the Congress, representing the American people, does not wish American tax dollars to go to certain kinds of assistance, particularly military assistance, destined for regimes which are in gross violation of human rights. This can only be done if it is done equally, not only across the hemisphere, but as part of our whole package of global relations as well. This does not argue for a special relationship with Latin America, but to the contrary a global policy toward all nations of the world.

In the visa and immigration area, a policy of ideological pluralism very clearly means that when we open our borders as we have—to approximately half a million refugees from Cuba and about 140,000 refugees from Vietnam, we should at least be willing to consider and make serious efforts to open our borders to refugees from the critical problem regimes of Latin America, which—and let us face it—are rightwing military regimes. At this moment we are talking essentially about Chile, Argentina, and Uruguay where the political conditions are such that many persons are literally in danger of their lives if they remain. A policy of ideological pluralism dictates that the United States—which in earlier times welcomed refugees of all creeds and persuasions—open its doors to persons who are the victims of rightwing repression in Latin America. This, of course, calls not only for action on the part of the State Department and the Justice Department, but also a hard look at the whole discriminatory philosophy of immigration which is locked into the MacCarren Act and affiliated legislation. I don't underestimate for a moment the seriousness and difficulty of making progress in these areas, because what progress really implies is congressional cooperation in the rollback of a body of legislation, policies, and ideas which is deeply rooted in the cold war. All this derives of course from the period of the fifties, and it is still carried over into the present, affecting our relationships with Latin America and the rest of the Third World in various and serious ways. Thank you.

Chairman LONG. Thank you very much. Your statement is most helpful. Your prepared statement will also be included in the hearing record.

[The prepared statement of Mr. Fagen follows:]

PREPARED STATEMENT OF RICHARD R. FAGEN

IDEOLOGICAL PLURALISM IN THE AMERICAS AND ITS IMPLICATIONS FOR U.S. POLICY

We live in a world in which global change is taking place at a rate unprecedented in history. Furthermore, change in those areas that we call the developing countries is perhaps occurring at the fastest pace of all. But it is not change alone, however dramatic, that concerns us. We must also take note of the increasing diversity of political and economic forms which is evident in the developing areas. As the last vestiges of colonial rule disappear, and as various paths to progress are explored and modified, there is a clear trend toward the diversification of developmental strategies and experiences.

After the Second World War, the United States was among the world's leaders in recognizing that an era of change was opening in what were then called the colonial areas. In the United Nations and in other forums, this country spoke of the necessity of ending colonial rule. Africa and Asia were, of course, the main targets of the decolonialization effort. Latin America, an area which had in the main gained its formal independence from Spain and Portugal more than a century earlier and which was clearly within the U.S. zone of influence, was not in general viewed by the United States as a "problem" except for the special case of Argentina under Peron.

But the initial U.S. defense of decolonization and new arrangements in the less developed area did not long survive the coming of the Cold War. In the Middle East, Asia, and Africa, the United States increasingly found itself pitted against any movement or idea which could be identified however indirectly with national liberation, radical change, economic nationalism, socialism, or the Soviet Union. Inevitably, both U.S. business and U.S. Government leaders sought alliance and gave support to the most conservative groups defending the economic and political status quo. When these groups proved unable to maintain order or govern effectively, grudging backing was given to "reformers" as the best defense against radical nationalists. Covert and overt intervention to assure that governments "friendly" to the United States and U.S. business became increasingly common. With the triumph of the Cuban Revolution, these practices came home to roost with a vengence in previously "safe" Latin America.

It is now clear, however, that these practices and this way of orienting U.S. policy toward the developing areas is morally and politically bankrupt. The United States must recognize and respond to the new diversity and the experimentation that is evident around the world. The basic principle of this recognition and response must be the acceptance of ideological pluralism in both economic and political affairs.

As a norm of international relations, the primarly implication of this principle is clear: The United States must not intervene to shape governments and societies to our views and preferences. The norm recognizes the right of peoples around the world to determine for themselves what their political and economic institutions will be. Accepting the principle of ideological pluralism means, for example, that one does not boycott and isolate (and ultimately invade) Cuba because of political and economic differences. It means that one does not attempt to subvert the constitutionally elected government of Chile. It means that one does not invade the Dominican Republic or bribe or coerce other governments to do our bidding or change their policies. More generally, it also means recognizing that the underlying forces for change and the need for change in the developing areas are powerful and of long-standing. The United States is not, nor should it be, the guardian of the past. Neither is it the guardian of the present nor properly the arbitrator of the future.

Ideological pluralism, and its first corollary non-intervention, do not imply, however, that no choices are to be made. To the contrary, in foreign policy it is clear that one is constantly making choices: To encourage this government but not have government, to emphasize some developmental goals rather than others, to press for one international outcome rather than another. The choices neither can nor should be avoided. What the ideological pluralist position argues is that to the greatest extent possible the criteria by which those choices are made should not be determined by short run, narrow, and punative definitions of national interest and national advantage.

What criteria should be used? This, of course, is the core question to which foreign policy must address itself, and no simple answer can be given here. But it is clear that in American political doctrine, in constitutionalism and the commitment to democratic practice and rule-by-law there are guidelines. In our relations with the developing world, these values along with criteria of human well-being must be put at the center of choice. The latter are of immense importance because U.S. policies will be judged harshly indeed by history if they inhibit rather than contribute to meaningful and rapid improvements in the material and spiritual well-being of the majority of the citizens of the developing nations.

This is not to suggest that the United States can in some sense unilaterally ensure that changes compatible with such improvements in human well-being take place. To believe this is to fall prey to some of the most dangerous delusions of American omnipotence. But we should begin to assess our policy actions with such criteria in mind. And a consistent and committed assessment of this sort would certainly lead to the advocacy of policies quite different from any of those that we now pursue. Not least of all, it would irrevocably banish the last remnants of Cold War thinking from any policy arenas, end our long-standing support for reactionary regimes around the world, and give a quite different weight to ethical considerations in our dealings with developing nations. Ideological pluralism thus implies different criteria of foreign policy choice. And these criteria, once more fully in use in our relations with developing nations, in turn help to ensure that the development experience will benefit the majority of the world's poor and oppressed.

The above discussion of ideological pluralism was purposely cast in general terms. The doctrine should apply to U.S. policy toward all nations of the world, and very broadly across many areas of policy choice. There is no denying, however, that it assumes special meaning in our relations with Latin America precisely because this is an area of the world in which its application has been most consistently violated. I will thus, as briefly as possible, suggest a number of more specific directions in which U.S. policy should move, taking my examples from Latin America, but always with the assumption that the recommendations are of equal validity for other areas and nations of the world where and when similiar circumstances pervail.

Human rights.—As was suggested above, the principle of ideological pluralism is fully consistent with—in fact demands—the making of hard choices in foreign policy. Nowhere is this more evident than in the area of human rights, very broadly conceived. In fact, there are clear indications that the Congress has increasingly come to view the human rights performance of a regime as the new "touchstone" of its admissibility/non-admissibility into the community of regimes receiving both military and non-military assistance. Thus, the Foreign Assistance Act of 1961, as amended, Section 116, now stipulates that no assistance may be provided to governments which: Engage in a consistent pattern of gross violations of internationally recognized human rights, including torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges, or other flagrant denial of the right to life, liberty, and the security of person, unless such assistance will directly benefit the needy people of such country.

Moreover, the executive branch is required to report annually to Congress on the implementation of Section 116. Additionally, the 1976 International Security Assistance and Arms Export Act (still in process) states in Section 502B that the President: Is directed to formulate and conduct international security assistance programs of the United States in a manner which will promote and advance human rights and avoid identification of the United States, through such programs, with governments which deny to their people internationally recognized human rights and fundamental freedoms, in violation of international law.

These are important initiatives, for they say in effect that we do not want U.S. tax dollars and the legitimation associated with those dollars flowing to repressive regimes. Furthermore, they assume a special meaning in a hemisphere where the violation of these rights is clearly on the increase, at least since the Institutional Acts of the late 1960s in Brazil. The unhappy catalogue of hemispheric repression needs no recounting here. It has been well documented by numerous international organizations and at several Congressional hearings. What is now important is to refine, extent, and implement the letter and spirit of legislative initiatives of this sort.

In the short run, it is also crucial to find ways to curb the Executive Branch's policy of singling out, supporting and even rewarding those regimes such as Brazil and Chile which number among those which most consistently violate basic human rights. The recent visits and statements of Secretary of State Henry Kissinger in Brazil and Secretary of the Treasury William Simon in Chile are only the most obvious examples of "most-favored nation" treatment for repressive regimes. This is hardly evidence of even-handedness in the conduct of hemispheric affairs, and it is behavior that significantly diminishes the credibility and effectiveness of the United States in dealing with many other nations of Latin America and the Caribbean.

Development assistance.—As noted, there is an encouraging trend toward setting minimal standards of human rights performance for the granting of developmental assistance to Latin America and elsewhere. But these are criteria of exclusion, and criteria of inclusion are equally necessary. Again the principle of ideological pluralism is helpful, for it argues that criteria of human well-being, abosolute need, and the capacity to use aid for developmental purposes should govern the disbursement of both grants and loans. Although language emphasizing these criteria is to be found in almost every aid appropriation, the reality to date has been substantially different—a fact not unrelated to the massive disillusionment, both public and private, with developmental assistance programs.

Although this is not the place to recount the sorry record of the United States in the giving and targeting of developmental assistance, a brief characterization of that record is helpful. Except for professional apologists, most observers of the U.S. developmental aid scene would still find little to quarrel with in C. Fred Bergstens' 1973 critique:

The United States is the least responsive to Third World needs of any industrialized country at this time. U.S. help is small in quantity, and getting smaller. Its quality is declining. It often runs directly counter to the central objectives of the LDC's just outlined. It lags far behind the policies of Europe and Japan.

The United States regards developing countries both large and small (e.g., India and Chile, not to mention Indochina) solely as pawns on the chessboard of global power politics. Rewards go only to the shrinking list of explicit collaborators. . . . U.S. development aid, as a percentage of national GNP, is now next-to-last among all industrialized countries. [1]

As many members of Congress well know, certain specifics of the disbursement of aid are actually worse than Bergsten suggests. In Latin America, for example,

[1] C. Fred Bergsten, "The Threat from the Third World," Foreign Policy, No. 11, Summer, 1973, pp. 102–24, quoted material from pp. 104–5 emphasis in original. In the United States in 1974, the net overseas development aid disbursements were 3.4 billion dollars, or approximately one quarter of one percent of GNP. About the same amount was spent by U.S. consumers in that year on flowers, seeds, and potted plants. Almost three times as much was spent on toilet articles and preparations, and almost four times as much on tobacco. Data from Roger D. Hansen (ed.), "The U.S. and World Development: Agenda for Action, 1976" (Washington: Overseas Development Council, 1976), p. 208. Scandalous as these comparative figures are, as argued above, the absolute quantity of aid is not as important as the criteria that guide its giving and use.

Chile before and after the fall of the Allende Government presents a classic case of the warping of aid criteria and understandings of need and human well-being. Recent Congressional hearings and reports have amply documented the manner in which U.S. officials worked through both national and international lending agencies to make the Popular Unity Government's credit and fiscal situation as difficult as possible. After the military junta came to power in September of 1973, there was an immediate turn-around of U.S. policy, with hundreds of millions of dollars in public and private funds flowing to Chile despite clear evidences of financial mismanagement, continuing inflation, and the massive human rights violations mentioned above. From the point of view of the American taxpayer and the Congress, perhaps the clearest slap in the face (and violation of the spirit of the law) was in the area of food aid. Under Public Law 480 (theoretically among the most need-directed of all aid disbursements) Chile—a nation not on the United Nation's list of "most seriously affected" (MSA) countries—received 85 percent of all U.S. food aid for Latin America in 1975. The other 15 percent went to Haiti and Honduras, with neither El Salvador nor Guyana (both UN MSA countries) receiving anything. Fortunately, recent legislative initiatives should put an end to the most blatant aspects of this vulgar politicization of food aid.

What is really at issue, however, is not this miserable record, but whether or not (and how, if at all) it can be turned around. It may in fact be the case, as many observers have argued, that political considerations in the United States preclude the use of developmental assistance in other than a narrowly conceived "reward and punish" fashion. If such is the case, the only alternative is to push for the multilateralization of as much developmental assistance as possible while at the same time attempting to reduce direct U.S. control over the granting agencies (in this regard, Recommendations 12a, 13, and 14 of the Linowitz Report, advocating repeal of the Gonzales Amendment, changes in the voting and funding arrangements in the Inter-American Development Bank, and evenhandedness in other international development institutions are all commendable). But it would also be comforting to imagine that the Congress could design, fund, and oversee legislation that would elevate well-being and need and capacity to use aid effectively to the central criteria of bi-lateral developmental assistance in Latin America and elsewhere.

Immigration and Visa Policy.—Although at first glance not so closely tied to economic policy as are issues of developmental assistance, immigration and visa policy ultimately touches on a wide range of economic, political, and social issues: One need only recall the impact of the massive influx of Cuban refugees on the South Florida economy, on the socio-cultural context of many American cities, and even on national politics—from the Bay of Pigs to Watergate. Or consider the tremendous economic and cultural importance—and the continuing controversies—associated with Mexican immigration across our common border. Here our concern, however, is not directly with this entire range of issues, but rather again with the policy implications of the princples of ideological pluralism and even-handedness.

The most recent and dramatic example of the manner in which cold war thinking and legislation continue to determine policy in this area is offered by the plight of Chilean refugees from the military junta who seek safety in the United States. Only after months of lobbying and negotiation was it possible to estblish a parole program under which 400 Chilean families would be allowed to enter the United States in approximately the same status that brought tens of thousands of Vietnamese and hundreds of thousands of Cubans "fleeing from Communism" to our shores. And in the year that has now passed since all necessary approvals were obtained from the Congress and the State and Justice Departments, the flow of parolees into the United States has been pitifully slow.[2] Bureaucratic foot-dragging on the part of State Department and Justice Department officials combined with the restrictive provisions of the McCarran Act and related

[2] In rapidly changing situations of this kind, very flexible mechanisms of response must be found. Thus, on June 17, 1976, Senator Edward Kennedy and Congressman Donald Fraser and Edward Koch introduced a concurrent resolution in the House and Senate stating: It is the sense of the Congress that the Attorney General, in accordance with existing law and the U.S. humanitarian tradition, should parole into the U.S. those aliens having fled to Argentina and those Uruguayans in Uruguay who are in danger of losing their lives because of their political beliefs.

It is to be hoped that the appropriate authorities can act with dispatch on this resolution given the desperateness of the situations in the two countries named, both now ruled by right-wing military governments.

legislation ensure that parole programs designed to aid the victims of right-wing repression will function imperfectly if at all.

Closer to home, the same legislation and the same kind of thinking still dominate the granting of visas to Latin Americans and others invited to participate in cultural and professional events in the United States. Only recently, I was personally involved in one of many such imbroglios in my capacity as President and subsequently past-President of the Latin American Studies Association. After months of negotiations involving contact in Washington and Havana, the Latin American Studies Association was assured by all parties that an invited delegation of five Cuban scholars would be allowed to travel to the United States and participate in the National Meetings of the Association held in late March, 1976, in Atlanta. This was potentially a significant breakthrough because it seemed to signal a change in long-standing exclusionary policies on the part of the United States. At the last moment, however, the U.S. guarantee of visas for the Cuban delegation was withdrawn. At the same time, the visas for the invited Soviet delegation were (not unexpectedly!) processed quite routinely. When informed of the decision on the Cuban delegation, the Latin American Studies Association sent the following letter to Secretary of State Kissinger:

DEAR MR. SECRETARY: The officers and Executive Council of the Latin American Studies Association wish to object in the strongest terms to the State Department's refusal to grant U.S. visas to the five-person delegation of Cuban professionals invited to attend the Latin American Studies Association national meeting in Atlanta, Georgia, March 25–28, 1976.

Despite prior verbal and written assurances from high State Department officials that invited Cuban participants would in fact be issued visas, our request for these visas was denied by the State Department on March 19, 1976. Thus, U.S. scholars and others professionally interested in Latin America were once again deprived by the State Department of an opportunity to exchange ideas and information with their Cuban colleagues.

This arbitrary action by the State Department is made even less defensible than prior visa denials since the precedents and administrative bases for issuing the visas now exist. We are led to conclude that the denial was motivated by the narrowest cold war mentality, a misplaced sense of retaliation, and the politics of the presidential campaign.

Although the membership of the Latin American Studies Association is far from unanimous in its evaluation of Cuba or Cuba-related events, we are united by a common commitment to our right to meet with and hear all professional colleagues, whatever their beliefs or citizenship.

Even when not constrained by statute, the State Department's record in facilitating more open scholarly and cultural exchange is poor, to say the least. In blocking the entry of the Cuban delegation the Department has now added yet another page to this deplorable record. It is hardly an action in keeping with oft-expressed ideas of the place of scholarship in a free society or the reaffirmation of American values in our Bi-Centenntial year.

Yours sincerely,

FELICITY M. TRUEBLOOD,
Executive Director for the Executive Council,
Latin American Studies Association.

Reflecting on this and other cases, the New York Post of March 31, 1976, editorialized as follows:

"Although a man of scholarly background with well-developed peripatetic habits, Secretary of State Kissinger apparently objects to travel by certain academic colleagues. In fact, he appears to have been practicing what might be called shut-out diplomacy.

"Specifically, it has been revealed that the Secretary, still fuming over the Angola fiasco, sought to revenge himself on Cuba for Havana's African adventurism by denying two groups of Cubans—consisting of scholars and filmmakers—visas to attend an academic meeting and a film festival in the U.S.

"The meeting was the national session in Atlanta of the respected Latin American Studies Association, representing many college professors and graduate students at colleges and universities throughout the U.S. It has specifically invited the Cubans to visit and they had, indeed, been promised visas by the Department of State, until Secretary Kissinger angrily intervened in the affair.

"Who has been injured by this spiteful gesture? The Castro regime? Hardly. The LASA? No, its reputation is excellent and undamaged. The Cuban scholars? Not visibly. The real casualty is the reputation of the government of the United

States, which is scarcely in any condition, especially after Angola, to sustain any such petulant demonstrations of the Secretary of State's wounded vanity."

What is important here is not the instant case, but rather the consistent pattern of legislative and bureaucratic narrow-mindedness and fear which it reflects. There is hardly a university, professional organization, or cultural group in the United States which has not at one time or another in effect been told by the State and Justice Departments that its members are too vulnerable or inmature to see or listen to some artist, scholar, or colleague deemed by those Departments to be a threat to the United States because of his or her political affiliations or previously stated opinions. There would be no more appropriate action in our Bi-Centennial year than for the Congress to begin the process of tearing down the whole legislative edifice which those who fear the free movement of persons and ideas use to justify their arbitrary and mean-spirited actions.

Chairman LONG. Now, may we proceed with Mr. Fishlow's testimony?

STATEMENT OF ALBERT FISHLOW, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CALIFORNIA AT BERKELEY

Mr. FISHLOW. Thank you, Mr. Chairman. I have a prepared statement, but I think it is unnecessary for me to read it. I would rather depart from it in order to try to focus on some of the principal issues that have already come forward.

Chairman LONG. It will be made a part of the record, without objection, Professor.

Mr. FISHLOW. I operate under a slight disadvantage in talking about economic policies toward Latin America since, until recently, I was deputy assistant secretary to Mr. Rogers in the State Department. And I certainly have a great deal of respect for what he has done and is doing in order to improve our relations within the hemisphere. At the same time, Mr. Chairman, I think that you were quite correct to point out that there is a certain shortcoming in our current policy toward Latin America. It does lack a coherence in which the philosophy is certainly not apparent to many. And the large menu of the proposals that have been put forward at the United Nations, at Nairobi, and most recently at Santiago, fail to convey our priorities and the kind of world that we intend to try to fashion, as well as the methods by which we will try to fashion it.

With regard to Latin America, specifically, I do not think our attempt to articulate a philosophy is complicated by reference to the special relationship. The realities do not really correspond to the rhetoric. In economic terms, the United States is much less dependent upon Latin America than it has been in the past. It now takes 16 percent of our exports compared to 27 percent in 1950. We rely on Latin America for only 15 percent of our imports compared to 35 percent in 1950. So there has been a dramatic structural change that has gone on. This has accelerated within recent years.

Now, in part, the acceleration is precisely due to Latin American policy and to Latin America growth itself. They likewise have diversified. In 1950, 46 percent of Latin American exports were sold to the United States. Only 32 percent in the early 1970's. The corresponding dependence on the United States for imports came from 57 percent to 37 percent. Latin America increasingly relies upon the Eurocurrency market for foreign capital inflow rather than U.S. banks. Those sources, for example, increased from a quarter of the private capital inflow, to more than three-quarters by 1973.

Now I think, in this context, it is wrong to seek to speak about a special relationship. That is compounded by the reality that the most relevant kinds of policies that we can now follow with regard to Latin America are, Mr. Chairman, no longer in the assistance area, but deal with trade and international monetary policy.

In these matters it is quite costly to design a regionally specific policy. Such policies, by their nature, ought to be universal rather than specific to particular regions. And that is all to the good. We could have explicit discrimination in favor of Latin America, but I think the cost in terms of a freer world commodity and capital market would be quite substantial.

By emphasizing then the existence of a special relationship, we have looked backwards it seems to me, rather than forward. In looking forward, we have to account for the changed circumstances in Latin America itself.

We meet at a time in which the current recession has wreaked a certain havoc in Latin America in slowing its income growth from a rate, which was above 7 percent in the early 1970's, to now something like 3 or 4 percent. But I think it is wrong to overemphasize this temporary phenomenon and to fail to recognize that the rate of income growth in Latin America has steadily accelerated from something a little in excess of 5 percent in the 1950's to more than 7 percent in recent years.

I think it is wrong to ignore the fact that Latin America has changed dramatically its economic strategy from one that relied on import substitution and domestic production to one that is increasingly reliant on the world market, both for sale of goods as well as for finance.

I think it is wrong to ignore the fact that, within Latin America, the governments themselves are very much stronger than they were 10 years ago; and that these governments themselves in a wide variety of countries are trying to regulate and control economic activity.

Now with this reality that we now face in Latin America, I think it is possible to define a coherent philosophy, which differentiates Latin America from developing countries as a whole in its effects rather than its conception. That philosophy should center upon structuring and guaranteeing an effective market relationship.

I think that in this Bicentennial, which celebrates our own independence, we ought to remember that Adam Smith was quite a radical, too, when he wrote 200 years ago, and that his insights have much to offer us in speaking about our own relationship now with Latin America.

Latin America has largely come of age and is able to participate in a market relationship that is equal. That does not mean that there are no needs for policy. Quite the contrary. As we know, domestic and international markets themselves do not always operate perfectly, independently of government regulation and scrutiny. And it seems to me that that kind of appreciation can carry over to our definition of Latin American policy.

Accordingly, I would suggest that there are policy priorities that we can single out and that we can sequentially follow. One of the first of those, I would say, would fall in the field of foreign investment.

Latin America today still has three times as much foreign investment from the United States as any other developing area. And if there is anything special in our relationship with Latin America, it is their continuing sense of concern over the behavior of foreign investors and a history of preoccupation with potential governmental intervention in their behalf.

In that investment area, there are two steps that might be taken: One relates to transnational enterprises. I believe that we can quite legitimately insist that a considerably wider amount of information concerning the operation of transnational enterprises become part of the public record.

I think we can properly require that operations concerning subsidiaries be broken down so that one has information concerning the operations in particular countries in detail.

It is the case now that increasing amounts of international trade are carried on within enterprises. They show up as transfers between governments and enter into the balance of payments, but are in fact entirely internal to the firm. There is no way of knowing about those particular transactions if there are no prices on the commodities that are traded. There frequently is no way to know what kind of internal pricing mechanisms are being used and, therefore, whether the allocation of profits to particular countries turns out to be just or not.

The same requirement for information applies to technology. There seems to be no reason why the implicit price that is being paid for a particular process with particular specifications cannot be made available. That way countries could shop and choose among alternative suppliers in order to get a better deal.

It seems to me that if we, as a government, are unprepared to lend our support for significantly increasing access to corporate information, then we leave ourselves open to the Latin American challenge that foreign investment imposes a power relationship rather than being constrained by market forces.

I see nothing in these kinds of measures that is antithetical to our own professed ideology or to the best interest of those business enterprises.

In the second instance with regard to investment, I think we can make significant progress in the area of expropriation. There are still a large number of expropriations that presently occur in Latin America. We should therefore try to seek consensus on a standard of compensation in expropriation cases. As you are aware, Mr. Chairman, the United States has an interpretation of international law that is at variance with that of many other countries; our definition of prompt, adequate, effective compensation is usually not, in fact, met by their internal laws.

Rather than opening the question of the Calvo doctrine and whether foreign enterprises should submit to the laws of other countries, it seems to me we can take a different tack that might cut through much of this morass. And that is simply to say that the United States will accept a standard of compensation that is more compatible with internal legal codes; namely, book value adjusted for inflation. This is a standard that is accepted in most of the Latin American countries. This is a standard that approximates a rate of return to the enterprise corresponding to its initial expectations when it invested. Such a policy on our part would immediately eliminate one important source of contention. It would not eliminate all the problems of past debt, tax liabilities, and the like; but on the other hand, it then opens the way to talk meaningfully about multilateralizing those areas of dispute rather than leaving them as bilateral issues, as they currently are.

These two measures in the investment area would considerably improve our relationship with Latin America.

In the trade area, Mr. Chairman, I can see us devoting much more time and energy to the vulnerability of Latin America to fluctuations in trade. The current recession is an example. One of the reasons the United States recovered from its recession as quickly as it did was the turnaround in our own trade balance. Now some of that was in fact purchased through finance of expansion of Latin American imports. It seems to me that we can do more to expand the facilities of the International Monetary Fund, than we have done. We can make compensatory finance depend upon the price of imports rather than upon adjustment for lower nominal exports.

It seems to me as well, with regard to vulnerability, that we can pay attention to some buffer stocks. I don't think that commodity agreements are the answer to all problems. In fact, there are relatively few commodities that lend themselves to buffer stock activities. But the United States, instead of being dragged reluctantly into this area, should be a leader. We ourselves have much to gain. Any housewife who looks at the current price of coffee can testify to that. Had there been a functioning buffer stock the effect of the frost in Brazil would have been to increase the coffee price much less. And as an economist looking at the inflation which beset this country in 1974, one has to be impressed by the very large role the commodity price increases played at that time.

One of the problems of commodity agreements has been our reluctance to establish large enough buffer stocks. That is one of the reasons that these agreements worked badly in the past. An inadequate agreement is worse than none at all. And I think that the Congress, in its review of foreign economic policy, can try to assure that the agreements that come forward are adequate in an economic sense.

Now with regard to the longer run, the United States and Latin America both have a great deal to gain from freer global trade. The priority, therefore, ought not to be expansion of preferences, but rather ought to be common efforts at Geneva to lower tariffs more generally. There is a danger that preferences will create a bias in favor of high tariffs in developed countries because that is the only way developing countries gain a differential advantage.

Rather than attacking the problem of facilitating Latin American exports that way, I would advocate again a simple, but dramatic change. Let us recognize the legitimacy of export subsidies in developing countries to the extent of their average level of tariffs. Now all that does is offset the distortion created by the tariffs themselves, rather than introduce a new distortion. It makes up for the fact that inputs are more expensive, and it makes up for the fact that the tariff-ridden exchange rate is overvalued, Mr. Chairman, and biased against exports.

That permissible subsidy ought to be at a single flat rate rather than differentiated. There can therefore be no unfair competition in individual products. Such a system, by necessitating internal fiscal

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transfers within Latin American countries, would make them more aware of the real cost of those high tariffs.

The final pillar of the policy that I am proposing is a termination of the U.S. bilateral assistance program to Latin America over the near future. This step would reflect the reality of Latin America's coming of age. Relatively few countries within the region, in fact, continue to be recipients of bilateral assistance. The existence of bilateral assistance tends to create a client relationship that is long since overdue for decisive rejection.

One can ease the problem of transition by making more funds available to the multilateral institutions so that they are able to lend more, as well as by rescheduling debt repayments so that the balance of payments, of those countries still receiving assistance, are not adversely affected.

I submit that if one focused on these particular priorities, there would be a coherent policy fostering and strengthening market relationships as a structure for economic interaction between Latin America and the United States. It would lead to an interdependence that was based upon greater equality; and one, which would operate to the economic advantage of both the United States and Latin America.

With respect to the vexing issues of income distribution and population growth, which quite rightly have been mentioned, I would leave those where I think they have to be left: in the hands of the Latin Americans.

What we have learned from the experience during the Alliance for Progress is that we are rather poor judges of social change and that we cannot regulate or control it. We therefore ought not to be the arbiters of the internal policies that are followed in these areas.

The governments of Latin America are increasingly aware of the seriousness of particular problems; if we can create an international environment of the kind that I sketched, they will be better equipped to deal with them. Our indirect contribution will be much more forthright and effective in the longer run on such a basis. Thank you very much.

Representative LONG. Thank you, Mr. Fishlow, your testimony is very informative. Your prepared statement will also be printed in our hearing record, without objection.

[The prepared statement of Mr. Fishlow follows:]

PREPARED STATEMENT OF ALBERT FISHLOW

It has been fifteen years since the United States articulated an active and ambitious foreign economic policy distinctively tailored for Latin America. The progressive demise of the Alliance for Progress over the last decade has created an ever more apparent vacuum that statesmen alternatively ignore or disguise by slogans. Despite good intentions, policymakers on both sides have failed to fashion an acceptable substitute.

One reason for that failure is a continued insistence upon the special position of Latin America in our international relations. Another is the lagged perception of the changed economic circumstances within Latin America, as well as the altered potential for U.S. assistance. This does not add up to despair. It requires instead redefinition of a coherent economic policy for this hemisphere.

THE SPECIAL RELATIONSHIP

On his trip to Latin America earlier this year, Secretary of State Kissinger reiterated that "Latin America has a special place in our foreign policy. . . . On many issues of United States policy—economic, political, or security—the American people and Congress give special consideration to our hemispheric ties." The reality no longer conforms to the rhetoric. Despite regular commitments to consultation, and a unique hemispheric structure that ensures it, the outcomes rarely reflect expectations. The relevant arenas for foreign economic policy have shifted to the United States, to GATT, to the IMF, etc., and away from the AOS.

There is a logic to this process. So long as the economic policy issues were ones of direct public resource flow, regional discrimination could be, and was practiced. But when the dominant questions relate to international monetary regimes, or trade liberalization, or commodity arrangements, or codes of conduct for multinational corporations, regionalism gives way to universalism. One could have explicit discrimination in favor of Latin America, but the potential cost in retardation of freer world commodity and capital markets would not be trivial.

Nor does most of Latin America itself strive for such special distinction any longer. For them the specialness has largely come to connote a liability rather than an asset. It has meant, even in recent years, a greater hemispheric concern for security that justifies intervention into internal political processes through means both overt and covert. It has meant an inconsistent standard of human rights that has at times seemed to demand too much, and at others too little. It has meant limitations on arm sales that have not applied to other developing country purchasers. It has meant a more vigorous enforcement of property rights and defense of commercial advantage. Even were a special relationship to be effectively implemented, Latin Americans would today reject it. When faced with an explicit opportunity to consider a regional system of tariff preferences in the 1960's, Latin America did just that.

This disillusion with the special relationship in Latin America is partly a manifestation of a greater sense of national independence, and partly a shrewd understanding of its limitations in practice. Only when hemipheric security interests mount, has specialness been translated into real advantage. The Alliance for Progress is a good example. It has it origins in the resolve of the United States to meet the challenge of communism in this hemisphere, and to prove the compatibility of liberal democratic government with rapid social change and economic development. Significant resources were committed, both directly and through the Inter-American Development Bank. Yet as the external threat receded, and it became increasingly apparent that our naive model was belied by the pattern and pace of development within Latin America, our hemispheric focus waned.

Economic realities have contributed to the inability to sustain a regional effort. The United States, after the Second World War, emerged for the first time as a really global economy. Before, our international economic relationships had been relatively parochial and more hemisphere oriented. Thus, Latin America in 1950 accounted for 35 percent of our direct foreign investment; now the proportion is about half as large. Latin America is today a less significant market for our exports, taking some 16 percent of our shipments abroad in 1975 compared to 19 percent in 1960, and 27 percent a quarter of a century ago. Our sources of supply have similarly diversified. We rely on Latin America for 15 percent of our imports, less than the 27 percent in 1960 and the 35 percent in 1950.

Statistics citing our dependence on Latin America for imports of industrial raw materials fail to note that for many of the products, domestic production is relatively high. This is true of iron ore, copper, and lead, for example. More generally, of course, the present pattern of trade is not a good measure of the costs of its disruption. There is no lurking threat from widespread Third World cartelization that would of itself compel us to regard Latin American supplies as indispensable.

What has always been true is that the United States is more important to the economic fortunes of Latin America than the other way around. We are both a larger factor in Latin American trade as well as dominant in capital flows. Yet that too is undergoing change, partly as a consequence of the rapid growth of the European Community and Japan, partly as a result of deliberate policy. In 1950 46 percent of Latin American exports were sold to the United States compared to 38 percent in the early 1960's and 32 percent in the early 1970's. The corresponding series for imports are 57 percent, 42 percent, and 37 percent. The trends are dramatic and clear. So too is the increased reliance of Latin America on the Euro-currency market for its foreign capital inflow. These mounted from less than a quarter of private gross capital inflow in 1971 to more than three-fourths by 1973.

This diversification does not alter either the still considerable absolute magnitudes involved, or the asymmetrical character of regional interdependence.

These help explain why our economic policy and performance are so important to Latin America. When U.S. imports declined in 1975, Latin America's trade balance with this country underwent an adverse swing of $3.6 billion within a single year. Many decisions that are taken with no regard to Latin America at all turn out to have a more considerable impact on the region than those specifically addressed to it. Examples include our countervailing duty practices, allocation of textile and meat quotas, and imposition of export restrictions.

It is mischievous to appeal to a special relationship in face of this reality. On the Latin American side we raise expectations that will more often than not be frustrated; on our own, we build regional objectives into decisions where they simply do not belong. We expend energy promising much but accomplishing little.

THE CHANGING LATIN AMERICAN ECONOMY

A focus on specialness is a look backward, moreover, that fails to give weight to the rapid transformation of Latin America. Economic growth within the region has been accelerating. Gross domestic product which increased at a rate of 5.1 percent per annum in the 1950's, rose to a rate of 5.6 percent in the 1960's, and thus far in the 1970's, has grown at well more than 6 percent. This performance has been associated with internal structural change and incorporation of modern technology not merely into manufactures but also agriculture. And it has depended critically for its success in recent years upon progressive integration into the international market for goods and capital both. Exports have increased faster than product and have evolved into a leading sector; new exports have appeared—manufactures and non-traditional agricultural exports alike. These earnings, and access to international credit, have made possible growing imports of intermediate and capital goods that have facilitated higher rates of investment.

In short, after a period in the 1950's and early 1960's in which economic strategy was based upon protection of domestic industry and reduced involvement in the international market, the trend now is toward more open economies in Latin America. Under the impulse of buoyant demand, and greatly expanded availability of private capital, the turnabout has so far paid impressive dividends. But it is a choice that carries considerable risk. Integration into the international economy involves greater uncertainties than reliance on the domestic market. Many variables escape national determination. One of the basic reasons for present demands for a New International Economic Order is precisely the increased vulnerability of many developing nations. Protection against the vagaries of the market, and not mere redistribution, is an underlying concern.

The recession in the industrialized nations that began at the end of 1973 has not brought the expansion in Latin America to a close. Because world trade volume, and lending, continued to expand in 1974, growth rates in the region remained impressive. Prices of raw materials, because of previous sales commitments, stayed at high levels. But in 1975 the reversal in the trade balance of the United States and the considerable debt exposure created balance of payments problems. This led to resurgence of inflation, and curtailment of growth in many countries in the region. There is a delicate adjustment process now at work whose success ultimately depends upon a resumption of rapid growth of exports, with sufficient credit in the interim to finance needed imports. The likelihood of such outcomes depends critically upon the future evolution of the world market.

Ten years ago, a comparable survey of the Latin American economic scene would have been conducted in different terms. The dominant theme would have been access to bilateral U.S. concessional assistance. Now it is world market conditions, supplemented by adequacy of multilateral flows in which the concessional element is modest.

This transition has its basis partially in altered market conditions that became more favorable than they had been previously. The development of the Eurocurrency market is an obvious example; but so is the increased openness of the U.S. economy. Stronger governments that could carry through more selective reintegration into world markets were also a factor. While a wide range of specific policies have been followed in the region, in no country have trade and capital flows not been subject to careful scrutiny and regulation.

And finally, our own policies of diminishing developmental assistance have also been relevant. Net disbursements from U.S. developmental loans and grants to Latin America have followed a downward trend in real terms since the latter part of the 1960's. This corresponds to a decline in the ratio of overall U.S. net official development assistance relative to GNP. From a peak of 0.60 percent of GNP in 1963, the contribution has now declined to an estimated 0.23 percent. Lament as one may, this reality cannot be ignored. It is as much an element in the present policy context as the other changes of the last decade, and is decisive in its implications for the special relationship.

POLICY PROPOSALS

The greater pervasiveness of external market forces in shaping Latin American economic performance is not an argument for benign neglect. Quite to the contrary. It provides a medium where U.S. influence can be powerfully asserted, and yet a medium which diffuses direct U.S. involvement. It facilitates a policy that is universal rather than specific to the region, but yet that is of singular importance to the economies of Latin America because they are among the most advanced of the Third World. It establishes a basis for interdependence that is short of special favors or special influence; that is its virtue, not its limitation.

The principal objective of the policy should be to guarantee full scope to free market forces. Two centuries after the fact, Adam Smith remains a radical. External markets as they now operate are far from free. They are subject to oligopolistic influences on all sides. They lack effective futures markets for most commodities. They transmit information imperfectly. Policy intervention is both legitimated and necessitated by our own free market ideology. There is considerable validity to the view that many, but not all, Third World demands are the international counterpart to our own domestic regulation.

Some illustrative specifics are worth elaborating. In the first instance, we should go to the heart of the foreign investment issue. No single question is probably felt so deeply in Latin America. Nationalism runs strong in the hemisphere, on both our northern and southern borders. The recent revelations concerning some of the practices of multinational corporations do nothing to alter that view. Within Latin America, U.S. investment is seen as a necessary agent for economic progress, but one that exacts excessive profits and curtails social change. There is widespread resentment at our defense of property rights in accordance with our views of international law, a view the Congress has reinforced legislatively.

Two steps can be taken. One is to insist upon much more information concerning operations of multinational enterprises. Prices at which intrafirm transactions are conducted should be available to assure that arm's length criteria are satisfied. Under present conditions, in which increasing international trade is being conducted within single units, the external market is neither competitive nor homogeneous. Exchange of tax information among national governments should be extended and encouraged. Implicit prices for technology should be collected and made available so that buyers may compare specifications and cost. Until we commit ourselves to a standard of much greater openness, it is vain to talk of impartial market forces rather than the power of the enterprise.

A second, complementary line of action involves revision of our attitude toward expropriation. Many disputes still occur in Latin America, and some have significant political repercussions. Our direct investment there is some three times greater than in other developing countries. Suggestions for arbitration and other impartial dispute mechanisms will continue to fall on deaf ears until we take the prior step of closer approximation to a more widely accepted standard of compensation. One that would perhaps gain acceptance is book value adjusted for inflation. Many countries already utilize such a rule in internal takings of property, and could accede to it. In many instances it will assure a value to the property equivalent to capitalization at the expected rate of return. Its advantage is certainly both to the firm and the expropriating country; market value is typically nonexistent and difficult to simulate. This still leaves contentious issues of past debts, tax liabilities, etc. But they will prove more malleable once the fundamental issue of compensation is agreed upon in principle.

Active measures along both these lines are necessary. Repeal of the various Congressional amendments and appeal to a simple market solution in expropriation cases, while it has some attractions, is inefficient. And few will believe, rightly, that the U.S. government can remain impervious to vocal domestic business interests. Corporations will always appeal to the need for secrecy to preserve commercial advantage, and few will come forth voluntarily. It is an argument going back a century here in the United States; no demonstrable damage has been done by the domestic insistence upon more public information.

Additional and parallel steps in the field of trade are required. More active efforts at liberalization of trade, and particularly the reduction of tariffs on processed raw materials, are essential. Tariff escalation leads to artificial and wasteful concentration on raw material extraction in developing countries, and insufficient domestic vertical integration. Limitations upon trade of labor intensive products to protect domestic employment does nothing to facilitate the long-run reallocation of resources in this country. Some phasing is needed, but the determination of interim quotes can and should give greater weigh to low cost producers.

The troublesome issue of export subsidies could be much facilitated by accepting, for developing countries, an allowable flat subsidy equivalent to the average tariff. Such a subsidy corrects the distortion introduced by high levels of protection on imports. These not only raise the cost of inputs, but also are accompanied by an overvalued exchange rate that discourages exports. Such a subsidy thus undoes a distortion, rather than introducing another. By limitation to a flat rate, it avoids favoritism on specific products. And high tariff countries will have to generate internally the larger revenue necessary to transfer to exporters, which may diminish the allure of excessively protective tariff structures.

Efforts must likewise be undertaken still further to liberalize access to short-term compensatory credit. The step taken at Jamaica in January to expand compensatory lending can logically be extended to introduce the terms of trade as a relevant consideration. One should guarantee the real quantity of imports rather than the nominal export shortfall. For those commodities for which buffer stocks are feasible—and they are not that numerous—there should be a readiness of the United States to associate itself. There are advantages to consumers as well as producers of price certainty, as our recent inflationary episode in which commodity price increases played such a large role should remind us. The real cost of such stocks is not the initial capital required, which will have to be large if the stocks are to be effective, but only the interest rate. And a well managed fund might return that. One problem in the past has been such limited buffer stocks that they do not serve to prevent later increases in price, leading to disillusionment concerning their effectiveness. Inadequate agreements can be worse than none.

The rationale for such liberalized credit and buffer stocks is that it reduces the consequences of global recession and dampens world inflation. Indeed such a countercyclical policy may serve to check recession in the industrialized countries. Sustained purchasing power in Latin America means greater demand for United States exports, and employment creation that may well induce less inflation than simple expansion of internal aggregate demand. As a case in point, the turnaround in the U.S. trade balance in 1975, partially made possible by increased indebtedness of developing countries, was a factor in checking the domestic decline in income. Adequate cyclical protection in turn can make some of the current preoccupation with debt relief unnecessary.

Another kind of protection is necessary as well. The developed countries should stand ready to insure developing countries against policy induced market disruptions. Abrupt decisions to close off imports can have disastrous repercussions upon development plans and strategies. The example of Argentine and Uruguayan meat in the Common Market is one instance; a unilateral tariff surcharge such as the U.S. instituted in 1971 would be another. There is no better assurance for effective consultation than penalties for unilateral action.

In such a revised structure for trade, the present preoccupation with tariff preferences would become less meaningful. The altered subsidy allowance would be far more important than a zero duty on imports. And such additional initial disadvantages that developing countries faced could best be dealt with specifically—allowances for marketing expenses, initial advertisements, and the like. The danger with preferences is that their significance depends upon protected, rather than freer, trade in the developed countries. Yet precisely what is needed is to enlist developing countries, and particularly those of Latin America in pressuring for freer markets overall rather than marginal advantages.

Finally, expanded long-term financing for Latin American countries could be facilitated by encouraging more joint participation between private banks and the Inter-American Development Bank and the World Bank. There is need for continuing large capital flows to Latin America into the indefinite future, if only to avoid large net outflows on the balance of payments. Methods to multiply official sources and to introduce market tests are therefore important.

What this program consciously excludes is continued bilateral assistance for Latin America. The AID program should be phased out within a short time. Disruption in the balance of payments of recipient countries can be minimized by rescheduling current obligations until alternative capital inflows are arranged. Authorization of increased capital for the Inter-American and World Banks is a less expensive and more effective means of assuring continuing access to foreign exchange. Latin America, with few exceptions, has come of age. Our hemispheric relations are better served without the client status imposed by assistance programs. Colombia last year voluntarily decided to terminate the program largely for that very reason. Aid now goes to relatively few countries in the hemisphere, and its direction remains very much a matter of political rather than economic determination.

If we are serious about concessional assistance to the poorest countries of Latin America—and much more so the larger requirements of the Fourth World—then we must move to generate international resources for their benefit. National sources are neither sufficient nor desirable. Profits from exploitation of the seabed, taxes on mineral production, and levies on fisheries have all been suggested as opportunities. They all share the virtue of depoliticizing the problem of abject poverty.

A FINAL NOTE

This sketch of a program will seem to some unduly modest, perhaps very much what is being done or proposed already—and even less. I would humbly dissent. What has been suggested is a coherent strategy for hemispheric interdependence on a basis of greater parity. Many of the elements are not new, but they go directly to current and potential sources of conflict. They do so in a fashion that preserves United States interests. There is no concession here that operates to national disadvantage, nor are we responding to imminent threats—cartels or otherwise. Freer trade and better functioning markets may yield real adjustment problems for particular firms and groups of individuals, but the task of policy is to assure that they are adequately compensated through domestic transfers.

The proposals here are exclusively universal, and almost all require multilateral implementation. That is one on their positive features. The present shape of international economic relations, happily, is decreasingly regional. Explicit recognition of that reality will cause no embarrassment, and perhaps even a sense of relief. It is time to stop searching for stopgaps that pretend to do something for Latin America in the context of the present regional machinery, and to turn our joint energies outward. Success in the latter is the test of our hemispheric diplomacy.

And what of the millions of wretched poor in Latin America, and the dramatic inequalities of property and income that the Alliance for Progress sought to address in a combination of idealism and self-interest? That serious problem is left where it ultimately must be, to Latin America. We cannot shape social change to our liking. We cannot serve as arbiters either of ends or means in their internal economic policy. The best we can do is create a favorable international environment that permits full mobilization of domestic resources as individual countries choose. That neutrality is one of the basic objectives of the economic measures proposed.

It is frequently asserted that U.S.—Latin American relations can be a model for successful reconcilation of the interests of North and South. If we cannot succeed in our own hemisphere, with our special historical bonds, what hope can there be in the more complex global arena? I would put it differently. Hemispheric anxieties and suspicions, derivative of a long but unequal relationship, may well be more difficult to allay in the search for congruences of interest. Yet if we fail, we will have failed with the most vigorous and dynamic part of the Third World.

Chairman LONG. Mr. Fishlow, you spoke of the demographic problem. You have obviously done a great deal of study in this field. What is your view on the human rights problem that Professor Fagen was speaking of? These are all related to a great extent in that they go to the attitudes which the United States takes toward its involvement itself in what might in many instances be considered the domestic affairs of a particular country. If you will, is there any inconsistency here with your earlier views?

Mr. FISHLOW. I don't think so. I think that we have not been reluctant to apply international law in investment disputes historically. And I think the human rights question does come down to an international law issue, Mr. Chairman, when one considers that within the hemisphere there is an Inter-American Human Rights Commission and there are reports that are issued under its auspices.

I certainly do believe that one ought to try to strive for neutrality by emphasizing markets rather than a mechanism that is encouraging of intervention.

I don't foresee our usual intervention in the human rights area taking more than public stand of saying, "We strongly disagree with the policies being followed, and will not associate ourselves with them." If one phased out bilateral assistance in the way that I suggested, I would not think it appropriate that we use multilateral agencies in order to try to impose our views any more than we should in investment disputes.

Chairman LONG. But by your omission you are suggesting that we use bilateral aid as leverage; that is, that human rights be a factor in our determination on bilateral aid?

Mr. FISHLOW. No. I would prefer, as I suggested, that we end bilateral aid. I think that to the extent that we have bilateral economic assistance sanctions go against the grain of a development assistance program that is designed to contribute to economic development. Sanctions on bilateral military assistance are different, however, and I would support those.

I think a large part of the problem in the Chilean case—and it has provided much of the impetus that has led the Congress to impose limitations—comes from the fact that we actually increased assistance to Chile rather than maintained it constant after the coup. We found ourselves in the position of affirmatively supporting the Government—and indicating that support very clearly and loudly—rather than maintaining the previous posture.

I would myself hope that, in future cases, our displeasure could be made known immediately in this human rights area. That in itself would be sufficient to indicate that we were prepared to do nothing affirmative in furthering a government whose policies were of that kind. I prefer such a positive step rather than approaching the human rights issue from the negative standpoint of applying sanctions subsequently.

Chairman LONG. Mr. de Cubas, you are sitting in the middle, and I think you are sort of in the middle here with respect to the points of view, which have been expressed. I might even venture to say you have ben attacked a little bit from both flanks, particularly in the view of the multinational corporations and the business climate and our attitudes toward these.

But let me ask you specifically—and then you can comment if you like—let me ask you specifically as to professor Fagen's view as to the more public information on the international operations of multinational corporations—the allocation of profit, the allocation of costs, the determination of the basic cost of technological expertise, which might be sold to these countries—well, could you talk on this for a moment if you would?

Mr. de Cubas. I would like to mention, first, that I have the feeling from these two gentlemen that they consider the multinational corporations as a great threat to Latin America because in the past they may have gotten into politics in the wrong place and maybe had too high of profits. I believe that, looking toward the future, that is not the problem. I think that many multinational corporations, if they could see their way out, would sell their assets in Latin America at the book value. If they could do that, they would be just delighted. I don't think that would be good for Latin America, however. I think it would have a disastrous effect.

I think that this problem—foreign investments—which might have been a problem 15 years ago, is no longer the problem. I think Latin America needs the right type of money to develop itself. It cannot develop itself out of its own retained earnings. The fact that it goes now to the international money markets on the basis of borrowing money at 8 percent is not going to solve a development problem. If you try to figure out what 8 percent is, you see there is a very large intrastructure problem. It is a major expense.

With reference to technology, the market of technology today is an open market. If you don't like American technology, you can buy it from Russia, Japan, Europe, you can buy it from France or Germany, or you can buy it anywhere you want.

I would like to make a differentiation because I think some confusion may exist. I think there are two types of technology: If somebody wants to buy a steel mill, he can go to a steel specialist anywhere in the world and he will design a plant and they will build that plant, and that plant will make steel. But I don't consider that "real technology." I consider that second-class technology.

I consider "real technology" building in that country the motors and the controls and the mills themselves so that they can make that equipment. Just to buy a packaged plant is not really acquiring technology. For that type of thing, you can go anywhere in the world. The market is full of eager collaborators. The competition is fantastic for that type of equipment.

No, I consider technology a person-to-person continuing association, which refers to specifications, which refers to development, it refers to management, it refers to cost reduction, it refers to purchasing, it refers to the whole gamut of operations, which you will not get in this rosepicking and cherrypicking approach.

My old company, the Westinghouse Co., has and had an association of over 50 years with Mitsubishi of Japan—and Mitsubishi is a very outstanding company—but they feel there is still a need for that continuing technical relationship with Westinghouse.

I think really what Latin America needs today is the person-to-person relationship. And I am very much concerned that with all the codes and the rest of it, that these will disappear; and not only will technology stop flowing, but the one they will buy will be more expensive than they had in the past. I think it is a completely mistaken approach.

So, with respect to the other questions—well, I am with Mr. Fagen. I am an immigrant to this country. I think immigrants from Latin America would be wonderful. I would open the doors for these people you are talking about. I think this country has grown by getting people from all parts of the world. I am all for it. So I am with you on that.

With respect to the opening up of corporate books, there is a lot of information that local governments can get by asking for it. Companies have to submit—every local subsidiary has to submit tax statements, and they can be analyzed. And some are very, very sophisticatedly analyzed. And when the government asks questions, you generally have to answer. There is nothing you can do about it. Plus they can buy the K-10's for $1. I think it is. And the information in the SEC proposal is more than any local government will ever be able to develop. So I think that is there. I have no objections to opening up. I think it is a good idea. It costs a lot of money, but it is a good idea.

Chairman LONG. There is a great deal of paperwork involved in it. There is a great deal of duplication.

Mr. DE CUBAS. A fantastic amount.

Chairman LONG. In this regard, I gather then that you feel that legislation, which is being considered by the Congress with respect to outlawing the giving of bribes, is about in the same category?

Mr. DE CUBAS. I think it is all right. It is wonderful——

Chairman LONG. But the basic question comes down to one of enforcement.

Mr. DE CUBAS. It is one of local enforcement. Giving bribes is illegal in any country that I know of, but you have to enforce existing laws.

Now I think another mistake is being committed and two different things are being confused: one is bribes and the other is the function of a commission agent, which in my opinion is a very justifiable function. You should not get one mixed up with the other, as they often are.

In my opinion, bribes, well, the silliness of it is such that they generally are useless in most cases. You can get business without giving bribes.

Mr. FISHLOW. If I could just add a word——

Chairman LONG. Surely.

Mr. FISHLOW. It seems to me Mr. de Cuba's response partially gives a lack of sufficient weight to Latin American attitudes toward the foreign investors. I am concerned, as well, concerning the transfer of technology. And I do believe it largely has to be done by private firms. What I see as the virtue of a more forthcoming policy by the United States, that attacks this problem head on and quite vigorously, is that it would create a climate in which there would be greater certainty of continuing operation, and in which there would be greater likelihood that the obvious advantages from foreign investment, not necessarily direct, could be realized.

Mr. FAGEN. Mr. Chairman.

Chairman LONG. Yes.

Mr. FAGEN. May I make one brief comment? It seems to me that the hardcore crux of the difference between what I was saying and Mr. de Cubas was saying really comes out in our attitudes toward the statement he makes on page 10. He says: "Foreign capital must once more be enticed to make direct investments in Latin America." I would say categorically that there is no way to act on that recommendation without absolutely the most pernicious effects on U.S. policy and United States-Latin American relations. That is why I earlier said, Mr. Chairman, that the day of that type of program is historically exhausted.

It matters not the least what we wish to do in this country or what the Council of the Americas wishes to do or what Westinghouse or ITT or anyone else wishes to do. It is historically exhausted. What is probably not exhausted, however, is some possibility of different kinds of relationships between American private capital and Latin America. That is very clear. You, have for example, what to some might seem the extreme case of the revolutionary Socialist government of Cuba in association of various sorts with private corporations in Western Europe—not on a capital investment basis, of course. You also have the Cubans, even during these very difficult days of United States-Cuban relations, making some tentative contacts with North American private corporations to see on what basis they might in fact at some future date get technology, for instance, for the development of the nickel industry. This is technology which they very clearly need, and which is probably not available in the Socialist countries in quantity and quality equal to what is available in the West.

So it is not a question of whether even countries of a revolutionary Socialist sort like Cuba will disassociate themselves entirely from American corporations and American technology. In short, the answer to that question is no. It would seem to me that in the long run no small country can or would want to so fully disassociate itself. Rather, the question involves the terms under which association will take place. And certainly direct investment is not the form which that relationship will take in the future of Latin America in the majority of cases. This is why I say that the scenario is historically exhausted. It is very important to make those kinds of distinctions.

Mr. DE CUBAS. May I answer?

Chairman LONG. Surely.

Mr. DE CUBAS. I said direct investment. I did not say majority investment. There are many kinds of direct investment. But my concern is that unless something is done today and through the next 10 years, no or very little investment is going to be in that market because there are other uses for that money domestically and because many foreign investments have not been producing money. The myth of Latin American investments being very, very profitable is not true. In some cases they have. In some cases they have not.

Chairman LONG. I thought your comment that one nationalization takes two management generations to overcome, Mr. de Cubas, was a very pertinent one. I know this shocks many people. I know, having been in business, that it is difficult to overcome for a period of time.

I think that makes it particularly important that, even at the risk of not getting what American industry thinks is exactly right in the process of negotiating, that they would recognize that this is a trend and this is a developing process. So I think that the simplifying of that arrangement, so it would not be traumatic in the event it does come and so that we could have just compensation for it, that begins to me to come to the top of the pile in setting of priorities and in developing a stronger economic relationship. Would you not say that is true?

Mr. DE CUBAS. The American Government and American business has accepted international arbitration. They would be delighted with international arbitration but the Latin American governments do not agree to that. They do not accept any form of international arbitration. I know all the reasons why, but they just do not.

Chairman LONG. Would there really be much difference in the dollar values if you took what they are insisting upon or——

Mr. DE CUBAS. Probably not. In some cases there would be.

Chairman LONG. I suspect there would not be.

Mr. DE CUBAS. In some cases there would be and in some there would not. Now I think the Venezuelans have shown a great deal of statesmanship on how they handled the oil business and how they handled the iron-ore business and how they are handling the other nationalization.

Chairman LONG. That would not include Owens-Illinois?

Mr. DE CUBAS. That is a very complicated case. I am not sure if I am right, but 2 weeks ago when I saw a minister of Venezuela he mentioned that they had suggested international arbitration. But they have not got together yet. And as I understand, it is because Owens-Illinois wanted international arbitration on the overall issues. And the Venezuelan Government wanted international arbitration only as to price determination.

Chairman LONG. Let me ask you gentlemen one more question. The International Resources Bank that was proposed by Dr. Kissinger at Nairobi and to which Mr. Rogers commented on as to the reasons why we did not get much support from Latin America at the Santiago meeting although that type of support is forthcoming, if he is reading the situation correctly.

As a businessman, Mr. de Cubas, and looking at stability and the lack of stability as being the thing that causes more concern to business than anything else, do you think that this would stabilize the situation?

Mr. DE CUBAS. I am not a commodity man. I hate to comment on something I do not know anything about. However, I have no objections in principle. Whether the new facility is going to be very positive or just another institution is a question, as I think there are many institutions that might be used. I do not know why you need to create another one. But I should not comment on it.

Chairman LONG. As an economist, what is your feeling?

Mr. FISHLOW. I think the idea of trying to create longer term futures' markets in commodities has some merit but you can also be guilty of overextension. One of the reasons you do not have futures' markets long into the future is that no long-term contract is worth very much if conditions are radically changed. Therefore, if you have a contract which calls for payment of so much copper and it turned out the price of that copper, at the time the payment was going to be made, was really very different from what had been anticipated at the time that the contract was drawn up, you would have problems trying to enforce that contract.

Chairman LONG. You made the comment during your remarks, sir, that it would be perhaps better to not have one at all rather than to have one that did not have sufficient reserves in it. Explain that if you will. I did not follow that.

Mr. FISHLOW. One of the reasons that the tin agreement—which has been in existence for many years although the United States has not been associated as a consuming country—has not worked very effectively to control price fluctuations is that the international stockpile of tin is too small. Accordingly when there is excess demand and the price goes up, consuming countries think they are being cheated because the commodity agreement does not work. Producing countries think the same when price falls. You cannot achieve the end of price stability that you thought you were buying in the first place. Stockpiles have to be large.

Chairman LONG. I certainly appreciate you three gentlemen for coming here. Again I apologize for the manner in which we found ourselves having to conduct part of this hearing. I think it has been most helpful to all of us. We would like to take the liberty, if we may, of submitting some additional written questions to you gentelmen; questions that we have not covered here today. If you could give us your views, we would be appreciative of it.

[The following questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. WILLIAM D. ROGERS TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN LONG

Question 1. Albert Fishlow has suggested that multinational corporations should be required to make public more information on their international operations including tax information. He also suggested that expropriations be compensated on the basis of book value adjusted for inflation. Should the U.S. government endorse these proposals?

Answer. The Department of State supports the general concept that multinational corporations should disclose relevant information on their international operations to the public. We recently joined with other governments in the OECD in recommending to multinational corporations observance of a voluntary set of guidelines which suggests that:

"Enterprises should, having due regard to their nature and relative size in the economic context of their operations and to requirements of business confidentiality and to cost, publish in a form suited to improve public understanding a sufficient body of factual information on the structure, activities and policies of the enterprise as a whole, as a supplement, insofar as is necessary for this purpose, to information to be disclosed under the national law of the individual countries in which they operate."

These guidelines suggest that information be disclosed for the enterprise as a whole relating to the structure of the enterprise, the principal activities, operating results and sales, significant new capital investments, sources and uses of funds, average number of employees, and individual expenditures and prices, and accounting policies.

We are also cooperating with the United Nations Commission on Transnational Corporations and the related Information and Research Center which is working to develop a comprehensive information system. Because so much information is already being collected, the Center will initially concentrate on the development of a classification system of information relevant to concerns of governments, and the collection of information in several priority areas which is already publicly available.

While we support the general concept of information disclosure, we have also insisted that information requirements should be levied equally on national and multinational enterprises and thus not be discriminatory and should give due weight to the requirements of business confidentiality. We would also have reservations about requirements unilaterlly imposed on U.S. firms, that they disclose data over and above what they are already required to publish.

It is the longstanding and continuing position of the USG that international law requires payment of fair market value for expropriated property, calculated as if the expropriatory act had not occurred or were not threatened. Since market value is often not directly ascertainable, and since there usually are no recent sales of comparable properties to which to refer, market value generally must be approximated by indirect methods of valuation. No single method of valuation is valid under all circumstances. The method or combination of methods most likely to provide just compensation for expropriated property varies, and depends upon the attendant circumstances of the particular case. In addition, non-monetary aspects of settlements may in certain instances constitute elements of compensation.

Indirect methods of valuation include: (a) The going-concern approach, which attempts to measure earning power and which, in the view of the USG, generally best approximates market value. There may be circumstances, however, in which application of this method is impracticable or where it might operate unfairly. (b) The replacement cost of the property at the time of expropriation less actual depreciation, a standard which is likely to yield an amount substantially greater than book value, but which does not take into account earning capacity, is of limited use in valuing intangibles, and in view of the USG, is generally less acceptable in most circumstances than the going-concern approach. (c) Book value, or some variation of it, which (unlike the replacement cost approach) values assets at acquisition cost less depreciation—a figure which in most cases bears little relationship to their actual value. The USG believes this to be generally the least acceptable method for valuation of expropriated property.

Question 2. One of the key economic concerns of the future is likely to be availability of vital natural resources. Is Latin American production likely to increase as a proportion of production of world resources? Is Latin America a more reliable source of supply than other parts of the Third World?

Answer. Latin America's share of global vital natural resource production is expected to remain roughly the same. This conclusion is based on both economic and political factors. There are large reserves of about a dozen vital resources in the area. Since the early 1960's Latin America's percentage share of the global production of these raw materials has increased significantly. The resources involved include iron ore, nickel, manganese, zinc, tin, tungsten, columbium, vanadium and flourspar. At the same time, Latin American production shares of bauxite, petroleum, copper and lead have tapered off because of rapid expansion of production in other parts of the world.

There are still significant untapped Latin American resources—bauxite in Brazil, unknown amounts of oil in Ecuador and Mexico, to mention two in which the Latin American production share has been declining recently. Resources now too remote from delivery points to be cost efficient for production await highway construction and port outlets. Latin America's future production in natural resources therefore seems bright from the standpoint of recent production trends and known reserves.

Latin America of course is not the only region with great potential for resource production. The resource wealth of the Pacific Ocean island areas, China, and the USSR has hardly been touched. We expect that these resources will be developed so that they balance out the expected Latin American increases in production. This assessment is based on the assumption that adequate capital for organizing exploration, development and marketing of the resources will be available and that the political environment throughout the world will be sufficiently stable to attract that capital. Changes in the degree of political risk in various areas could obviously result in unpredicted gains or losses in resource production for any area including Latin America and in their share of world production.

The U.S. has consistently considered Latin America a more reliable source of supply than other parts of the Third World especially because of its physical proximity.

As the Secretary pointed out recently in Santiago, there is mutual awareness that our destinies are linked, a recognition that we are bound by not only geography and common historical experience but mutual economic interests. Latin America has traditionally looked to the U.S. for a market for its raw materials just as Africa has traditionally looked to Europe. Despite numerous nationalizations, U.S. companies still fill important roles in the discovery, extraction and marketing of much of the raw material production. We expect this special interdependence to continue.

Question 3. How has Cuba fared economically in the last ten years compared with the rest of Latin America?

Answer. With respect to Cuba's recent economic performance, growth of the economy between 1959-1972 lagged behind the annual population growth of the country of two percent so that the per capita GNP of Cuba dropped from among the highest in Latin America to about the middle. The main reasons for this poor performance were poor management with the excessive centralization of decision making, poor planning with exaggerated targets, (e.g., the 1970 ten million ton sugar harvest), abrupt changes in direction causing distortions, the drought years of 1962–63 and 1971–72 that seriously affected agriculture, and the U.S. and OAS economic sanctions restricting external trade and credits. Foodstuffs were and remain rationed. On the other hand, notable improvements were made in the redistribution of income, access to medical care and education.

Cuba's economy improved somewhat beginning in 1973. The growth rate has averaged 4–5 percent per annum, about double the average in the earlier Castro years. This improved performance resulted principally from increased average world sugar prices in both the Communist and free world markets, a more balanced development strategy since 1970 with closer economic links to the Soviet Union and Eastern Europe, better management and greater decentralization of economic decisionmaking, the reintroduction of material incentives to spur increased labor productivity and increased economic assistance from non-Communist countries. The high point obviously was 1974 when the sugar boom carried Cuba to new export earnings.

Nevertheless, Cuba's growth rates have remained well below the average for Latin America of about 5.8 percent since 1961. Latin America as a whole enjoyed an average growth rate in the gross domestic product in real terms for the years 1961–1970 of 5.6 percent. In 1971, it was 6 percent in 1972 6.8 percent, in 1973 7.4 percent.

Cuba's outlook for growth during the term of the first Five-Year Plan remains modest. The unofficial goal for the Plan was 6–9 percent growth rate, but the lower world sugar prices currently affecting Cuba's earnings have led to revisions in the Plan even before it is implemented. Cuba will likely remain tied to the USSR for the foreseeable future, in light of the need for Soviet assistance in the wake of these lessened economic prospects resulting from lower world sugar prices.

Question 4. The debt burden of Brazil and Mexico—countries which borrowed enormous sums from commercial banks in the last two years—is seen as manageable if the OECD economies recover from the recent recession. Will the U.S. be faced with a choice in the future of taking more exports (manufactures and semi-manufactures) from these countries at the cost of severe adjustment pains to U.S. industry and labor or, of risking default on huge private loans that could strain our domestic banking system? What policy is the U.S. government pursuing to avoid this dilemma? What mechanism does the State Department have to insure that private banks' "overexposure" does not limit its leverage for our national interest as a whole?

Answer. It is true that Mexico and Brazil have borrowed large sums from commercial banks in recent years; however, both countries have used the bulk of these funds to finance projects designed to develop the vast, untapped natural resources which they possess. Completion of these projects will increase the availabilities of petroleum and mineral products both for their domestic use and for export to world markets. Thus the proceeds generated by these productive investments should enable these two countries to manage adequately their debt burden.

The majority of bank credits are extended to government and quasi-government agencies. As long as governments utilize their sovereign power to levy taxes, debts can be serviced and retired.

According to a survey conducted by the Federal Reserve, the six largest U.S. banks had nearly $12 billion in loans outstanding to 15 LDCs at the end of 1975. This total accounted for about 5 percent of the combined bank assets and no single LDC had loans that constituted more than 1.5 percent of combined assets. This indicates that the portfolio of U.S. banks are sufficiently diversified to withstand even a massive rescheduling of LDC debt, which is unlikely to occur.

This massive rescheduling is unlikely because the governments of countries like Brazil and Mexico, whose favorable growth rates and whose monetary and fiscal policies qualify them for private bank credit, are by definition those most determined to protect their credit ratings and avoid even the threat of debt rescheduling.

Question 5. Which of the proposals that Secretary Kissinger put forward at the recent OAS meeting in Santiago would the Latin Americans give the highest priority to speedy U.S. action?

Answer. Latin American officials have consistently indicated to us that at the present time they place high priority on improvement of the trade expansion opportunities offered by the United States Generalized System of Preferences (GSP). Their most pressing area of concern, they have indicated, is for removal of the exclusion of Venezuela and Ecuador from GSP benefits under Section

502(e) of the Trade Act. In addition, they have requested liberalization of the competitive need and rules of origin requirements contained in Sections 502(a)(3) and 504(c) of the Act.

Over a slightly longer time frame, they would place perhaps even greater priority on revision of countervailing duty and safeguard laws by the U.S. and other developed countries. New safeguards and subsidy-countervailing duty codes are presently being negotiated in the Multilateral Trade Negotiations (MTN) pursuant to Section 121 of the Trade Act. The Latin American countries understand that any revision of U.S. countervail or safeguard law would only be considered following termination of the MTN, and that the new codes would require Congressional approval.

Response of Jose de Cubas to Additional Written Questions Posed by Chairman Long

Question 1. There has been a tremendous outcry in Latin America against the provision of the Trade Act of 1974 whereby Ecuador and Venezuela were excluded from benefits of the Generalized System of Preferences because of their membership in OPEC. In your view, should this exclusion be removed?

Answer. There is no doubt in my mind that the Trade Act of 1974 should be eliminated to remove the exclusion of Ecuador and Venezuela from benefiting from the Generalized System of Preferences.

Although the above mentioned exclusion has had scant economic consequences, it has proved to be a serious political irritant and has little justification, as neither Ecuador nor Venezuela restricted shipments of oil to the U.S. under the Arab embargo.

Question 2. In his recent speech to the OAS in Santiago, Secretary of State Kissinger made a number of proposals for U.S. government action to benefit Latin American countries. Which of these proposals do you think should be given priority for U.S. government action?

Answer:

PRIORITY NUMBER ONE

Insure that flows of funds for development projects are neither reduced nor diverted by short-term economic problems. In addition, long-term financing must be increased and its quality enhanced (Secretary Kissinger's speech at the UNCTAD in Nairobi).

PRIORITY NUMBER TWO

Efforts to accommodate the export interests of Latin America.

PRIORITY NUMBER THREE

Establish a reginal consultative mechanism on commodities.

PRIORITY NUMBER FOUR

Assist the OAS in establishing a regional center on technology.

PRIORITY NUMBER FIVE

Amend the U.S. Trade Act to eliminate the automatic exclusion of Ecuador and Venezuela from the Generalized System of Preferences.

Question 3. While the resumption of normal relations with Cuba—even trade relations—now seems pretty far off because of Angola, Castro's attitude toward Puerto Rico and other questions, what would be the economic stake in terms of claims, trade and other benefits of reestablishing relations with Cuba in the event the situation would become more manageable?

Answer. I do not believe that important trade or other economic advantages would result from the reestablishment of diplomatic or other relations with Cuba. I doubt that a claims settlement would be anything but a symbolic gesture. Thus, the problem, in essence, is a political one and should be treated as such.

I am fully in accord with the recent pragmatic approach by the U.S. government regarding the restriction of exports to Cuba by U.S. foreign-based subsidiaries when the host governments sponsor such activities.

RESPONSE OF ALBERT FISHLOW TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN LONG

Question 1. There has been a tremendous outcry in Latin America against the provision of the Trade Act of 1974 whereby Ecuador and Venezuela were excluded from benefits of the Generalized System of Preferences because of their membership in OPEC. In your view, should this exclusion be removed?

Answer. The exclusion of Ecuador and Venezuela from access to trade preferences under the Trade Act of 1974 is an unfortunate error. The generalized system of preferences was explicitly intended to be non-reciprocal and non-discriminatory among developing countries. Our exclusion negates both characteristics and applies them to countries that actually increased their exports of petroleum to the United States during the embargo. More generally, trade retaliation is an inefficient policy instrument that leads to everyone being worse off. It is not even a useful bargaining device in this instance because its effects are more symbolic than real.

The OPEC cartel does require defensive U.S. response. But what is needed is an effective national energy policy that would exploit the opportunities to lessen the effectiveness of the present oil producer's monopoly.

Removal of the exclusion should be coupled with efforts to secure international consensus on the importance of continuous access to markets as well as supply. The negotiations in Geneva provide an opportunity for significant advance that should not be lost.

Question 2. Throughout your written statement you seem to be arguing for ending special restrictive legislative measures—like the Hickenlooper amendment etc.—as inefficient in achieving our policy goals. Would you also recommend repeal of the Harkin amendment which will require the U.S. Government to oppose loans in the Inter-American Development Bank to countries that violate human rights?

Answer. Restrictive measures imposing sanctions, like the Hickenhooper and Harkin Amendments, are third-best solutions. They punish for violations of international law and obligations, but do nothing to create an international consensus in favor of the sanction; they thus typically isolate the United States and are widely resented as arbitrary exercises of U.S. power.

Simple repeal is not optimal either, although better than the present situation. The problems the Amendments address—expropriation without compensation and violations of human rights, are real enough and show no prospect of vanishing. International opinion and market forces work only imperfectly to encourage behavior more in accord with international norms.

Better policy requires a more active and constructive U.S. posture to deal with the root problems. That is the reason I suggested a major effort to reach international consensus on the standard of valuation to be applied in the event of nationalization; and that is the reason why we must more openly commit ourselves to support of such instruments as the Inter-American Human Rights Commission. When there is wider international consensus on the violation of international law, and assured equitable mechanisms to secure redress, there will be greater support for sanctions if they ultimately must be applied. And such U.S. sanctions will also have to be less hypocritical: mandated negative rates in multilateral institutions while sustaining bilateral financial flows do not qualify.

The history of Congressional sanctions contrary to the desire of the Executive is symptomatic of the dissatisfaction with the effectiveness of U.S. policy. Mere repeal by itself will not alter that effectiveness. The issue must be confronted directly.

Question 3. While, the resumption of normal relations with Cuba—even trade relations—now seems pretty far off because of Angola, Castro's attitude toward Puerto Rico and other questions, what would be the economic stake in terms of claims, trade and other benefits of reestablishing relations with Cuba in the event the situation would become more manageable?

Answer. The economic advantages to the United States of resumed trade with Cuba are not likely to be very substantial. Socialist Cuba will not likely cut its ties to the U.S.S.R. and Eastern Europe, nor will it provide significant investment opportunities. Despite proximity to the United States, the small size of the island and unlikely rapid expansion of the external sector do not make it a major market. Estimates by the Commerce Department of potential U.S. exports of some \$300 to \$350 million are possibly optimistic; yet even so they would represent only .3 percent of current U.S. shipments abroad. Individual firms and suppliers will gain from reestablishment of normal trade relations, but for the U.S. as a whole, the economic consequences will be minimal. For Cuba, on the other hand, they might be more important in providing access to needed spare parts, technology, and lower cost supply.

One economic attraction of more normal relations would presumably be resolution of outstanding claims for assets nationalized without compensation. Yet it would be naive to expect that the realized value of such assets would be more than a fraction of the claimed total in excess of $1 billion. Not only historical experience, but also the Cuban capacity to pay, must dampen expectations. And once more, while the total involved represents the largest single expropriation of U.S. assets without compensation, its magnitude is small relative even to our total foreign investment in Latin America.

In short, the resumption of normal relations with Cuba would bring some economic advantage, but of a limited scale. The issue is more a political than an economic one.

Question 4. What is your assessment of the Andean Pact and its particular investment code? Can countries like Venezuela and Peru succeed in some modified form of their objective of promoting indigenous industries and a regional market? Are American companies more reluctant than those of other nationalities to consider minority participation and to live with the divestment provisions?

Answer. The Andean Pact, and its Article 24, is an effort to coordinate development policy at a sub-regional level and to assure consistency in investment plans, not merely foreign but also domestic. To date its results have been modest. That is not surprising in view of the difficulties of harmonization of policy among countries diverse in political forms and internal resources. And many U.S. companies have been quite critical of its intent in expending the state role, as well as requiring divestment of foreign participation.

Yet the Pact is deserving of a positive response. It explicitly recognizes the need to avoid the errors of past efforts at excessive import substitution as well as seeks to establish a viable framework for continued—even if diminished—foreign participation. American enterprises that fail to adapt to new forms of participation will find their natural advantages ended by Western European and Japanese competitors. Many U.S. firms have shown such flexibility elsewhere, and one can anticipate more generous acceptance of the Andean Pact provided it succeeds in becoming a growing market.

Question 5. In his recent speech to the OAS in Santiago, Secretary of State Kissinger made a number of proposals for U.S. Government action to benefit Latin American countries. Which of these proposals do you think should be given priority for U.S. Government action?

Answer. Secretary Kissinger's speech at the June OAS General Assembly offered a commitment to cooperate for development within the hemisphere as our first priority. In fact, however, much of what was said consisted of temporizing. He proposed a hemisphere consultative group on commodities, another on trade cooperation, and yet another on transfer of technology. Each of the problems is important, but a proliferation of new inter-American mechanisms is a poor substitute for constructive, substantive policies. Nor is there much in recent experience to suggest that such consultative groups will become a catalyst for such policies. By placing a regional cast on what are supra-regional problems, moreover, we may hold out false hopes dashed so many times before.

The priority rather perhaps should be on forging a U.S. governmental consensus—legislative and executive—in favor of more responsive, universal policies in the commodity trade, investment and technology spheres. Latin America will benefit more than proporationally from any improvement in the global economic environment because of its relatively advanced economic circumstances.

Only if the hemispheric consultative groups can move on to evaluation of specific, but typically universal proposals will their creation prove constructive rather than demoralizing. The United States must now take the lead in placing on the hemisphere table that has been set a coherent platter of joint actions rather than mechanisms. My testimony suggested some concrete measures that I believe to be both feasible and to take priority. Others may have different opinions; Secretary Kissinger's implication that regional integration could be enhanced should be carefully examined. The basic issue is less the exact list than the preparation of one.

Chairman LONG. Our final two hearings will be held in New Orleans, which, as you all know, is a major trading city, a major port city particularly with respect to its relations with Latin America. We will hold these hearings on July 7 and 8 to look again on some of these questions of trade and investment.

The subcommittee now stands in recess until that date.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10 a.m. on Wednesday, July 7, 1976.]

U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

WEDNESDAY, JULY 7, 1976

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

The subcommittee met, pursuant to recess, at 10 a.m., in the executive conference room, International Trade Mart, New Orleans, La., Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long, Boggs, Treen, and Fascell.

Also present: Sarah Jackson, professional staff member, and Charles H. Bradford, minority professional staff member.

Chairman LONG. This hearing will come to order.

We are pleased to see so many of you here today. I am also pleased to see my colleagues from Congress are here today. I think that all of us know that Congresswoman Boggs is the permanent chairperson of the Democratic Committee and chairperson of the Bicentennial Activities Committee. She has had a busy year, but she did come by. If it would be all right with you, Mr. Di Rosa, I would like Lindy to say a word.

Mr. DI ROSA. I always like to have her say a word, also.

STATEMENT OF HON. CORINNE C. (LINDY) BOGGS, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SECOND CONGRESSIONAL DISTRICT OF THE STATE OF LOUISIANA

Representative BOGGS. Thank you, Mr. Chairman. I am especially pleased to have this meeting here physically in my congressional district, one of such importance to the entire area, to the United States and to the rest of the world.

I am, of course, very pleased to be the chairperson of the Democratic Convention, and I am sorry these duties and my bicentennial duties do not permit me to remain here for the entire hearing. However I know you will be extended much hospitality by everyone else. I did want to say that from the point of trade and our bicentennial year and from our Spanish-American connections, this is, of course, the most important meeting that can be hosted in our city at this time because New Orleans is the gateway of the "New South." It is an international gateway for the exchange of not only goods but ideas. Certainly trade and exchange of ideas are vital in shaping the image of a nation in the international community. I feel that New Orleans and the New Orleans area has served this country well.

We know that Bernado DeGalvez, who was the Spanish governor of New Orleans, Cuba, and Mexico, during the time of the American Revolution, really secured the river and the Gulf of Mexico for the trade and commerce and transportation of munitions and goods to the struggling Continental Army. And historically the victory of the Spanish over the British forces at Pensacola was vital to the eventual triumph of Washington over Cornwallis at Yorktown.

So we have great Spanish links here and links to our sister nations of the hemisphere. We are also very proud of the Latin American community we have in this area. They are a remarkable part of our area and as conscientious, hard working citizens and rarely do you find them on the police blotter or the welfare rolls. In addition, they have contributed so much to the culture and industry and professional excellence of our area. We are extremely proud of our Latin American association.

Of course, all of you know about our port. It's the third largest in the world and second only in the United States to New York. Last year we outdistanced New York 6 to 1 in waterborne traffic. And in addition to that, as a member of the Banking and Currency Committee, I remind you that we have a finance and banking community that backs up the type of trade that is so prevalent to this port and the kind of economy that can support the trade that goes through here.

You may be interested in the fact that the New Orleans area financial community is composed of 32 banks with assets exceeding $5.1 billion dollars and 40 savings and loan associations wtih total assets of almost $2 billion.

There is a branch of the Sixth Federal Reserve District Bank and a Federal land bank. And last year when there was so much difficulty in the banking community, the demand deposit accounts in our commercial banks were showing a steady increase of 14.6 percent for the first 9 months. Contrary to the activity of banks elsewhere, they lowered their loan portfolios by 7.8 percent. Mortgage loans increased 18.2 percent, with a net savings increase flow at these institutions of a possible 93 percent. So these economic indicators which are slightly better than the national scene, together with the other reserves here in our community, point to a very encouraging picture that merits increasing attention to our city and it's port.

Very recently, in December, the Congress passed a new Inter-American bank bill which increases the participation of the United States by $2¼ billion. As all of you know, $60 million of this was for concessionary loan funds for special operations and $1⅔ million for ordinary capital and an interregional stock subscription.

The U.S. Government will be able to vote for replenishment of the resources and increases in which have been up to $6⅓ million, with the United States having a 37 percent share.

As you know too, we included the Bahamas and Guyanas, and nonregional members for the first time including ten European countries and Israel and Japan. And we are now allowed to participate in the Caribbean Bank.

All these indicators point to increased trade and increased cultural exchange and increased economic happiness for the people of all of our nations.

So I would like all of you who are here, including my colleagues from the House, to know that we have wonderful institutions in this area, such as International House, International Trade Mart, where we are being hosted, the Board of Trade, our port authority, with plans for the year 2000; the Metropolitan Chamber of Commerce, the Foreign Relations Association, and the Consuls Association, which are all working so diligently to make this, indeed, the international gateway for the exchange of goods and ideas, as you will hear from the testimony of their officials gathered here.

I am extremely pleased to have all of you in this very appropriate city for this conference and thank you for allowing me to participate. Thank you.

Chairman LONG. Thank you very much, Lindy.

We are glad you could come and I know that you do have a busy schedule. We will be happy for you to stay as long as you can, but when you feel you must leave, do so.

OPENING STATEMENT OF CHAIRMAN LONG

Today marks the beginning of the second set of hearings by the Joint Economic Committee's Subcommittee on Inter-American Economic Relationships. Our topic is the changing economic relationships between the United States and Latin America. Our aim is to define exactly what U.S. interests in Latin America are and to explore some proposals for new policies. By way of explanation, when I use the term Latin America, I mean Central and South America, as well as the Caribbean.

Last week in Washington, the subcommittee began with 2 days of hearings to look at the changes that have taken place in Latin America over the past 5 years and heard from the State Department as to what U.S. policy presently is. What we heard last week confirmed my suspicions that such a reassessment is long overdue.

Over the past decade, relations between the United States and Latin America have suffered from what borders on a policy of benign neglect. For example, over the past 8 years the United States has used slogans to try and create the illusion that we had a Latin American policy. The "low profile," the "mature partnership," and the "new dialogue" came and went along with a variety of other similar catch phrases, but an effective policy cannot be based upon catch words and a passing pat on the head.

Secretary of State Kissinger, hardly a specialist in the region, has responded piecemeal to the many complaints of Latin America, particularly to trade questions. The long list of initiatives which the administration has offered in various forums does not add up to a policy, and our approach is one of reacting to complaints.

What this says to me is that we have not yet determined what we want from our relationship with Latin America, and as a result we have not set our priorities. This is why our policy really has no cohesive or consistent structure—it is merely a long list of proposals and initiatives designed to address individual problems with no overall framework holding the policy together.

Today, I will mention one particular item that I believe ought to be placed at the top of any list of priorities on the United States-Latin

American agenda—and that is the exclusion of Venezuela and Ecuador from GSP,—the generalized system of preferences established in the Trade Act of 1974. Without question, there are more basic issues pending on that agenda, but none has caused more bitterness in Latin America than this exclusion.

At the time of the passage of the Trade Act, the exclusion of all members of OPEC, the Organization of Petroleum Exporting Countries, from GSP had a certain emotional appeal because of the crippling oil embargo and the devastating quadrupling of oil prices. But the exclusion hit countries which were faithfully sending oil to the United States when the Arabs were refusing to do so; Venezuela and Ecuador were particular cases in point.

I believe that we have made our point about our dissatisfaction with OPEC and its actions. Now the time has come to remove this barrier so that we can get on with the serious business we have with Latin America. I want to take this occasion to commit myself to fighting for the repeal of the exclusion as it applies to those nations which did not participate in the embargo. I am hopeful that we can get the necessary legislation to achieve that aim during this session of Congress. If we can accomplish this, we will have taken a giant step forward in building a policy from the decay that our neglect of the past decade has caused.

Because of the proximity of Latin America to the United States, and because of our historical relationship with it Latin America in my view is the most important part of the developing world to the United States in the long run. From an economic standpoint, Latin America is one of the most promising regions of the developing world. Most of the countries there have economies that are fairly well on their way to development. This is evidenced by a burgeoning industrial base, an extensive infrastructure already in place, and growing numbers of manufactured exports. From a learning standpoint, if we are able to find some successful formulas for promoting cooperation for development in our own hemisphere, perhaps that would serve as a blueprint for other areas as well.

But there are other compelling reasons. Latin America continues to be a major trading partner, and it accounts for 70 percent of all U.S. direct investment in the developing world. Latin America will continue to be a prime source for raw materials needed here in the United States.

No city should be more aware of this than New Orleans, and no State more aware of it than Louisiana. As the second largest port in the United States, and with substantial trade with Latin America, New Orleans is rightfully the gateway to Latin America. What is more, the Latin influence is pervasive in New Orleans. Historically, Latin culture has left its imprint on New Orleans and the sizeable Latin community here indicates that this harmonious tradition is still alive. As a result, New Orleans and the South in general have a great stake in United States-Latin American economic relations.

These hearings will focus particularly on the role of trade and investment in our economic relations with Latin America and the Caribbean. Our hope is to obtain a non-Washington point of view, with an eye for pragmatic approaches in dealing with these problems. That is why we are meeting in a major trading center and port city occupying a key location in the United States-Latin American connection.

This morning, we will be taking a general look at the importance of economic relations with Latin America from the New Orleans point of view. We want to focus in on what the relationship between Latin America and the United States should be using New Orleans as a case in point. We want to talk about what U.S. interests in Latin America are and about what we should be doing to promote those interests.

This morning and this afternoon in particular, we will also be seeking answers to a number of trade-related questions. What is the outlook for United States-Latin American trade? We know, for example, that trade is probably the single most important aspect of our relations with our southern neighbors.

We will be looking at the exclusion of Venezuela and Ecuador from GSP as I mentioned earlier—not just from the point of view of trade but also from a perspective of how important this exclusion is symbolically to the Latin Americans.

Finally, we will be asking whether or not we should have a regional policy specifically for Latin America or whether we should pursue a single global policy for all developing nations. For example, Secretary Kissinger still speaks of a "special relationship" with Latin America. There is undoubtedly a "special relationship" in the sense that we share the same hemisphere and many common political, economic, cultural and historic ties. But one question we must explore is whether our policy toward the developing countries should be global—the same policy for all—or whether there should be special benefits for just Latin America.

We have with us today a number of outstanding witnesses who, I am sure, will have many valuable insights into our relations with Latin America which will be helpful to those of us in Washington as we try to fashion a better policy toward the hemisphere. I might also add that I am very pleased to have several distinguished Members of Congress here with us today. I think this is indicative of the interest that ought to be placed on our relations within our own hemisphere.

We have with us today Congressman Fascell, on my right, who represents Florida's 15th U.S. Congressional District in Miami. He is probably the leading Latin-Americanist in the House of Representatives. It is important that he is with us because he serves on the House International Relations Committee as chairman of the Subcommittee on Political and Military Affairs. And before we reorganize our committees at the beginning of last year, he was the chairman of the Subcommittee on Latin America.

I am also particularly pleased to have with us my colleague, Congressman Dave Treen. David was the first U.S. Representative in this century representing the Third U.S. Congressional District of Louisiana—which makes up a great part of the New Orleans area—to be a Republican. He is a member of the House Armed Services Committee where he has served as the ranking Republican member on Military Personnel. Particularly important in regard to these hearings, he is also a member of the House Merchant Marine and Fisheries Committee.

Do either of my colleagues have any statement to make? Congressman David Treen.

Representative TREEN. Thank you, Mr. Chairman, for inviting me and I commend you for holding this hearing.

I just want to say, since you mentioned I am a Republican, that I hope that international trade is indeed a bi-partisan goal in the Congress of the United States. And, of course, it's particularly important to this Representative, representing the Third U.S. Congressional District where these hearings are being held. And I commend you for it. I will be working with you in the next Congress, hopefully if we are both elected and we both get there to extend the trade opportunities we have with our Latin American neighbors.

Thank you.

Chairman LONG. Thank you, Congressman.

Representative FASCELL. Mr. Chairman, let me establish my appreciation for your inviting me here. It's a great privilege to follow you in your leadership in the Latin American matters. I join you in calling for changes in the exclusions of Venezuela and Ecuador and we certainly ought to do that.

I am also delighted to bring greetings from that other gateway and I am anxious to learn how you people do it all.

Chairman LONG. I was wondering when I was saying that, Danny, whether or not I was going to be able to get away with that phrase without your commenting on it. I see that I was not.

We are pleased that you come over and take part of the Fourth of July recess to visit with us for a while. We are pleased to have with us the councilman-at-large from the city of New Orleans who has been a long-time personal friend of mine since college days, Councilman Joe Di Rosa. He will talk with us about the importance of United States-Latin American trade to the city of New Orleans. We are glad to have you come down and be with us.

STATEMENT OF HON. JOSEPH Di ROSA, COUNCILMAN, CITY OF NEW ORLEANS

Mr. DI ROSA. Thank you very much, Mr. Chairman.

Gentlemen, I am here this morning pinch-hitting for the mayor. He was called to Baton Rouge and was therefore not able to make this appearance himself. But I would really want to extend to you the wholehearted support of the city of New Orleans.

In looking at our relations with South and Central America, let me say that I am the secretary for the United States to the Inter-American Municipal Association. We used to have the headquarters here, but it was moved to Bogota, Colombia and then to Spain. I bring that out to you because it's an organization composed of the mayors and councilmen from all the cities of the United States and the South and Central America from the Caribbean and also from Spain.

The meetings have previously been held in Spain. The last meeting was held about 6 or 8 months ago in Santiago, Chile and the mayor and I were there.

I give you this type of background because I wonder why, to some extent, the country has not gone more thoroughly into the problems of why the cities themselves are not taken into the South and Central America and of course all that deals with trade, because we like to believe, of course, that we are the gateway, although there may be another, maybe a back door you may call it, but seriously though, we think that it redounds to the benefit of the whole United States.

Frankly, I think we should change our relationship to some extent with South and Central America because I don't think it is in the light it should be.

It seems to me it ought to be a lot more friendly than it is. We, who deal on the local level with these people, get to see first hand the mayors and their cities and the councilmen. I really believe we get to the basis of the problems that are involved, not only with trade, but with the operation of the city.

To give you an example, you have the exclusion of Venezuela and Ecuador from GSP. The mayor of Teco, Ecuador was practically raised in the United States. He met his wife in New Orleans and was educated in the United States. He considers New Orleans almost his hometown outside of Teco, Ecuador. He is probably one of the greatest mayors that Teco has ever had, judging from the improvements he has made and the whole general atmosphere there. For example, in Venezuela, July 6 was the day they celebrated the 156th anniversary of independence. That's a long time.

These people all have consul generals down here and they work well. We have a statue of Simon Bolivar. If you go around our city, anyplace you go you will find something dealing with South and Central America and Spain. In fact, just outside that window you can see the Spanish Plaza donated to the city by Spain.

In fact, in New Orleans, it's getting so that we have so many people from South and Central America that it is becoming necessary to have a second language of Spanish. Of course, we think, that's good for our country and our community, because it is a stable community. This community actually helps us considerably. They do a lot for our trade and they do a lot for our people and they really get along well together.

In fact we used to have the headquarters for this organization. Then it moved to Bogota, Colombia and now to Spain because we couldn't give it the financial support it needed to maintain it. With the good graces of Captain Clark and International Trade Mart here, we have offered free rent to them but the association needs financial backing in the neighborhood of $75,000 which is a mere pittance when you stop to think of the benefits to our relationship with South and Central American people that would be engendered for having the headquarters here for all the mayors to come into this area as they did previously. In fact, the offices were right down the hall here until they moved. And, of course, those offices would be available again for the revitalizing of that organization.

But as a sort of a gesture—in Santiago, Chile, where we had the last meeting—Spain agreed to take it over until we made some financial arrangements to bring it back. That's only one of the small areas that I think we are absolutely missing the boat completely.

It's probably one thing to say that you want to deal with people or don't want to talk with them, but I think you should always be ready to talk with anybody at any time on any subject. And it seems, certainly, if they had the headquarters here; in fact, it was started here, it began in this area. We saw the benefits, but we didn't have the financial support to keep it going. And if the city could continue to make the financial contributions it had made we would still have it in this area. We hope to get it back if we can raise enough of the moneys to bring the headquarters back to New Orleans. We think it's extremely important to have it here, because, as I said, it's for the benefit of everybody because all of these people came here. We had met them. They came into these meetings. They have a very good attendance at the meetings, but like us, their budgets are limited.

When Colombia took it, the Government was sponsoring it and the Government paid the moneys to keep the organization running. But they have had a change in government, of course, and change in financing and arrangements have been different. They found they could no longer maintain it and that's the reason it was moved to Spain.

We are hoping now to get it back. We have a meeting in August, if I remember correctly, to attempt to bring it back to some permanent headquarters preferably in the United States and more preferably in New Orleans. And we are looking to that.

We have got the space, as I tell you. It's just a question of trying to raise the necessary funds in order to do that. Now it seems to be that would do enough to get a relationship going in addition to the consul generals. Now it's great to have consul generals here. We have been fortunate that the government has sent so many of their better men in New Orleans to be consul generals. They have worked well with us. They have worked well with the administration. We have all been a source of consolation and source of strength to us when we needed it for any support of Latin or South American things, anything we had to do that dealt with Latin and South American countries.

We are attempting now to try to do something to revitalize this spirit in our area here so that we can again lead where we seem to now be following others doing other things. It seemed to me that the subcommittee looking into the Inter-American relationship could do well not only to look into the relationship of economy for the countries concerned but actually the economy conditions of the communities themselves. It's a funny thing how the problems in other parts of the world are always the same as ours. You will find that the same problems that the mayors or councilmen have in the city and really that's basic background of any community or country for that matter, you find that the basic backgrounds, the basic problems that we have as councilmen and mayor are exactly the same as they have in the foreign countries. The only difference is they speak in Spanish and here we speak in English. And I don't know if that's any difference.

We have the same troubles with money and the same troubles with people and the same pressures from the same groups. So, if it's at all possible to assist you in any way we can, we will do anything we can do from the city's standpoint.

And I would like to incorporate what Congresswoman Boggs said about the statistics she gave relative to our banking facilities in the area. We think that we are Inter-American in nature. We have the Trade Mart and other things that are necessary to keep this relationship going.

And I want to let you know that on behalf of the city and I am sure I have the cooperation of the council and the mayor in this respect, that we are ready and willing and able to do anything that is necessary to get these things working again as long as it does not cost too much money from our revenue sharing.

Maybe what you can do from that revenue sharing is at least let us contribute our portion to bring the Inter-American Municipal Association back to New Orleans and do other things that are necessary to bring the trade relationship back.

There is one thing that always confused me to some extent is that fact that we have a free trade zone in our area in New Orleans and it is not utilized for any South or Central American trade. Now I don't know the reason for that, I am just hoping maybe this country in this study and their deliberations can find out why it is not being used for that purpose and why it does not have availability and doesn't seem to be used to the extent it was originally intended.

I remember that when the Free Trade Zone was announced, it was almost a cure all to everything. Now we find it hasn't been used. Is it our fault or someone else's and if it is, could you please let us know and see if we can do something to straighten that out.

So, gentlemen, with that, I will conclude my remarks and ask if there are any questions. If there is anything you would like to ask, I would be happy to answer it.

Chairman LONG. Does anyone have a question?

Representative FASCELL. Mr. Chairman, I think that what you pointed out, Mr. Di Rosa, is very important. I think the political aspect of the Municipal Association is an excellent one.

The question I have is whether the city or the State or other municipalities are involved in any people-to-people programs or sister city programs in Latin America, and if they are, how you view that?

Mr. DI ROSA. I view it very well, sir. In fact, I think it's something that ought to be done. These are people-to-people programs. In fact, in most instances, I think you would be surprised at the number of mayors from South and Central America we have met in this association that have sent people to us to ask us to discuss things with them or to show them what to do and to show them around and to lead them wherever they want to go.

And we attempt to help them. For example, in San Salvador we had them come down here and meet with some of the people. In fact they used a private foundation to some extent. In that respect they needed some help. They are not feeling well and we do everything we can to straighten them out. And, of course, Oschner is just one the best, we think, in the world anywhere.

And when you do that you get a relationship that's even closer than people to people. You get them in the time of need. You are not going over there looking for any benefits. You are only looking to help. And that's really what we do in this association.

The whole purpose is a question of helping them and not really from the standpoint of looking at what we can get out of it because we get a lot out of it just from the relationship that we had with these people, because we bring back some of the solutions that they have made to their problems. And I can tell you some of them are there, I know, and they are very innovated and very good.

Representative FASCELL. Thank you.

Chairman LONG. Congressman David Treen.

Representative TREEN. Joe, are you suggesting that the U.S. Congress should provide the funds for headquarters of the Inter-American Municipal Association?

Mr. DI ROSA. I would think it would be a good spending of funds to be frank with you. I know of others who have spent in not as beneficial a way as this one would be.

Representative TREEN. Is it $75,000 a year?

Mr. DI ROSA. I think that would be more than adequate.

Representative TREEN. You would be willing to take the Federal interference along with the funds, whatever that might be?

Mr. DI ROSA. We take it along with everything else. We are getting used to it as a way of life.

Representative TREEN. I just want that on the record.

Mr. DI ROSA. It's a question of whether South and Central American people are used to as many strings as we are. But I don't think it would amount to such a hinderance because I guess that amount wouldn't be that much and would be that small so that they wouldn't see it.

Representative TREEN. Would some of the other cities put up money for it?

Mr. DI ROSA. We did.

Representative TREEN. No; if it came here?

Mr. DI ROSA. We would put up whatever is necessary. We would give the rent through Mr. Clark. I don't mean to speak for him. I talked to him several times. We do have the rent paid and some secretarial help. The rest of it is organizational.

Representative TREEN. What I mean is, would some other cities put up some of the money in South America?

Mr. DI ROSA. Yes; they do. They pay dues.

As you can readily understand, it costs much more than $75,000 to operate an organization of this type. And we all contribute dues. All of the cities in the country contributed prorata shares.

Representative TREEN. Thank you.

Chairman LONG. I might say that I will ask the General Accounting Office to look into this Foreign Trade Zone question and get back to you on that as to whether or not there are any deterrents to the use of it.

I recall that I was in Congress when it was established. I wondered why it hadn't been used to the full extent that most expected it to be at the time that it was created. I will look into it and get back to you.

Mr. DI ROSA. I do wish you would because I thought it would be a tremendous boom to the city. It should be. It has a tremendous potential. I understand quite a few have been attempted in Florida.

Chairman LONG. Thank you, Councilman Di Rosa.

We are most appreciative of your remarks.

One announcement, maybe two. If anyone in the audience who is not scheduled to appear as a witness, has a statement he would like to make, we would be pleased to have it. The record will stay open on these hearings until August 15.

Also in that regard, Mr. Quay W. Parrott, Jr., vice president and general manager of the Citizens Bank of the South at Atlanta asked to be allowed to present a prepared statement in the form of a letter, and without objection it will be made a part of the record.

[The letter follows:]

CITIZENS & SOUTHERN INTERNATIONAL BANK OF NEW ORLEANS,
New Orleans, La., July 2, 1976.

Hon. GILLIS LONG,
Chairman, Subcommittee on Inter-America Economic Relationships, Congress of the United States, Washington, D.C.

DEAR CONGRESSMAN LONG: Thank you for the opportunity of addressing your subcommittee concerning some of the problems and opportunities facing Latin America and in particular the Central American—Caribbean area, to which New Orleans has such long standing ties. I regret that I will be unable to make a presentation in person as originally committed, however it was impossible to reschedule my trip of next week to El Salvador, Guatemala, and Honduras. Should you, members of your committee or your staff have any questions, please call me.

Citizens and Southern International Bank of New Orleans is a wholly owned international banking subsidiary of the Citizens and Southern National Bank, Atlanta, Georgia, locally chartered as an Edge Act corporation under section 25a of the Federal Reserve Act. Although our local activities and travel are principally related to Central America, the C & S system—including Atlanta, New Orleans, and Miami—is totally involved in Latin America with representatives in Colombia, Brazil, Peru, Costa Rica, and Jamaica. We also have joint venture investments in Costa Rica, Colombia, and Jamaica, however our policy is primarily that of working in co-operation with local banks, companies, individuals and governments as opposed to taking direct, majority owned investments. We are currently lending in practically every Latin American and Caribbean country with a few minor exceptions.

As noted our principal involvement through the New Orleans office has been in Central America and therefore the views expressed herein are basically based on my personal observations and opinions of this portion of Latin America.

Before making a few comments on the economic questions raised in your letter, I would like to first emphasize the necessity for United States foreign policy to make a firm commitment to Latin America. Through an almost planned policy of neglect, we have continuously relegated this area of the world to the role of a third cousin on your wife's side, i.e., a member of the family that can be called on for support or at least non-opposition when feuds arise but one who is best ignored the remainder of the time. A policy that has vacillated between intervention and neglect has fostered the growth of increasingly powerful nations with substantial oil production surrounded by countries dired in poverty, all of which share an increasing feeling of indifference to the United States.

We must face the fact that Latin America, while generally wanting to maintain close, friendly relationships with this country, also wants to pursue those objectives which are best for Guatemala, Ecuador, Brazil, Argentina, or Venezuela. Feelings of "anti-americanism" are often less "anti" than they are a reluctance to be labeled "pro-american" puppet. It was not, however, my intuition to dwell on the political.

The impact of the petroleum increases on Latin America has been tremendous. For Venezuela (and now Ecuador), it has propelled the former to a position of power and wealth totally unexpected. Under the burden of increased oil bills, depressed export prices and increasing balance of trade and balance of payments deficits, the remainder of the area is finding it has had money for intfrastructure and socal projects needed to upgrade the well-being of the country. Just when these matters were becoming increasingly worse, the United States took the "positive" steps of enforcing its OPEC sanctions against Venezuela and Ecuador. neither of which were participating in the boycott of the United States and then passed the Trade Act, which affectively increased restrictions on many Latin American products being exported to the United States, especially those industries where low labor costs are a major factor in the price competitiveness of a product.

We have long faced the Trade on AID arguments, however we need to give special consideration to buying from Latin American nations not only as to raw materials but also to the purchases of finished and semi-finished industrial and manufactured goods from Latin America. In reply to one of your questions, I believe that our first priority in assisting the developing world should be the Western Hemisphere.

The approach should be a combination of AID type programs providing long-term funds for needed infrastructure and industrial agre-business development and through special trade arrangements to encourage their export industries and give them access to the U.S. markets. We especially need to avoid future Trade Acts, which burdens these developing countries even further by restricting sales to this country.

Such action will assist these areas but it must be realized that the combination of inflation, oil prices, and erratic commodity prices will continue to adversely affect these nations. Since most of these countries will continue to depend on commodities for the bulk of their foreign exchange, it is necessary for this country to lead the way in establishing a base-price for many items of this production. The purpose here would be to shift much of the burden of commodity price fluctuations from the developing to the developed world. Set floors will enable these countries to better plan their economic development and growth. Obviously such a program will require certain safeguards and in light of world food shortages, the emphasis must also be on increased production of foodstuffs.

In conclusion, Latin America has long been the step child of U.S. foreign policy, however this area can no longer be relegated to a back seat. The area is a major source of petroleum, basic minerals, and foodstuffs. The needs of these countries have become the top priority for each country's politicians and the period of the "banana type" republics are becoming less prevalent. With social pressures and the demand for a share of the "good life", these countries will become more nationalistic and motivated by self interest. We will find ourselves increasingly at odds with these nations unless we take positive action to cement our relations with Latin America. A major step would be a guarantee of market accessibility plus assistance in stabilizing the prices for the commodities they buy and sell.

Hope that we'll see a new positive approach for this area of the world and thank you for your time.

Yours truly,

QUAY W. PARROTT, Jr.,
Vice President and General Manager.

Chairman LONG. We thought that we would proceed in a more or less informal way. If our four distinguished panelists would come up, we would be most appreciative.

Mr. Antonio Casas-Gonzalez is president of Centro de Almacenes Gongelados, C.A., in Caracas, Venezuela. We are pleased to have you here. Before Mr. Casas-Gonzalez went into private industry, he was the director of the Coordination and Planning Office for the Venezuelan Government. He is particularly well versed in that field.

Mr. J. W. Clark is a prominent business leader in New Orleans and also is president of the International Trade Mart and Delta Steamship Lines. Mr. Paul Fabry is director of the International House in New Orleans. We are pleased to have you here. Mr. Denis Grace is the deputy director of trade development, Board of Commissioners of Port of New Orleans, and he is a first-class expert on the economic trends and economic development in the Port of New Orleans.

Subject to everyone's approval, we will go through the statements of the four panelists and then have an open forum for discussion so that we can have questions and answers and comments on points made by the others. I have found from previous hearings that this works most effectively. Mr. Casas-Gonzalez, why don't you begin.

STATEMENT OF ANTONIO CASAS-GONZALEZ, PRESIDENT, CENTRO DE ALMACENES GONGELADOS, C.A., CARACAS, VENEZUELA

Mr. CASAS-GONZALEZ. Thank you, Mr. Chairman, Representative Treen and Congressman Fascell. Councilman Di Rosa, and members of the Latin-American consuls in New Orleans. Ladies and gentlemen, first of all, I would like to express my very good feeling of being here with you today. I am very appreciative of having been invited to make a statement at this meeting and have given me an opportunity to come back to one of the most interesting and most beautiful cities in the United States. I was mentioning to our consul general last night when he met me at the airport that it had been almost 15 years since I first came here. I hate to recognize that. I was beginning my college studies in the city of Washington and I came here to spend what turned out to be a very nice vacation. I find that the city, although I haven't seen much of it yet, has had a change but it is able to maintain its, what we call in Latin America, its encanto.

The very attractive personality of the city—I was very interested to hear Councilman Di Rosa's words before coming to this table. I would like to thank him for his very kind opinions of the nature of the city and the mayor of the city of Keto, who was my colleague at the Inter-American Development Bank for 7 years. We worked together there. He is my very good friend and I think that ideologically we have a lot in common also.

The mayor of the city of Caracas is also an ex-member of the Inter-American Bank so as you can see the Inter-American Bank produces loans and mayors. With the Governor, as we call him, of the city of Caracas, I had a very close and very friendly relationship for years. At the moment we are members of opposite groups. I am a member of the opposition. He is a member of the Government.

My present position is not voluntary as you can well understand. But fortunately we are in a country where these things are part of life now and what we don't have to worry about being members of the opposition.

Representative Fascell is a man that I have admired for years. He is aware of the process that our country has gone through in the last few years. He is one of the men who has always had a very clear stand with regard to Venezuela. And I remember when we had the black days of our dictatorship, he was always a very friendly hand here in the United States.

With this, I would like to begin my statement that I have prepared for the committee.

It is a rare and a very interesting opportunity for a Latin American to be able to participate in a series of hearings of the U.S. Congress and to be able to express his ideas, in a sincere and uncommitted fashion, before a group of distinguished representatives of the people of this Nation. It is particularly stimulating to find oneself in this position at a moment when this country is celebrating 200 years of continued democracy, the only system to which I adhere, with all of its faults and limitations.

Democracy permits open reflection and rectification. It is a moral obligation for those of us who believe in this way of life, to participate actively in the defense and the reinforcement of the basic ideals which are fundamental for the survival of the system. I am proud to be able to speak to you today as a citizen of a country that has had to fight and work very hard through a hectic historic evolution, in order to live without fear. Because of this, I feel that I can speak to you at ease. Because of this I have accepted your very kind invitation.

One of the main and most important characteristics of Latin America during the last 30 years have been the increasingly dynamic process of social mobility. No matter what kind of political system may have existed or exists in a particular country, a new kind of leadership has arisen in each one of our nations. The men that today participate in the policymaking process are no longer tied to traditional values or institutions. They do not come from an aristocratic class and they are not, for the most, committed to defend the economic interests of established national or multinational firms. Some of them may come from the old or the new enterpreneurial groups, but their mentality is a different one and their sincerely felt obligation is to contribute in some way to the economic development of their countries and to the social and human betterment of their people. Perhaps there may be many exceptions, but, in general, these are the type of men that are and will be leading Latin America in the future and it is a good sign that U.S. political leaders are trying to establish a dialog with these men and are making an effort to find out what they think about the relations between our countries.

For those of us that believe in democracy there can be nothing more important than the defense of human dignity and social justice. At different times in history, all States, in one way or another, have violated the fundamental rights of man. But if we really believe that basic objective of development is the welfare of the human being, we must accept that his liberties and his rights are of primary importance.

It is not logical, therefore, that those governments that systemically take abuse of human dignity should be given preference by those that systematically have defended the rights of man. This point was very clearly presented at a recent meeting of the Council of Hemisphere Affairs, which is a coalition of civic forces established in the United States. It is completely unrealistic and impractical not to accept political pluralism in our Hemisphere, but it is suicidal to forget that all of our people desire to reach a situation of individual human dignity which is, as Secretary Henry Kissinger pointed out at the recent OAS meeting in Santiago, "the ideal which all our governments have an obligation to strive" and also added, "a government that tramples the rights of its citizens denies the purpose of its existence." If we want permanent friendship based on mutual respect, to continue to be a main characteristic of our relationship, we must maintain a strong united position to uphold the basic principles of our existence as independent nations.

In order to consolidate our relations we must make a permanent effort to better understand each other, particularly in those aspects which are part of our nature and our way of life. We are fortunate to be able to live in a hemisphere with great cultural and social fluidity, with diversified and still greatly unexplored natural resources and with a tremendous human potential.

In understanding each other, there are certain constants which are of crucial importance. Perhaps one of the most obvious in Latin America is political and economic nationalism. A phenomena which has different degrees of intensity and very varied ways of expression in each country but which is common to all.

A good part of Latin American nationalism has been oriented toward the seeking of a common destiny. In this sense, during the last few years there has been a move from words to deeds. There have been obstacles and setbacks and the tendency toward economic integration and greater political coordination cannot be ignored.

The U.S. position has been to make supporting statements regarding this growing identification among the countries of Latin America, but in practice there have been very few initiatives to back this movement and at times we have felt instead that certain silent or invisible obstacles have been setup.

It seems to many that regional cooperation results in regional nationalism and that regional nationalism means confrontation with the United States. This concept of confrontation is something which profoundly worries many of us in Latin America. What is confrontation with the United States? Is confrontation the defense and betterment of our own interests? Are we confronting the U.S. Government when we affect the pecuniary interests of certain North American multinational firms? Is it confrontation to trade with the Soviet Union or with China, as many U.S. companies are doing? These and many other questions must be answered before the goals for a U.S. economic policy with Latin America can be defined by the United States and accepted by Latin America.

Nationalism can be a constructive force. It can help to motivate a group of people toward higher goals and ideals. A more developed Latin America is in no way a threat to the United States. On the contrary, it is the best way to insure peace and stability in this hemisphere. It is a mistake to try to divide Latin Americans. It is dangerous to back hegemonic positions. It is an error to move away from multilateralism. Problems can be solved through the parallel channels of bilateralism and multilateralism but without weakened this strategy in favor of the other. The recently established SELA, the Latin American Secretariat is an instrument for greater coordination and joint effort in Latin America. SELA is not an instrument for confrontation with the United States or with any other country or groups of countries.

For the future, SELA and other regional or international agencies will be facing some very crucial tasks. An understanding attitude and the enthusiastic collaboration of the United States will be of fundamental importance.

Perhaps one of the most important of these tasks will be in rapidly improving the food consumption and production levels of Latin Americans. There is no greater threat than hunger to social stability and coexistence.

A major effort must be made to improve productivity and diversify food production. As underlined by the United States at the last FAO meeting, a systematic worldwide approach is required to solve food shortages. But, within this approach, an immediate well-coordinated hemispheric effort must be made.

In the last few months there has been growing interest in the possibility of using U.S. foodpower as a weapon in world politics. This issue must be handled with care and a great sense of responsibility. Food and commodity wars must be avoided for the sake of mankind.

Another important aspect with respect to the immediate future in Latin America will be a continued tendency toward greater public control over natural resources and toward their transformation into final products within our own frontiers.

Social goals will become a more important element both in the extraction of natural resources and in the manufacturing process.

It must be understood that industrialization in our countries is not a deterrent to trade with the United States. This can be easily confirmed by examining the trends in trade between the United States and Latin America, since the effort to industrialize began in our countries.

A third element of primary importance will be a continued and growing joint effort for the improvement of the trade potential of our basic products, both on a regional and on an international basis. We should not be surprised at the appearance of many other "OPECS," particularly as the industrialized countries revitalize their economic growth process. In this sense, the U.S. proposal at UNCTAD for the establishment of the IRB, an International Resources Bank, and the Paris north-south dialog can be of enormous significance.

A joint effort for resource development through an institution such as IRB could be a very important element for the future well-being of humanity. But in setting up such an institution the major consuming countries must not ignore the rights and privileges which the developing nations must maintain and strengthen with regard to their natural resources.

The Paris meetings, on the other hand, have created great expectation on the part of the developing countries. Let us hope that, as has happened so many times, these expectations will not become profound frustrations. A dialog on the issue of commodity prices was suggested many times in the past. In the case of oil, for example. former President Rafael Caldera of Venezuela proposed this possibility during his official visit to the United States in the early 1970's. At that time the price of oil was one-fifth of what it is today, and Venezuela's suggestion was not taken seriously by anyone, even in the U.S. Congress. Then, most United States leaders considered that the price of oil was a matter to be handled by the major oil companies.

Today it is difficult for us to understand why the United States opposed a price indexation system as proposed by the developing countries in Paris. It is not logical to find some kind of a mechanism by which prices between industrial and primary products can be related? In a recent article published in the American Economic Review, C. Fred Bergsten and William K. Cline suggested the need for much greater concern and research on the effects of foreign economic policy instruments and specifically mentioned the importance of the possibility of commodity price indexation and the need to investigate its incidence upon "supply and demand income distribution and worldwide inflation."

The authors, furthermore, recognize that nonrenewable resource pricing is a special aspect of commodity pricing. This is something the oil-producing countries have been insisting upon for years.

The trade issue is, of course, an important one and will continue to be so in the future. Although a few Latin American countries seem to want to return to positions which favor a system of vertical preferences with the United States, the majority are still very much for general preferences. In this sense, the approval of the U.S. Trade Act at the end of 1974 has shown a desire to support liberalization of world trade on the part of the U.S. Congress. The problems here concerning

Latin America are more of a global character, with the exception of the clearly discriminating measure to exclude Ecuador and Venezuela from the advantages involved. The decision to place these two countries in the same position as those that had participated in the oil embargo is a clear manifestation of a lack of understanding of Latin America's role as a key supplier of petroleum to this country and its noninvolvement in the Middle East conflict. Efforts to divide the petroleum and nonpetroleum exports in Latin America have been of no use, for all of our countries have maintained a united front in this matter.

We were very happy to see that two distinguished members of this committee, Senators Lloyd Bentsen and Edward Kennedy, presented amendments to correct this mistake, and we sincerely hope that Congress will back the initiatives of the executive branch of the U.S. Government to end the exclusive of these two countries from the benefits of the Trade Act.

Within this legislation there are many initiatives that can be taken to improve the export possibilities of developing countries, and there are, on the other hand, many instruments such as that of the countervailing duties which could be at moments applied to the detriment of our nations. We sincerely expect that a sense of international justice will prevail at all times. A great deal can also be accomplished for the good of the developing countries through the MTN, the multilateral trade negotiations. The avoidance of trade wars between industrialized nations or between them and developing countries will be of benefits to all.

There is in Latin America a great deal of confusion concerning the U.S. position with respect to economic integration in the region. There have been many favorable statements, but these, in most instances, have not been followed by concrete measures. There has been a mixture of partial support and partial opposition. Just recently, in Santiago, Secretary Kissinger said, "We are ready to support responsible efforts to further integration."

What is responsible in the opinion of the United States?

Do you consider that internal problems or transitory drawbacks due to disagreement on certain issues are a sign of irresponsibility? Is it a lack of responsibility to establish certain controls over foreign investments?

Since its establishment, the Andean Group Secretariat, for example, has received three donations from the Canadian Government. The first for $200,000; the second for $400,000; and a very recent one for $2.8 million. These amounts can be freely utilized without any ties. During the same period, the United States has donated $8,000 to that agency, to be used for the acquisition of specialized publications on petrochemicals.

"Decision 24" on foreign investment was not planned as a weapon against any particular country. It was conceived as a tool to further a more autonomous development process in the Andean countries. I, for one, feel that it contains errors and that it could be simplified for the benefit of the member countries. But I sincerely think that its possible negative effects have been exaggerated in some capital-exporting nations. There is now a clear desire to make "Decision 24" more flexible, to readjust some of its more inconvenient aspects. In this process a certain amount of understanding on the part of the United States would be of mutual interest.

Regarding U.S. investment in Latin America much can be said in opposition and in favor. However, there is one aspect that I would like to bring out, because I have been insisting upon it for a long time. I refer to the way most major U.S. companies establish their operations in our countries. Instead of seeking formulas to share capital participation with local interests, they have traditionally insisted upon full control. This is not only a contradiction with the schemes for broad participation which are typical in their U.S. mother companies, but it is also a lack of foresight. The greater the number of medium and small stockholders, the better the possibilities for stability. In fact, in many countries of Latin America it has been demonstrated that companies which offer participation to their workers are usually immune or less propense to face labor problems.

Finally, an aspect which is also of great importance and which has drawn the attention and even a negative attitude on the part of U.S. taxpayers. In this country it is often referred to as aid. I prefer to call it economic cooperation.

In the last few years there has been a permanent tendency for the United States to pull away from this activity, or at least to cut down certain programs. I believe this to be an equivocal attitude.

An analysis of the situation in the past will prove that U.S. support of lending and technical assistance mechanisms have not been bad business. Many very useful institutions have been established, new industries have appeared and communications and general infrastructure have improved, just to mention a few positive results. There may have been failures, but their significance has been minor compared to the transformation and advancement in certain key fields. Debt service commitments have been in general fulfilled. Furthermore, many countries that have improved their economic situation have readily agreed to renounce to be eligible for soft loans and some, such as Argentina, Brazil, Mexico, and Venezuela have established their own cooperation programs with other Latin American countries. In the case of Venezuela, the funds appropriated to these programs during the last 2 years have been proportionately higher than in the United States, both in relation to their budget and to their GNP.

When the Inter-American Development Bank was established many people in the United States believed that a financial institution managed mostly by Latin Americans, for loans to Latin Americans, would soon end in chaos and failure. Performance has proven the contrary.

I have tried to cover only some of the many elements which are important in our mutual relations. It is impossible to consider all of them.

I have always believed that united effort is fundamental for the future well-being of our countries. This effort requires a more profound and broader understanding of our needs and possibilities. We must find ways to communicate with an open heart and with an open mind. I sincerely hope that my statement today has contributed to this goal.

Thank you.

Chairman LONG. It certainly has helped us. Thank you, Mr. Casas-Gonzalez. We are appreciative to the amount of work you put into preparing this statement, because it is one of those which really took sitting down and thinking out to express your views as you did. I'm sorry for the interruption, because I am most interested and impressed by the major part of your statement I did hear and I will read the portion I missed.

Mr. Clark, as I said earlier, we are most pleased to have you with us and if you would proceed.

STATEMENT OF J. W. CLARK, PRESIDENT, INTERNATIONAL TRADE MART AND DELTA STEAMSHIP LINES, NEW ORLEANS

Mr. Clark. Mr. Chairman, members of this distinguished committee, it's certainly a privilege and pleasure to be here and appear before you.

I am particularly pleased that Congresswoman Lindy Boggs and Congressman Dave Treen could be present. Congressman Fascell, I don't know if you recall me, but you and I corresponded quite a bit in years gone by. I was writing a brief on economic regionalism in the Americas and I solicited your views and they were very helpful and certainly you are one of the most outstanding authorities on Inter-American relations.

Just a few months ago, I had the privilege of meeting with Congressman Long down in South America. At that time he was making certain preparations for these hearings, I believe, and we had some good discussions on that at the time. I know that Lindy Boggs and Dave Treen will certainly use their good efforts to assist in this program.

I think it is great that we have so many representatives of the Consular Corp. of New Orleans here present. And I might mention that here in the International Trade Mart that we have 26 of those consulates located.

Mr. Chairman. I have a prepared statement which, with your permission, I will follow to avoid rambling. Then, I would like to add a few remarks as we go along.

Chairman Long. Feel free to proceed in your own way, Mr. Clark, your prepared statement will be made a part of the record.

Mr. Clark. Thank you.

First of all, I would like to mention that I am delighted that a representative of Venezuela is here in the person of Mr. Casas-Gonzalez. I have, on many occasions, visited in Venezuela. As a matter of fact, I expect to be back there in about 2 weeks. As to his remarks, I think they are very well taken.

I don't necessarily agree with them. I think he and I could have a lengthy debate on some of the issues, but I do recognize them as stating with great clarity the general position of our Latin American friends. And I think a lot of the differences between our people in the U.S. Congress, and the people at large, and our counterparts in Latin America, has been basically communication. And the type of communication that Mr. Casas-Gonzalez has brought forward here, I think is very helpful in your deliberations.

There was a question about the free trade zone of New Orleans functions and I am sure Dennis Grace will be responding to that question.

As to the Inter-American Municipal Association, you may have some questions about that. But that office was located here in the International Trade Mart—the offices are available. It was moved to Colombia Bogotá, to make it more centrally located in Latin America. We would be happy to have it back. There is a financial problem other than the rent, of course, which the Trade Mart would make avialable.

Now I will proceed with my statement. As president of the International Trade Mart of New Orleans, I can assure you that our members are vitally concerned about U.S. relations with our friends in Latin America. The International Trade Mart, and I would like to add our sister organization, International House, are designed to develop trade commerce and cultural relations between the people of the United States of America and the people of the world, particularly the other American republics. That is in the charter of both of these organizations.

In addition, the International Trade Mart is an associate trustee of the Council of the Americas. Incidentally, this is a people-to-people, businessman-to-businessman, type of organization which works directly with the CICYP group, our basic counterpart in Latin America in trying to coordinate the problems of businessmen. And the International Trade Mart is the southern branch of the Council. I have the privilege of being the national vice chairman of that organization. This is a nonprofit organization whose approximate 200 corporate members account for some 90 percent of the U.S. private investments in Latin America.

Now, on June 16, to give you an example of some of our acts, we met with Secretary of Treasury Simon, and Assistant Secretary of State Schlaudman. I presume he's been confirmed now, Mr. Chairman?

Chairman LONG. He has.

Mr. CLARK. For a review of the current economic events in Latin America. Today I would like to begin by quoting from an address given by President Woodrow Wilson in Mobile, Ala., October 27, 1913, wherein he spoke of the future policy of the United States toward the Latin American countries. He stated:

> We must prove ourselves their friends and champions upon terms of equality and honor. You cannot be friends upon any other terms than upon the terms of equality. You cannot be friends at all except upon the terms of honor. We must show ourselves friends by comprehending their interest whether it squares with our own interest or not. It is a very perilous thing to determine the foreign policy of a nation in the terms of material interest. It not only is unfair to those with whom you are dealing, but it is degrading as regards your own actions.

Often referred to as the "Father of the good neighbor policy," Cordell Hull voiced a similar philosophy when he stated:

> I think we ought to build upon the solid and broad foundations of justice, equality, and friendship. I think, too, that the more we visualize those broader relationships, both political and economic, that should be restored, keeping at all times within the limitations of our traditions and our Constitution, the greater service we will render to ourselves and to other peoples.

The words of Cordell Hull and Woodrow Wilson are just as appropriate now as when first uttered.

Their words were echoed just 3 weeks ago when Mr. Miseal Pastrana Borrero, former President of Colombia, held a press conference prior to a speech given before the Rotary International Convention here in

New Orleans. He stated: "The fundamental policy should be relations within a framework of equality."

As Mr. Kissinger noted at the recent signing of the memorandum of understanding between Brazil and the United States, in the relations between the United States and Latin America, there have often been high-sounding declarations. Unfortunately, rhetoric rather than action has symbolized our past attitudes toward our Latin neighbors.

We are keenly interested in the policy decisions of administrative and congressional leaders, and review the results of their meetings with Latin American leaders, as well as the multinational trade negotiations now underway in Geneva.

It was my privilege last year to present testimony before the U.S. Special Representative for Trade Negotiations, concerning the Trade Act of 1974.

New Orleans is strategically located as a natural center of trade between Latin America and the United States. There is an abundance of frequent and reliable steamship services available to service importers and exporters doing business with Latin America. Our movements in effect serve as a barometer indicating the rise and fall of inter-American trade. Trade development is affected by many factors, some of which may be improved through multilateral negotiations in Geneva, while others may best be resolved through bilateral agreements. Policy decisions obviously should be based on the particular political and economic conditions existing in each country. In our trade balance, the United States is a net exporter to Latin America, with the United States having a large edge in the balance of payments. A majority of the U.S. exports are semiprocessed or manufactured goods, whereas U.S. imports are substantially raw materials.

This is not to say that the United States has a captive market for its exports or its investments. According to the Interamerican Development Bank, United States exports to Latin America in 1975 amounted to $16.3 billion, a figure far higher than United States exports to other developing regions. This represents a significant share of total Latin American imports. Closely related to this trade, however, is the investment by United States firms in Latin America. OPIC, the Overseas Private Investment Corporation, should be extended by the Congress to safeguard and thus encourage U.S. investment in these developing countries, particularly in the case of small business ventures. This is mutually beneficial. However, as OPIC directly affects the U.S. balance of payments, it should be required that plant equipment, materials, et cetera, be of U.S. origin and further, that Public Resolution 17 apply as is the case with Eximbank shipments. Services such as shipping, insurance, et cetera, are also U.S. exports. Direct trade assures a friendly U.S. presence.

As an example, the United States is the single largest foreign investor in Brazil, currently holding 32.3 percent of the total, but investment by other countries is threatening U.S. leadership. West Germany and Japan are serious contenders, followed by others. A recent Journal of Commerce article originating in Brazil indicated that from the period from December 1971 to June of 1975, Japanese investment increased by 495 percent, Swiss investment by 231 percent and the U.S. by only 97 percent. As many of these investments require modern technology, U.S. suppliers are finding export markets declining due to nontraditional competition.

Of course, we cannot overlook three major events which took place during this period. The first concerned the devaluation of the U.S. dollar in 1973, which made U.S. products more attractive in the world market place. Next we had the oil embargo, which affected the entire world market. A worldwide recession, combined with rapid inflation, followed as the third major event of the period. A retrenchment of world trade ensued during 1974–75, from which the United States is only now beginning to recover.

Many nations have been forced to near bankruptcy by price rises on imports caused by oil pricing schemes imposed by the OPEC groups. The cost of financing other imports has itself been affected by higher interest rates which were caused by inflation and dislocations in the international monetary markets.

Nations such as Brazil which have experienced rapid economic expansion in the early 1970's are now confronted with a contraction in growth which was both required and forced upon them. Changes in gross domestic product, which in Latin America ranged from near stagnancy in Uruguay, and to nearly 10–20 percent in Ecuador, Dominican Republic and Brazil during the 1968–1974 period, have suddenly experienced declines in 1975. Exports of goods and services have played a significant role in the rapid rates of growth for the Latin American countries. These exports have helped fund the purchase of essential imports required to sustain rapid internal development. However, acceleration of most of the region's economic growth has been accompanied by a still more rapid expansion of imports.

Over the past 7 years, regional imports, valued at constant prices, rose by an average annual rate of more than 10 percent, while the gross domestic product increased by only 7 percent. The resultant negative balance of payments and rapid inflation influenced Latin economic policymakers toward protectionism of developing industries. Trade barriers were rapidly imposed to restrict imports, while at the same time export incentives flourished.

The United States of America is today confronted with the prospect of increasingly difficult trade relations with the rest of the world, and possibly partial or total economic isolation by reason of the development of protectionist policies among established and projected trading blocs—including LAFTA and CACM. It is therefore only prudent that interested observers should concern themselves with the possible trade diminishing effects which might result from the accelerated changes in traditional world trade patterns.

There exists a tendency to maintain strong external trade barriers for the protection of bloc industries, thus minimizing trade potential with "outside" countries.

The sinister intrusion of the Communists in the traditional trading patterns of the free nations of the Western Hemisphere, motivated by political considerations, and coupled with the tremendous expansion of Communist-flag shipping with the ultimate goal of dominating the world's sealanes, offers to the nations of the Western Hemisphere a disturbing threat to their collective security. Communist objectives are well served through restrictive bilateral barter transactions.

The independent countries of the Western Hemisphere now have common cause to give serious consideration to broadening their present degree of economic cooperation. Only through unity can there be exerted the necessary "leverage" to obtain desired concessions from other trade blocs. The elimination of international trade barriers in the future can be expedited by such means. A basic consideration must be a practicable approach to the current disparities existing between developed, developing and underdeveloped countries with the objective of achieving competitive production and marketing potential.

We notice with concern the activity occurring between the Latin Americans and the Eastern bloc countries. This is particularly evident in the Latin exports of raw materials to the Eastern bloc. With the Comecon group competing in Latin America for the same raw materials as the United States, there is a great possibility that the United States will be irreparably harmed. The barter aspect provides displacement of U.S. manufactures by Comecon products. Again, the matter of presence is of great importance. This potential danger is real, as we watch the ever-increasing Russian merchant fleet appear in Latin ports, as the Latins are persuaded to seek expansion away from their traditional trading partner—the United States of America.

While overall the Latins are skeptical of Russian influence, which has suffered setbacks in Chile, Bolivia, Brazil, and Argentina, Comecon will endeavor to maintain a presence in the Western Hemisphere, anticipating a decline in U.S. influence in Latin American affairs.

With the emphasis focused on trade expansion in the early 1970s, particularly in the United States, it was to be expected that the United States assume the initiative in seeking removal of trade inhibiting restrictions. A new and realistic U.S. trade policy was achieved with the passage of the Trade Act of 1974. One result now is that nearly 75 percent of Latin America's imports into the United States enter duty free, compared with 67 percent previously. Unfortunately, it has opened large segments of adverse publicity with our hemispheric neighbors. In reality, its effect seems to be often immeasurable. The International Trade Commission has come under attack for being less than well organized, with numerous vacancies going unfilled in its structure. The generalized system of preference was not well received by many recipients due to both a lack of understanding on their part and a few errors on our part regarding the exclusion of such countries as Venezuela and Ecuador from the GSP—mainly due to their membership in OPEC, although not joining the OPEC oil boycott. Venezuela has been one of our most vocal critics, which can be largely traced to exclusion from the GSP. This is more a matter of pride than substance, as Venezuelan dutiable exports to the United States are for all practical purposes nonexistent. The Bentsen bill, to provide GSP for such countries which did not join in the oil boycott, should be promptly and favorably considered by Congress.

As a result of the Trade Act of 1974, service industries such as shipping, insurance, and banking, are directly benefiting from the Trade Act under title III, which encourages mutual respect.

Leaving the recent past and looking to the future, U.S. policy can have a positive impact on hemispheric relations. First of all, our policymakers should get on the same wavelength. Secretary Kissinger is reported to have stated on his first trip through Latin America this year that Government-run multilateral lending institutions were favored in the long run for providing necessary financial and technical support for aiding the development of countries. Secretary Simon, on his followup trip, noted that such things be best left to private institutions. An obvious problem has occurred recently with Secretary Kissinger's approach, when the UNCTAD IV Conference held in Nairobi rejected the U.S. concept of establishing an International Resource Bank. We are opposed to this sort of multilateral approach for financing development projects because, while the United States is most often the largest subscriber to institutions such as the World Bank, regional banks, et cetera, seldom is there any guarantee that U.S. firms will reap the benefits in the international bidding process used. All too often we find projects funded by multilateral banks, such as the IADB and World Bank, lost to foreign firms during the bidding process. We prefer to see greater expansion of such bilateral institutions as the Export-Import Bank, where U.S. manufacturers and service indústries have an opportunity to participate with consequent benefit to U.S. economy and trade balance—and presence.

In summary, I would like to offer the following suggestions regarding future U.S. policy toward Latin America.

First and foremost, we must support Western Hemisphere cooperation through providing financial support to such institutions as the Export-Import Bank, with liberal credit policies.

Second, we must negotiate bilateral preferential trade agreements with LAFTA and CACM.

Third, we must recognize that our collective security from further intrusion by the Communists in traditional trading patterns of the free nations of this hemisphere depends heavily on the broadening of economic cooperation between the independent countries of this hemisphere.

Finally, we must recognize that both multilateral and bilateral negotiations have a place in foreign policy determinations, but such determinations must take place upon terms of equality and honor. Mutual respect and reciprocity of treatment is imperative. It's a two-way street.

Mr. Chairman and subcommittee members, I would like to thank you for permitting me to present this statement to you today. Should you have any questions, I will be pleased to attempt to answer them at this time.

Thank you.

Chairman LONG. Thank you very much, Mr. Clark.

We are appreciative of your taking the time that you obviously took in preparation of your statement.

Mr. Fabry, we are pleased to have you, sir.

If you would proceed.

STATEMENT OF PAUL FABRY, DIRECTOR, INTERNATIONAL HOUSE, NEW ORLEANS

Mr. FABRY. Mr. Chairman, one of our cherished rituals of the election year is the complaint that the outgoing administration has not developed a policy toward Latin America.

This is true, in fact, and has proved to be true for all administrations. Could it be the reason for this, indeed, is that no standard policy can be developed for a region so varied in both political and economic terms? Now how can a policy for underdeveloped nations, as you, Mr. Chairman, mentioned in your introduction in a broader sense, be extended and valid for Asia, for Africa and Latin America at the same time?

Those of you sitting on the various committees, particularly, Congressman Treen, working on the international relations aspect of our policy. We know that when it comes to policy on Latin America, it will be impossible to expect that any policy towards underdeveloped continents, in general could automatically be validated. Or how could you develop a policy in Asia that would be valid for both Mao Tse Tung for example and Mr. Tonaka in Japan. Or how can you develop a regional policy for Africa that would be equally good for an idiotic person like Idi Amin of Uganda and Mr. Vorster of South Africa; and the same can be translated in Latin America if I can refer to Mr. Casas-Gonzalez and what he said.

How can a policy be valid in an all inclusive fashion, if you please, for a communist regime like Castro's and the seven or eight juntas that operate in some countries, and for a democracy in Venezuela.

So it would be my feeling that a regional policy as such would never be possible. Starting from this I will address myself to the economic reality in a random fashion and, with the Chairman's permission, call for a pragmatic approach. Among the illusions and myths that come up frequently here are just a few:

That the United States has a sort of monopoly as a business partner south of the Rio Grande.

That closeness by geography determines economic dependence.

That the U.S. businessman will consider it more patriotic to do business with the South American countries than with, let's say, an Asian country.

That the many difficulties in doing business with Latin countries are due to our lack of knowledge, and not to bureaucratic impediments and inefficiencies in the other countries.

That policies generally dedicated to helping the developing countries of Asia and Africa are automatically helpful to the poor within our hemisphere.

That trade or investment can be increased by edict rather than by business incentives.

That one can get the basic investment out of a Latin American country in 3 years, and that U.S. capital is indiscriminately welcome through the hemisphere.

There are some additional illusions, specific to our area, such as:

The myth that New Orleans is closer to South America than all the rest of the country.

That Louisiana is an all-important producer and buyer of manufactured goods.

That bankers and corporations in this State constitute a huge poential of investors abroad.

That the large Latin community in our cities generates significant trade within the hemisphere.

That Latin America as a region holds the best potential for U.S. trade expansion.

It is unfortunate that some of these beliefs are not realistic. It is also a tragedy that so many of our neighbors to the south have not yet reached economic standards commensurate with the natural resources they possess.

For most of Latin America's 300 million people last year, the economic bottom line was deepening poverty. Hunger grew with food prices and unemployment, while those still working found their living standards eroded by inflation.

But not all the poverty was a direct result of falling export prices and the rising costs of imported manufactured goods or petroleum. In the nations with the most strictly regulated economies—Chile, Brazil and Colombia—the further impoverishment of the people was an outgrowth of government policy.

In Chile the inflation rate in 1975 was reduced to 340 percent over 500 percent, while recession resulted in unemployment estimated at one-third of the labor force.

Brazil's recession also hit hard at the 70 percent of the labor force that earns less than $100 a month.

Colombia's democratic government, on the other hand, chose to use subsidies for basic necessities, but with a fourth of the working force idle, the burden on the poor remains heavy.

Parallel with the economic decline go some isolated success stories, but all in all, the region's growth rate had fallen to 3.3 percent in 1975—from 7 percent the year before—while the trading deficit had risen to $10.3 billion. Export prices in 1975 had risen by 1 percent overall while import prices rose by 14 percent, creating further reasons for artificial trade barriers.

During 1975, the same difficult year, U.S. exports to Latin America rose to $17 billion, a 9 percent growth, with similar growth predictions for 1976, in spite of import quotas and balance of payment problems in most countries. Certainly, Louisiana ports and transportation industries will continue to get a healthy share of this huge business.

The contradictions, political upsets, the hardships and dependence on each other will obviously all continue in the years to come as will the slogans and promises from Washington.

But while the unification of Latin America in the past promised an economic and political togetherness with the United States, today it carries the threat of organized bitterness against alleged coercion and interference from Washington and a chance for a unified demand for a change in our policies.

There are some other random conclusions which may be drawn by a pragmatic observer:

The cumulative influence of multinational corporations on trade and investment in Latin America is more significant today than the total of policies emanating from Washington.

The needed diversification of Latin American exports will not as much result from U.S. assistance as it will depend on the competitiveness of their manufactured goods.

New cooperative business ventures, U.S. investment and technology will flow south not because of slogans and campaigns, but only if incentives, stability and profits will prove to be good in the receiving countries.

Development of multinational corporations of their own in South America—encouraged by SELA—may soon become a reality. Definitely an advantage to the industries of these countries, such development may become a greater deterrent of U.S. trade expansion than the present competition with European and Asian exports in the area.

The exclusion of Venezuela and Ecuador from the benefits of the U.S. Trade Act should be ended because it is counterproductive.

While grievances by Latin nations are increasing, U.S. stakes in the region continue to grow. Of 19 raw materials, excluding fuel, that are important to national security or U.S. industry, 12 come in significant amounts from Latin America or from the nations of the Caribbean. Venezuela exports over 1.7 million barrels of oil a day to the United States—about one tenth of this country's consumption. American consumers get a major share of their coffee, sugar, bananas, cocoa and tomatoes from countries south of the U.S. border. Latin-American meat and cotton also are important in the U.S. market.

While the hopes of Francisco Morazan for a single Central American republic do not appear any nearer fruition than when he struggled for union, Secretary Kissinger's call for regional economic integration and a new dialog may also evaporate with the outgoing administration.

Thank you.

Chairman LONG. Thank you very much.

I agree with your own analysis of it as a very pragmatic approach to the problems and I am sure all of us are appreciative of your having your own views.

Mr. Grace, would you proceed.

STATEMENT OF DENIS B. GRACE, DEPUTY PORT DIRECTOR FOR TRADE DEVELOPMENT, BOARD OF COMMISSIONERS, PORT OF NEW ORLEANS

Mr. GRACE. Mr. Chairman, Congressmen, ladies and gentlemen, the port authority that depends on the Latin American trade for 25 percent of its commerce is delighted to be able to address itself today to the economic impact on the State of Louisiana of commerce with Latin America.

In fact, I will draw from Congresswoman Boggs' statement as to the value of this trade. Historically, we have imported raw materials from Latin America such as raw sugar and molasses, green coffee, bauxite, crude petroleum and iron ore. Today we are beginning to get more manufactured products. In return we have shipped them food stuffs, organic chemicals, paper products, machinery and transportation equipment.

The value of the cargoes traded in 1974 was over a billion dollars.

The services of the Port of New Orleans are essential to the viability of Louisiana's economy. In providing access to world markets and supplies, the port affects greater utilization of Louisiana's human, natural, and industrial resources. Louisiana depends on foreign trade much more than other States. Louisiana exports 90 percent of its soybeans, 80 percent of its rice, 10 percent of its chemicals and over 8 percent of the primary metals, all more than double the national average. Dependence on the import side is equally evident. Raw sugar, molasses, and crude petroleum supplement local production and allow Louisiana refineries to operate at full capacity the year round. Green coffee and bauxite imports form the basis of Louisiana's coffee and aluminum industries.

Louisiana's production of goods and services just for the Latin American trade sector are valued at $1.09 billion annually. Production for the Latin American export market in Louisiana amounts to $369 million annually. Output of Louisiana industry which are dependent on Latin American supplies of key raw materials approaches $320 million.

Port activities and related services required to transport Louisiana's imports and exports as well as those of the other States served by our port in the Latin American sector amounts to another $320 million each year.

The total impact of Latin Americas trade on Louisiana's economy is appreciatively greater than the direct values of these goods and services in that sector, such as supplying industries purchasing inputs needed to support production occurring in the Latin American trade sector. In turn, those industries supplying inputs to the supplying industries must also purchase inputs which constitute production by still other industries. This chain of expenditures arising from industry interdependence has a multiplying effect which permeates literally every sector of Louisiana's economy generating jobs and payrolls. The direct value of Louisiana's Latin American trade sector plus these secondary effects of interindustry transactions exceeds $1.77 billion annually. This amounts to 9.1 percent of Louisiana's gross State product. In employment terms Latin American trade total impact means about 33,000 jobs for Louisiana's residents with payrolls exceeding $295 million annually.

Additionally the State collects taxes on individuals and businesses engaged in Latin American trade amounting to over $21 million annually.

As the Latin American countries industrialize as in Mexico and Brazil, we note the amount of trade between the countries increases. Equally important, the value of the items traded increases. Thus commerce is more profitable.

To recap, the impact on the State of Louisiana of waterborne commerce, with Latin America:

First, Louisiana products for the Latin American market total $369 million annually. Louisiana products based on Latin American key imports total $320 million annually. Port and related services in Latin American commerce total $320 million for a total of $1.09 billion annually.

The direct and secondary effects are $1.77 billion annually and about 33,000 jobs.

Now the question was raised about our foreign trade zone. We do have foreign trade zone number two which was the second established in the United States—established in the 1930s. It's an active trade zone. It means a substantial number of jobs for the metropolitan area of New Orleans. It is now one of the 18 in the United States. There has been a surge of interest recently in foreign trade zones. It's true what Councilman Di Rosa and Mr. Fabry have stated that it has not been as successful as it was initially contemplated. Principally because manufacturing is not taking place in the foreign trade zones. We do have an application in at the present time to the foreign trade zone board in Washington to set up a subzone for the manufacture of meats in the foreign trade zone. And this will be particularly important to the Central American countries of Costa Rica, Nicaragua, Honduras, and El Salvador who have substantial quantities of meat to export to the United States.

That, Mr. Chairman, concludes my statement of what the port authority wishes to bring before your committee. Thank you.

Chairman LONG. Thank you, Mr. Grace.

I don't think you covered all that was in your prepared statement, did you? Did you cover it all? I listened to you rather than read your statement.

Mr. GRACE. Just the total.

Chairman LONG. Without objection we will include your prepared statement as a part of the hearing record.

Mr. GRACE. Thank you.

[The prepared statement of Mr. Grace follows:]

PREPARED STATEMENT OF DENIS B. GRACE

THE ECONOMIC IMPACT OF THE STATE OF LOUISIANA OF WATERBORNE COMMERCE WITH LATIN AMERICA [1]

Introduction

Foreign trade is essential to the continuing development and growth of Louisiana's economy. In providing access to world markets and supplies, the State's ports effect greater utilization of Louisiana's human, natural and industrial resources than can be obtained through purely domestic trade within the United States. This fact is clearly evident in the dependence on foreign markets and supplies which is exhibited by Louisiana producers in every sector of the economy.

Louisiana farmers depend upon foreign markets for the sale of the greater percentage of their crops than the national average—for soybean farmers it's 90 percent, for rice 80 percent. Within the manufacturing sector, all key Louisiana industries export a greater portion of their production than the national average including food processing, paper products, chemicals, petroleum refining and primary metals. The dependence on the import side is equally evident. Sugar and petroleum refineries, whose productive capacities are geared to the huge demands of the U.S. market, must complement Louisiana's production of raw sugar and crude petroleum with foreign imports in order to operate at full capacity. Coffee roasters and aluminum producers, on the other hand, could not operate at all without foreign suppliers of green coffee and bauxite. Without this interplay between Latin American and domestic markets and supplies, Louisiana firms could not fully utilize their productive capacity nor the available agricultural, forest and mineral resources of the State.

Louisiana's production of goods and services in the Latin American trade sector is valued at $984 million annually. Production for Latin American export

[1] This report is an extract from "An estimation of Production, Employment Earnings and State Taxes Generated in Louisiana at the Port of New Orleans" by Viana & Associates, April, 1976.

markets amounts to $369 million while output, dependent on foreign suppliers of key raw materials, approaches $320 million. Port activities and related services, required to transship Louisiana's exports and imports as well as those of other states served by Louisiana ports with Latin America amounts to another $35 million.

LOUISIANA PRODUCTS ENTERING LATIN AMERICAN MARKETS

Louisiana's export sector is a natural extension and complement of the State's extensive resource base of agricultural, mineral, forest and industrial products. As such, Louisiana's export sector exhibits a diversity and balance of goods shared by few other states.

Agricultural exports account for nearly half the annual flow while manufactures represent nearly 45 percent. The remaining five percent is contributed by the mining and fisheries industries.

Representing a diverse array of products the leading exports of the State are, in order of importance, rice, chemicals, soybeans, petroleum products, animal and vegetable fats and oils, processed foods, paper products, grain products, fish oil, transportation equipment, primary metals and sulfur.

Within the manufacturing sector, Louisiana's key processing industries also exhibit an export orientation significantly higher than the national average. Chemicals, leading export industry, within manufacturing, ships somewhat over 10 percent of its production to foreign markets while nationally the average is 6.5 percent. The differential in Louisiana versus U.S. export co-efficients is greatest for the primary metals industry where 8.1 percent of the State's production is exported in contrast to only 2.5 percent for the nation. Relatively higher export orientations are also found among food processors, paper products and petroleum refining.

The overall significance of Louisiana's exports to Latin America can be appreciated by comparing the Value of Exports (in value added terms which reflect basically the difference between cost of materials and total value of shipments) to Louisiana's Gross State Product which reflects the market value of goods and services produced within Louisiana for final consumption. In 1974, GSP originating in the processing sectors or base industries of Louisiana was an estimated $5.5 billion in current dollars. Value added associated with the $369 million of Louisiana production of exports for Latin America in that year amounted to $155.8 million or some 2.8 percent of the market value of Louisiana's production among those sectors.

Overall, value added in the export sector represented some 1.0 percent of Louisiana's GSP. This figure, however, understates the full significance of the export sector in that value added indirectly related to exports via interindustry transactions and household consumption multipliers is not included in the direct value of the export sector. As will be seen in subsequent sections, these secondary effects can add substantially to the direct effects.

LOUISIANA PRODUCTION DEPENDENT ON LATIN AMERICAN IMPORTS

Louisiana ports handle a diversity of Latin American import commodities from basic raw materials and intermediate producers goods to products destined for final consumer markets both within the State and other states throughout the South and the Mississippi River Valley. Among these commodities, four basic raw materials constitute key imports required by Louisiana producers: raw sugar, coffee beans, crude petroleum and primary metals including bauxite and unwrought aluminum alloys and basic iron and steel products.

Imports via Louisiana ports from Latin America in 1974 exceeded $1 billion for these materials of which some 57.7 percent or nearly $577 million were purchased by Louisiana producers. Over 90 percent of all raw sugar imports via Louisiana ports were purchased by Louisiana sugar refineries while only 43 percent of the crude petroleum imports were destined for processing within the State. Nevertheless, purchases of crude petroleum imports were valued slightly more than raw sugar purchases. Combined, these two commodities accounted for 80 percent of the total purchases. With the exception of coffee imports, which cannot be obtained domestically, these raw materials are utilized by Louisiana producers to complement the domestic supplies of these commodities as key inputs for processing. Industries processing these imports include sugar refineries, coffee roasters and processors, petroleum refineries and producers of primary and fabricated metals.

The value of production which can be directly attributed to the processing of these key raw materials is estimated at $417 million including not the purchase costs of the material but only other inputs and value added which is utilized to process the materials for consumer markets.

Output dependent on imports as compared with Louisiana's Gross State Product accounts for slightly more than 1¼ percent of Louisiana's GSP. Within the manufacturing sector where over three-fourths of the value added originates, imports account for nearly one-fourth.

Equally important as exports and imports to the Louisiana economy are the expenditures arising from the transshipments of cargo, including not only commodities originating and destined for Louisiana processors and distributors, but also all those cargoes handled by the State's ports which are shipped to and from practically every state within the continental United States.

The annual shipment of cargo through Louisiana port facilities is absolutely phenomenal, exceeding 90 million tons of goods with a value approximating $15 billion. Transshipment of this volume of cargo requires substantial expenditures for transport services with an estimated value of nearly $1.3 billion annually. That portion attributed to Latin American trade amounts to $320 million. These expenditures are made primarily in three major economic sectors of Louisiana's economy—transport and warehousing, wholesale and retail trade, and finance and insurance. Transport and warehousing, which is the primary expenditure category, includes such services as: (1) inland freight costs; (2) cargo loading, unloading and storage requiring such services as stevedoring, clerking, checking, cleaning and carpentering; (3) port and terminal expenditures such as pilotage, tug hire, line running, drayage, dockage, wharfage and demurrage; and (4) auxiliary services from steamship agents, freight forwarders, customhouse brokers, public warehousing companies, ship repairs, and government charges for entrance and clearance fees. Expenditures within the wholesale and retail sector of the State accrue from purchases of ship supplies and fuel and from expenditures in the local area of the port by the vessel's crew.

The expenditures required for transshipment of a ton of cargo depends on the type of cargo handled. Studies which have sought to identify expenditures associated with transshipment usually place cargoes in one of three major categories; (1) general cargo, (2) dry bulk, and (3) liquid bulk.[2] General cargo, (which includes commodities requiring crating or other preparations for shipment, those which are shipped in cartons, bags, or other containers which can be palletized and barrels or drums) involves higher handling costs approximately $36 per ton. Dry bulk cargoes such as corn, wheat, and soybeans which can be transferred from inland transport modes to the ocean-going vessel via conveyors and other mechanized methods and need no packaging, cost significantly less than general cargo commodities usually averaging $15 per ton. Finally, the cost of transshipment of liquid bulk cargoes such as crude petroleum and certain chemical products, which can be economically stored and piped to a tanker vessel, is estimated at only $9 per ton.

A tally of tonnage handled by Louisiana ports during the 1974 calendar year distributed by these three major cargo types is presented in the following table.

CARGO TONNAGE SHIPPED VIA LOUISIANA, BY CARGO TYPE: 1974

Cargo type	Exports	Imports	Total	Percent
General cargo	4,234,000	3,491,000	7,725,000	8.5
Dry bulk cargo	39,635,000	14,014,000	53,649,000	59.1
Liquid bulk cargo	5,694,000	23,682,000	29,376,000	32.4
Total	49,563,000	41,187,000	90,750,000	100.0

Source: Special tabulations by Viana & Associates derived from U.S. Waterborne Commerce: 1974, magnetic tape series SM-305/305IT and SM-705/705IT, Foreign Trade Division, U.S. Bureau of Census.

The greatest volume of cargo shipped through Louisiana ports is comprised of commodities classified as dry bulk with a low dollar impact per ton. Similarly, liquid bulk which requires lower labor cost in transshipment ranks second. In tonnage terms, commodities comprising general cargo account for about 10 percent but have an impact per ton of three to four times that of bulk cargoes.

[2] An excellent study of expenditures related to cargo handling was recently conducted by the Division of Transportation. Business and Public Policy, University of Maryland, College Park, entitled *The Economic Impact of the Port of Baltimore in Maryland.*

Utilizing established rates of expenditure per ton by cargo type, the value of port activities and related service approximates $1.3 billion annually. Latin American cargo amounted to 24.6 percent of $320 million.

In value added terms, expenditures generated by port activities and related services for Latin American commerce approximates $197 million or some 1 percent of Louisiana's GSP. Within the transport and warehousing sector, however, the generated value added of $180.2 million represents over 8 percent of the GSP originating in that sector.

OUTPUT, EMPLOYMENT AND EARNINGS GENERATED BY THE LATIN AMERICAN TRADE SECTOR

Introduction

The total impact of Latin American trade on Louisiana's economy is appreciably greater than the direct value of goods and services produced in that sector as supplying industries purchase inputs in producing outputs needed to support production occurring in the Latin American trade sector. In turn, those industries supplying inputs to the supplying industries must also purchase inputs which constitute production by still other industries. This chain of expenditures arising from industry interdependence has a multiplying effect which permeates literally every sector of Louisiana's economy generating jobs and payrolls.

The direct value of Louisiana's Latin American trade sector approximates $984 million annually, but due to the secondary effects of interindustry transactions the total value of goods and services related to this sector exceeds $1.77 billion. In value added terms the direct value of Latin American trade approximates $975 million or some 5 percent of Louisiana's estimated Gross State Product of $19.4 billion in 1974. With the addition of the secondary effects, however, value added resulting from Latin American trade approximates $910 million or nearly 5 percent of the GSP. In other words, one out of every twenty dollars of goods and services produced in Louisiana annually can be directly or indirectly attributed to the Latin American trade sector. In employment terms, Latin American trade's total impact means about 33,000 jobs for Louisiana residents with payrolls exceeding $295 million annually.

PRODUCTION OF GOODS AND SERVICES

The value of goods and services produced in Louisiana's Latin American trade sector, when combined with all secondary intermediate output effects via interindustry transactions, approaches $1.77 billion annually. While every economic sector is affected due to interdependence among processing industries in production, the greatest portion of total output is generated in the three key sectors: agriculture, manufacturing, and transportation. The manufacturing sector, where both exports and imports directly affect production, the total output is the greatest exceeding $738 million per year. Contributing nearly 6 percent of the total, the transportation sector ranks second in importance with an annual impact of $418 million. Output from the agricultural sector which is oriented to Latin American export markets approaches $246 million. The combined output of these three key sectors accounts for over 80 percent of the total value of goods and services related to Latin American trade. Nevertheless, the trade and finance sector which is essential to interindustry transactions and export/import commerce, has an estimated $154 million in output tied to the Latin American trade sector representing some 2.1 percent of the total.

When these output values are translated into value added terms, the significance of Louisiana's foreign trade sector is apparent—contributing nearly 5 percent to the GSP. Among the three key sectors the combined direct and secondary effects of Latin American trade are substantial, averaging nearly 12½ percent of the Gross State Product originating within those sectors.

It is obvious from these comparisons that without the stimulating effects of Louisiana's Latin American trade sector, the potentials inherent to the State's natural and industrial resources could not be fully realized.

EMPLOYMENT AND EARNINGS RELATED TO OUTPUT

Based on employment-output ratios exhibited by Louisiana producers, the $1.77 billion in goods and services attributable to the foreign trade sector requires the employment of nearly 33,000 persons annually. As with outputs the employment impact of trade is particularly evident among agriculture, manufacturing, and transportation sectors of the economy. With an employment per dollar of output significantly higher than the other key sectors, agriculture is the leading employment sector with nearly 8,600 jobs or one-fourth of the total. Relative to total employment in agriculture which approximates 70,000, Latin American trade accounts for 12½ percent. Manufacturing is ranked second in employment terms requiring nearly 6,900 persons to support directly and indirectly the State's Latin American trade sector. The substantial difference between the employment impact in agriculture and manufacturing relative to its output contribution arises from the fact that in agriculture nearly 85 percent are required to produce $1 million in output (constant 1967 dollars) while only about 22 persons are needed to produce an equivalent amount of manufactured goods. Overall, Latin American trade-generated employment in manufacturing accounts for some 4 percent of total manufacturing employment. Latin American trade's impact on manufacturing is substantially less in employment terms than in that of output as the key producers in manufacturing who are dependent on Latin American trade, namely food processors, paper, chemicals and petroleum refining, and primary metals require only one-third the number of employees per dollar of output than do other manufacturing industries.

Transportation ranks third in employment terms followed closely by wholesale and retail trade within employment requirements per dollar of output is greater than any other sector of the economy.

Estimated earnings related to Latin American trade's employment impact approximates $295 million annually with the three key economic sectors accounting for some two thirds of that total.

STATE TAX REVENUES GENERATED BY THE LATIN AMERICAN TRADE SECTOR

Introduction

With $1.77 billion in output requiring 33,000 employees with payrolls in excess of $295 million annually the impact of Latin American trade results in substantial tax revenues accruing to the State each year. Based on output, employment and earnings figures developed in the previous chapter, estimates of revenues from selected tax sources relative to individuals and businesses indicates that Louisiana derives, at a minimum, approximately $21 million in statewide taxes annually as a result of Latin American trade.

Since tax revenues can be used to consider the allocation of the State's financial resources in port operations and facilities from a cost benefit standpoint the discussion of derived tax revenues that follows places greater emphasis on explicitly defining estimation procedures than was the case for previous sections of this report.

STATE TAXES DERIVED FROM INDIVIDUALS

State tax revenues derived from individuals dependent on Louisiana's Latin American trade are estimated at $10.1 million including individual income, retail sales, beverages, tobacco, inheritance and gasoline taxes.

Retail sales taxes arising from purchases of goods and services by individuals employed in support of the Latin American trade sector is the single largest source followed by gasoline and individual income taxes. Combined, these three sources account for over two-third of the tax impact while revenues from beverages, tobacco, and inheritance taxes account for slightly more than 30 percent.

Taxes on retail sales and individual income were derived from earnings of persons related to the Latin American trade sector, distributed by income class. For tax purposes three income classes were used: $0–$6,999; $7,000–$14,999; and $15,000–$24,999. From aggregated figures supplied by the Louisiana Department of Revenue the medium adjusted income of Louisiana tax payers and the average tax liability per dollar of adjusted gross income within each of these classes was established. For those returns with reported incomes of less than $7,000, the median income was $5,250 and the individual income tax rate was .002522 per dollar of income. Consequently, the average taxpayer in this income class paid an estimated $13.24. With employment in this class generated by Latin American trade numbering 17,700 persons the estimated income taxes accruing to the State in 1974 amounts to $234,000. The median income reported in the other two classes was $11,368 and $18,901 with corollary tax rates of .005449 and .008478 per dollar of income respectively. The resulting state income tax liability per return for these two classes, then was $61.94 and $160.24 respectively. Employment generated by Latin American trade in each class was 10,700 and 5,000 resulting in estimates of $662,000 and $803,000, respectively paid in State individual income taxes.

Thus, the combined total State income tax collections derived from Latin American trade in 1974 is estimated at $1,699,000.

By multiplying the reported median income of each class times its respective total employment estimate resulted in total income generated by Latin American trade of $93.0, $121.5, and $94.7 million within each of the three classes. The schedule of allowable deductions issued by the Louisiana Department of revenue for state and local sales taxes paid by individuals according to income class and family size indicates that the portion of a family's income (3-4 persons) expended on goods and services which are subject ot Louisiana sales taxes amounts to 40 percent, 32 percent, 27 percent respectively for three classes. Applying these rates to the total income figures above results in a figure of $101.6 million expended on goods and services subject to Louisiana sales tax of 3 percent. Thus, state sales tax revenues accruing from the impact of foreign trade are estimated at $3,048,000.

State taxes from beverages, tobacco and inheritance were estimated on a per capita basis. Using the ratio of population to employment reported in Louisiana by the Bureau of Census the 33,000 jobs created by the Latin American trade sector represents an equivalent population of 104,250 Louisiana residents. The preliminary estimate of Louisiana's total population for 1974, issued by Louisiana Tech University, numbered 3,764,000. Thus, Latin American trade supports about 28 percent of the State's population. Applying this percentage to tax revenues from beverages, tobacco and inheritance reported in the 35th Annual Report of the Louisiana Department of Revenue for fiscal 1974 results in an associated revenue of $1.35, $1.47, and $1.62 million from each of the three sources, respectively.

Finally, gasoline taxes paid by individuals dependent on Louisiana's Latin American trade sector were calculated from the federal schedule of allowances for state gasoline taxes assuming an average annual mileage of 10.000 miles per employee. For 10,000 miles, the federal tax mileage for Louisiana is $69 and applying this figure to the 33,000 employed persons results in a figure of $2.29 million.

STATE TAXES DERIVED FROM INDUSTRY

Latin American trade's impact in terms of business taxes is estimated at a minimum of $10.3 million annually including corporate income, corporate franchise and severance taxes. This figure can be considered a minimum in that information needed to estimate tax revenues related to business activities is lacking in sufficient detail for calculations of revenues from several sources; including motor carrier fees, power use, utilities, transportation and communications, and particularly petroleum products taxes. Nor was any attempt made to relate local property tax revenues derived from assessment on real property owned by industry.

Corporate income taxes are estimated at $6.8 million while corporate franchise revenues approximate $3.5 million. Taxes from these two sources were derived on the basis of four percent of estimated net corporate income arising from Latin American trade. Based on the relationship of corporate income to total value added (value added includes income of persons engaged in current production, corporate income, capital consumption allowance (depreciation) and indirect business taxes), corporate income generated in Louisiana during 1974 was estimated at $692.9 million or some 4.6 percent of value added directly and indirectly related to Latin American trade. Applying the tax rate of four percent to this figure results in a corporate income tax of $6.8 million or some 8.6 percent of all revenues derived from this source by the State in fiscal 1974. Assuming that industry contributes to corporate franchise taxes in the same proportions that it contributes to corporate income, the revenues from the latter source are estimated at $3.5 million.

Severance taxes of nearly one million were derived from sulfur exports at a rate of $1.03 per long ton and revenues from severance taxes on pulpwood based on output of paper and allied products generated by Latin American trade related to total Louisiana production of those products. Sulfur exports via Louisiana ports in Latin American trade during the year amounted to 178,975 long tons generating a severance tax revenue of $184,000 at the above rate. Production of paper products tied to the Latin American trade sector, in value of shipments terms, amounts to $68 million or some 4.3 percent of total value of shipments estimated at $945.3 million. Applying this 4.3 percent to total severance taxes collected on pulpwood results in $39,150 in revenue attributable to paper product exports to Latin America.

Appendix A

RESEARCH PROCEDURES AND METHODOLOGY

In accordance with the stated project objectives, the research procedures follow seven basic steps:

1. Estimation of the direct value of goods and services derived from each area of activity—Louisiana produced exports, output dependent on imports and expenditures related to port activities and corollary services—for calendar year 1974.
2. Derivation of all secondary output effects resulting from the direct values in (1) using the total requirements matrix reflecting Louisiana's 1/0 structure.
3. Translation of the value of output obtained in (1) and (2) into employment terms using established relationships between industry sales number of employees.
4. Allocation of employment above by industry and earnings class.
5. Calculation of derived state tax revenues based on corporate income, individual earnings and employment generated by foreign trade.
6. Determination of New Orleans' share of derived benefits based on its share of total cargo flow through Louisiana ports by industry and cargo type.
7. Summarization of findings in (1)-(6) in establishing the economic impact of the port.

Within each basic step, numerous estimates were required which were developed utilizing the concept of minimum effects. That is, whenever alternative estimation procedures for a given value were considered, that procedure which resulted in the lowest value was chosen. Consequently, all figures developed in this study can be considered as the minimum economic impact that can be attributed to Latin American trade and the Port.

Chairman. LONG. Gentlemen, all four of you are to be complimented on your statements. In opening this series of hearings in Washington last week, I suggested that in my view, the healthy United States—Latin American relation would probably be based better on a strong and healthy commercial type of relationship. I guess a market relationship is a better way to describe it. But I hope that we can retain the warm sentiments that all of us have expressed here today about our long and historical relationship with Latin America.

It seems to me that all of us generally agree that our cointerests and mutual economic concerns are perhaps for more enduring as times pass and as things change as fast as they have been changing. I gather nobody really would argue with that statement. If anybody would like to, I would be happy to hear it.

Mr. Grace, could I ask you some questions. I don't really want to go into the Panama Canal situation here or do I think we can make any meaningful contribution in that regard, but what is the value of the Panama Canal on New Orleans? I hadn't thought of it until you were discussing the dollars and cents of the business to Louisiana and New Orleans.

Mr. GRACE. Well, the Panama Canal greatly affects New Orleans, since our No. 1 trading partner is Japan. Also our trade with the Far East is increasing. All this trade must transit the Panama Canal. Recently I was in South America. I visited Venezeula and Colombia, Ecuador, and Peru. On the west coast of South America, it would seem that it might be in the best interest of those countries if the canal remained under U.S. control. Yet there was complete and absolute agreement amongst these countries that something must be done with the control of the Panama Canal. Now there are two important things. One is the tariff of the canal. It was increased 20 percent, as you know, 2 years ago, and there is a possibility of another 19 percent in the near future. Second, is the minilane bridge problem here in the gulf—the combination of rail and water service out of the west coast. Certainly any increase in the rates of the Panama Canal would make the movement of supplies by rail and water to Japan rather than water out of the gulf to Japan more viable. The Panama Canal is of interest to this section of the world and stable rates in the Panama Canal are of major importance to the gulf.

Chairman LONG. Thank you.

Mr. Casas-Gonzalez, in your statement you made mention of the fact that the exports from Venezuela to the United States are practically nonexistent and certainly not substantial. Now, that being so, why has Venezuela been so outspoken in its critisim of the United States for the exclusion of Venezuela and Ecuador from GSP benefits.

Mr. CASAS-GONZALEZ. Well, I think that Mr. Clark—in that part of his statement—well, I think he was very precise in our feeling.

He mentioned that fact that it does not effect us to a great extent. I think it does partially affect us, but it's fairly insignificant. But in general, for Venezuela—we feel that it is very necessary to defend and maintain a position with regard to certain concepts in matters of trade. We have been a very forward country. We have had a leadership position, I would say, in matters of generalized preferences.

As you know, our present leaders of these matters is the second Secretary General of UNCTAD, and he has defended that position very clearly. We have, from that point of view, as I say, taken a very strong position with other developing nations.

But other than that I think that Venezuela has been a country that has insisted the most on international, social, and economic justices, and we feel that this is a discriminatory type of attitude. In other words, it's not a matter of peculinary interest. It's a matter of principle.

Chairman LONG. As I said earlier in my opening remarks, I am certainly concerned about this. I think we have got to acknowledge we made a mistake in that regard and we are going to correct it as soon as we can.

Mr. Fabry, looking at what the U.S. Government does not do as compared to, say, Japan or some of the other countries do to help their companies abroad, what do you think that the United States can do—Mr. Clark also commented on this. After your comments, perhaps he would care to add to it. What do you think the United States could do to help this situation that it is not doing?

Mr. FABRY. It's very simply a competitiveness of industries in those regions. And if the United States policy would allow American business to operate more freely, then business will take care of itself.

After all, it's a free enterprise situation that we are facing in Latin America. Now if a Japanese firm can install for less and faster a more efficient telephone network, let's say in Ecuador, they will get the business, provided we do not get into the Lockheed situation and pay off under the table, which you would not want the American Government of firms to do. The only thing we could expect the Government to do is help American business at home. Once it is doing that successfully, and once it is allowing the free enterprise system to provide the best technology and best product, they will sell abroad. We have some of the best transportation companies. The government obviously should help continually with subsidies to the transportation industry. It should also help with the tax situation of large and small businesses to develop their products and services to the extent that it will be internationally competitive.

There is very little Washington can do in Santiago or Caracas. It's got to be done here at home. And if it's done effectively, I believe that our products will sell more extensively and compete with, let's say, the very low labor cost products from the Communist countries or the subsidized products from Japan.

Chairman LONG. Let's take the Export-Import Bank in particular. Do you think there is anything in particular it could do that would be more in line with what Japan is doing?

Mr. FABRY. The Eximbank is doing a very good job, I believe, they have a limited amount of money and a restricted policy. I think if we go along with the suggestion made by Mr. Clark, the policy should be liberalized and funds enlarged. Then they will automatically have business to fill opportunities that exist in South America and in Central America.

Chairman LONG. Mr. Clark, do you have any comments on this? If I recall correctly, you made this point very vividly.

Mr. CLARK. Yes; Mr. Chairman. Every country is different and I think that we have to acknowledge the fact that our efforts with the OAS have been extremely difficult. The LMFTA group—they vote as a bloc. It has been one of the—most unstable positions of the United States with our foreign policy as regards Latin America.

All the rhetoric and the fancy words, and not following through type of action that we have had has caused a lack of confidence by our latin friends, with the United States. Our latin friends really want to be respected and they really are willing to respect us if we live up to our word and show them that we can do something worthwhile in their interest.

I think the first step should be on a bilateral basis, country to country. And then hopefully we can begin to get enough confidence with our Latin friends and then we can have some type of mutual respect or representative effective liaison with the groups in Latin America.

Chairman LONG. Would you agree with Mr. Fabry that generally problems are of such a diverse nature that development of a particular program that would correspond to them is going to be nearly impossible?

Mr. CLARK. Yes; I specifically refer to that in my comment.

Chairman LONG. Mr. Clark, you mentioned something that was of interest to me in a prior conversation in New York. That is the intrusion of the Communist trading into the Latin American countries. Now I had not been under the impression that the Communist trade with Latin America over the last few years had really increased to any substantial degree. In my review of figures recently I was not of the opinion that it had. What leads you to the feeling that you have come up with here?

Mr. CLARK. There have been Communist trade missions and there also have been trade missions from Latin America missions to Moscow and other centers. And there have been exchanges with the Russians and other Communists, like ship companies, that are an indication of trade. And growth of these we see as shipping people. You see real danger there.

We have been talking about this for 10 years and now you may have noticed that in even the newspapers and national periodicals, it's coming. But, of course, it's in the technical journals of shipping. I don't know if you have an opportunity to review those though, but there is a concern of all the traditional maritime powers about the record increases of Communist flag shipping.

Chairman LONG. I don't argue with you at all with respect to the the trade figures themselves they don't seem to bear out any substantial increase. And, in fact, compared with the gross national product figures of shipping. But, from my recollection, when you analyze of the major countries of Latin America there has been a decrease of trade between those countries and those of the Communist bloc.

Mr. CLARK. Well, Mr. Chairman, I think perhaps your staff should look at some of the recent figures and see if there is not an increase.

Chairman LONG. Thank you. We will take another look at them, because it would be a very interesting and provocative situation if it is developing to the degree that you feel it is.

Congressman Fascell.

Representative FASCELL. Thank you, Mr. Chairman. I think it is useful to explore the concern about Communist penetration economically. It has been going on for 10 or 12 years. We don't know the extent of it, so we ought to get a record on it and decide just exactly what's happening. Obviously they are going after the business.

My own opinion is that with respect to competition, we are talking about the Germans and the Japanese; we are not really talking about the Communists in terms of American business competition. And I don't see how we are going to be able to compete, frankly. I don't care what you do. If you go to 20 years for payment and provide no down payment and no interest or carrying charges. If you go to Costa Rico today every farmer has a Toyota. He doesn't have a Jeep. That's got nothing to do with what the bank can do.

I am very interested in parameters that haven't yet been laid down with respect to Latin America and relations both in trade and politics. I suppose you have heard every cliché that's ever been expressed about these problems but I am really delighted that we have a framework that so clearly shows something. Now we and the Latins are either not listening to each other or we are talking past each other. I don't know what the problem is. Is it rhetoric or action? What action? What are we talking about?

So let's analyze that just for a moment if we can. I would like to know what action we are talking about? Let's take generalized preferences as an example. We did a study in one of our subcommittees that lasted a long, long time. Nobody could put a dollar figure on how important generalized preferences would be for Latin America. We concluded reluctantly, and my feeling has not yet changed today, that generalized preferences is simply a mythical symbol to Latin America and that's all. Anybody want to comment on that?

Mr. FABRY. You are right.

Mr. CASAS-GONZALEZ. I don't agree.

Mr. CLARK. I don't agree either.

Mr. CASAS-GONZALEZ. I don't agree because you have to look at international trade from a different point of view. International trade is a very dynamic sector of the international economy. But some of the figures aren't really as realistic as what is going on or what is happening. For example, in the case of Venezuela our exports are nontraditional exports. I can't give you an exact figure so it's sort of difficult to say what the precise amount is, but our exports have grown in the last 10 years at least four or five times. Yet proportionally they are lower probably than they were 5 or 6 years ago.

Why? Because the oil in the total figures—the oil total has gone up immeasurably proportionally because of the price of oil, which is five times higher itself.

Representative FASCELL. But if Venezuela doesn't benefit from GSP who does?

Mr. CASAS-GONZALEZ. Potentially it could.

Representative FASCELL. You mean if it got into industrialized things?

Mr. CASAS-GONZALEZ. Yes; we are. Brazil, for example, is exporting industrialized products even to industrialized countries to a large extent.

Representative FASCELL. Well, yes; New England claims they put their shoe business out of business. But I say most Latin countries want specialized preferences and yet Mr. Clark says it hasn't been received or understood.

Mr. CLARK. May I elaborate?

I agree with Mr. Casas-Gonzalez completely. First of all, it was a matter of principle and pride.

Representative FASCELL. That's politics.

Mr. CLARK. This enabled these countries not to compete on favorable terms with the Japanese products and West German products.

Representative FASCELL. Let's stop there. How are they going to compete? Do they have the merchandising capability? Do they have the produtcion capability?

Mr. CLARK. Yes; they do. They are doing it now. You take countries like Argentina, Mexico, Columbia, and Venezuela have the potential to do this. They can bring in plants and equipment with their own multinationals, which is a bad word, but within the blocs they have there own multinationals to do this. I think there is a tremendous potential there, Congressman Fascell, and why not displace the Japanese and whatever else?

Representative FASCELL. I am not against it. Again in a pragmatic vain, I want to know what it is we are really talking about? The potential has been there.

Mr. CASAS-GONZALEZ. I can give you some examples, Representative Fascell. If you go in Washington to Woodward & Lothrop, or major stores in Miami and San Francisco you will find Salvadorian towels, for example, in all these stores. The shoe case is a case in point. Venezuela has exported Gerber food products with tropical fruits to Puerto Rico. We are exporting tropical juices to Europe. Argentina is a large exporter of citrus juices to Europe, for example. It's a large exporter of citrus juices to the United Kingdom. We could go down the list.

There are many cases of this type that are very new in the Latin American nations. Maybe the figures are not yet that significant, but there is a process going on.

Representative FASCELL. Let me tell you why I raised the issue in that fashion. There is some substantial feeling in the Congress regarding the elimination of the discrimination in the Trade Act affecting Venezuela and Ecuador. There is a feeling that, other than dealing with the obvious political problem that exists, we are not really doing anything with the system of preferences and the only way for us to approach it is on a worldwide basis. As a matter of fact, I have talked to the people on the Ways and Means Committee who don't want to get into this separate thing without getting into the whole thing and forcing us to take a position on the whole policy worldwide.

I don't know whether that's good or bad but there is a difference in opinion that exists. I want to take the easiest route out and satisfy the political desires in Latin America, because I think that's important.

Mr. CASAS-GONZALEZ. I think it's the wrong approach to look at that as something they want and need. It's just a matter of discrimination. They don't want to be discriminated against.

I would separate the two issues. I would feel the general approach is a global approach. That's our position in Venezuela. This is why we are a little bit worried about certain countries in Latin America that are starting to talk about vertical preferences again. This creates certain dependencies and certain situations which we have pulled away from a long time ago.

Representative FASCELL. Let me throw out another one of these problem areas——

Mr. CLARK. Can I add something to what he said—there is a very great desire on the part of the Latin American countries to develop nontraditional products. They have been so dependent on raw materials and this is their great chance. And it will develop; they can do it.

Representative FASCELL. I agree, but the question here is this, Mr. Clark—for years the United States had programs which were designed to do what you are talking about. We went into a systematic approach, particularly in agriculture and other areas, in order to be of some help to Latin countries. But isn't this strictly a Latin American problem? Is there anything the United States can do to help them develop their own products; their own capabilities? There is no Government program that has been able to do it yet.

Mr. CLARK. Congressman, the approach to date has been largely garbled, and to a certain extent by the way it's been handled. Now, what we are talking about right now is that the Latin Americans are a proud people. They want to do the best of their ability and engage in self-help out there.

Now the generalized system of preferences gives them that opportunity to develop their own manufacturers and penetrate the greatest market in the world, the United States of America. And this is what they are intending to do, Argentina, Brazil, and Mexico and other countries are moving in this direction.

Representative FASCELL. I have no argument with that frankly. By setting up the system of preferences we can do that. If they have got the ability to do so they can enter the market. That puts them on a competitive basis. Then it's up to them. But you know, the United States has changed its entire approach. We were always in favor of the classical development theory. We poured money for 25 years into it. Now is that a bad effort? Now we have changed that completely. We are not going to do that. We are not going to give that money. So now we are going to rely on the institutional framework. What is necessary? How are you going to shape a U.S. policy when it's impossible to have a U.S. Government policy that is meaningful? Isn't that just a lot of rhetoric?

Mr. CASAS-GONZALEZ. Well, I think that Mr. Fabry referred to that problem and I agree with him, it is very difficult to say we are going to have a general policy on something and that's it.

What I tried to bring out, Congressman Fascell——

Representative FASCELL. Excuse me. Let me just interrupt for just a second to say why I said that. Maybe we ought to quit talking about what is the U.S. policy and forget that and get down to the fundamental thing that is important from a Latin American point of view which is, how do you improve your economy?

Mr. CASAS-GONZALEZ. I agree with you that one of the things is not to pull out from economic cooperation. I don't like to call it aid, but Venezuela has last year signed an agreement with the Inter-American Bank for $500 million.

Representative FASCELL. I think that's great.

Mr. CASAS-GONZALEZ. This would never have happened 10 years ago. Argentina has given loans to Paraguay for example, for a large dam they are building there; it is for $100 million for 50 years without interest. These types of events are new in Latin America and they are important. On this I disagree with Mr. Clark. I don't think that you have to, or that you should, pull away from multilateral lending. This doesn't mean that I am against bilateral and I do think that the Export-Import Bank is a bank that has to have the backing of Congress. I think that it's a wonderful institution. I think that there are a lot of very good and useful bilateral programs. USAID has been very effective in many ways but I do not agree we should pull away from multilateral lending.

Mr. Clark talked about default. There hasn't been any kind of default. It's one of the most wonderful records that you can find in any type institution such as that. He also mentioned the fact of having the United States tied up with loans that the Bank has borrowed from countries like Japan or Canada with United States backing. In other words, a U.S. guarantee as part of the Bank's capital. Well, this I think is not an exact concept because the Bank has the loans that it has made, they have been through bond issues with the Bank capital which is from all of these countries put together.

The United States has a major interest that is true, but it is the ordinary funds in fact. The United States has a certain percentage of that, not all of it. Now these bond issues are the way any financial institution in the world gets money from the market. They pay an interest. But it's for the ordinary funds and the ordinary funds also get paid an interest which cover the cost of that operation.

Now there have been other tight situations, it hasn't been only in the case of Japan and Canada, and it's been in other countries also. One of the major countries has been the United States, with the special funds and with the special trust funds. These are tied to U.S. purchases or purchases in the hemisphere, and that means the United States purchased and transported in U.S. ships and so forth and so on. There have been special arrangements in the case of Japan and in the case of Canada. But it's been an export promotional scheme and the Bank has just acted as an intermediary. It has not affected its capital in any way. It has not committed its capital in any way. I wanted to state this because I would like to be a little bit more precise.

Represenative FASCELL. Well, you have both been kind. Mr. Casas-Gonzalez and Mr. Clark, but one doesn't commit the funds.

M. CASAS-GONZALEZ. L mean they do it both ways.

Mr. CLARK. I knew we would get into a debate on this subject. I would clarify my statement.

It is well established and I know that the chairman and Congressman Fascell know that it is being used for floating these loans in Germany and Japan. There is no question about that.

Representative FASCELL. There is no question about that, that is a matter of record.

Mr. CLARK. And second, Mr. Casas-Gonzalez mentioned the United States has certain tied loans. This only affects the social progress fund and to a certain extent the funds for special operations and even that one is not total. But don't forget these are soft loans.

Representative FASCELL. Not only that, but social progress trust fund moneys are totally United States. We worked out an arrangement with the Bank that has worked out fairly well.

Chairman LONG. I have pursued with this under Secretary Rogers, trying to get him to set this forth as a priority out of the litany that has been suggested, so that we would know what ought to be pursued first.

Whether we call it a policy toward Latin America or whether we don't or whether it's so diverse that it has to be treated as individual items—seeing if we can determine any more or less universal application to Latin America—is the replenishment of the U.S. obligations, to the funds in the Inter-American Bank, for example, a high priority item with each of you three gentlemen.

Mr. CASAS-GONZALEZ. I wouldn't call it a high priority item as such. I would say a priority item would be a crash program on food production. This type of thing. It might be through the Inter-American Bank or bilateral technical assistance programs or whatever.

Representative FASCELL. We have all three now.

Chairman LONG. That's right.

Mr. CASAS-GONZALEZ. Mightly few crash programs.

Chairman LONG. What I am trying to find out is which ones we ought to be giving priority to. Because, Mr. Fascell, we have many of those programs but we are not pushing any one. We have not set any of the priority.

Mr. CASAS-GONZALEZ. I would not call the Bank a priority. It's an instrument.

Representative FASCELL. By the way I like the words "economic cooperation." I think the United States ought to use those words. "Aid" and "assistance" are outmoded. It's economic cooperation; it's mutually beneficial.

We have established priorities. We find, for example, that in our programs we have established new priorities in economic cooperation for food, agriculture, and people programs. Technical services, whereever required are part of an economic development plan of the country itself. So you know if equality means anything in the sense of practical economic development, the United States certainly has had a total about face at the request of the Latin countries themselves.

In our multilateral programs we still cooperate as fully as anybody else funding a totally Latin institution. Our attitude toward GSP, if we could correct this one thing, certainly would be an indication of our policy. That leaves one thing, as I see it, and that is investment policy and the Latins are deciding what their own investment policy is going to be. They decide how U.S. capital is going to be used or if it's going to be used at all. You said a great many majors are still talking sole proprietorship in Latin America. I don't know but I suspect that a few of those who hang onto that idea are going to be nationalized.

Mr. CASAS-GONZALEZ. As I mentioned, I have great affection for this position and I have been giving it consideration for a long time. If you take certain sectors such as the auto industry, for example, all of the European auto industries at this time are mixed companies with Venezuelan capital. Not one of the American companies are. They are solely owned by the American company. I could mention the same type of example for several other major sectors of our industry where European or Japanese or other companies have either sought out Venezuelan associates, both large capital associates and others. This is what I was referring to; that companies have tried to go to the open market, and have tried to build up a capital market. And one of the restrictions I find, and I keep saying this to the president of U.S. companies, I find, we have a definite capitalism. It's a great thing.

Representative FASCELL. But you won't broaden the base in Venezuela?

Mr. CASAS-GONZALEZ. Yes. What is capitalism?

It's having as many owners as you can for the large company. Why don't they try to get into this. It's not impossible to do. I belong to a group right now that has two companies. One is the electrical company of Caracus, which has 7,000 stockholders. The other one is a holding investment company that has 35 stockholders. This can be done. Sears, Roebuck, right now, because of the fadeout program under "Decision 24," has set up a plan and has frozen part of its stock for Venezuelan employees in the company. I think this is wonderful and this is the type thing I have referred to.

Representative FASCELL. I agree with that and in Latin American business if they haven't arrived at that decision they will have to because of the economic policies in Latin America sooner or later. This subject has been of interest to the Council of the Americans for many, many years. They even tried to devise a plan for dealing with the Andean group and other groups on some proposals that they put on the table that might have been acceptable. And that is, an evolving process. But basically it seems to me that again is not a matter of U.S. policy. It's a matter of local Latin policy and American business interest arriving at a satisfactory arrangement.

Are we agreed on that?

Mr. CASAS-GONZALEZ. Yes.

Representative FASCELL. Again the question of rhetoric not being followed with action arises about the role of the United States with respect to regional integration. What in the world can the United

States do about regional integration in Latin America? You suggest that we could give some money to the Andean group and you suggested that the Canadians have been very forthcoming. They have given about $3 million. Well, I think that's fine. But should U.S. national policy be interpreted on the basis of financial asistance to regional economic integration.

Then let's look at the other aspects of it. We put our money in the Central American Bank. We support the whole group. Certainly we didn't have anything to do with Honduras and El Salvador going to war.

We don't have any holds on that. What is it we are supposed to do?

Mr. CASAS-GONZALEZ. Well, it's very difficult of course, to say we are supposed to do this or we are supposed to do that. I think to a large extent as I mentioned in my speech, it's a matter of a clear position on the one hand. I mentioned——

Representative FASCELL. In other words, you said we support it publicly but privately——

Mr. CASAS-GONZALEZ. I would say that is one situaiton, of course. It's not a matter of giving more or less money. Money is given for a lot of things. Yugoslavia got more money in the last 10 years than all of the Latin American countries together and you know that. It's not a matter of more money or less money, but that shows there is a United States interest in their commitment with Yugoslavia.

The problem is we don't want to have the same problem in Latin America in a few years from now. Do you solve it with more money? No. I agree with you. But it is a way. If you have rational programs, if you strengthen institutions, I think we all agree one of the most important programs in which the United States has been cooperating was the AID program—it's not the money you put in it, it's the type of attitude you created among the people.

The ownership of a house. The tendency to save money for that house to commit themselves in the loan for the house. I mean there are many aspects that are tied to the stability of these people that are the savers and the people benefiting from the savings and loan. I think this is important.

And it wasn't the amount of money. I had a conversation once with the President of the World Bank in his office when I was the head of planning in Venezuela. And we started talking about the World Bank's position with Venezuela. He was talking to me about how much money this and how much money that, and he would lend so much for highways in Venezuela. And it's not what you lent for the holes in Venezuela. It's not the number of kilometers you contributed to be built in Venezuela. One of the most important aspects of the Bank loan was that we instituted a toll system for the highways. It didn't even exist in Venezuela. But all of a sudden in having a loan it created the thought of how to finance this. That's the best thing that has ever happened.

Representative FASCELL. I am not so sure that's so good.

Mr. CASAS-GONZALEZ. That's what development is. It's a change in attitude.

Chairman LONG. Mr. Casas-Gonzalez let's go back to the question I have raised about priorities. Let's look among the many things the United States is considering—which of them has a chance of working—maybe not in all of the countries, but in a number of them—with respect to the success of the savings and loan type of situations? Does the technological exchange form one we really should give serious consideration to in the United States? Is this one that is got the possibilities like this? What is your general view on that and then I will ask a couple of others along that line?

Mr. CASAS-GONZALEZ. I think technology is a very important aspect for future development and I think it's going to be more important than what has been called aid or aid programs as such.

Now what the exact schemes for the transfer of technology or for the assistance in general in generating such technology or local tech-with technology. Venezuela has right now thousands of students stud-nology is to be is difficult to say. Of course there are many things tied ing there with part of our petroleum dollars.

There is a special program and that is contribution from the United States to Venezuela, opening up it's universities and coordinating to certain internal systems that were set up. That's what I call a crash program.

Representative FASCELL. That's what you advocate as a priority on food production?

Mr. CASAS-GONZALEZ. That's what I am advocating in this hemisphere together. It's not that Latin America needs food they want that, let's give them a priority. No, the United States should want Latin America not to be hungry because if Latin America is hungry, Latin America is going to go more and more in the way those of the United States who believe in Latin America don't want it to go. That is in our interest, not just in the interest of Latin America alone.

That is what we need.

Chairman LONG. Do you think the proposed International Resources Bank fits into that policy for Latin America?

Mr. CASAS-GONZALEZ. As I mentioned in my speech, I think it's a good idea. I don't know the exact proposal. I read Secretary Kissinger's speech at UNCTAD where he outlined a general proposal. I think it has to be discussed and looked at. I mentioned the danger that this proposal may just be considered by the developing countries—but the United States is in a tight situation now with oil, and therefore wants to build some so we can get together in managing natural resources in the world and programing international resources. I think that shouldn't be the attitude when the discussions take place. But I think it's a good idea.

Chairman LONG. How about these two items we are discussing with respect to priorities, technology exchange, and the International Resources Bank?

Mr. FABRY. I would like to go back to the point I made earlier, namely that most of the technology reaches them through the control of private firms which have large research organizations rather than by government policy.

Chairman LONG. But isn't there a great deal the Government can do if the Government determines it is a major item. It can even encourage that by tax situation to others.

Mr. FABRY. It can, but it can also backfire very simply by virtue of some of the new multinational corporations in Latin America with invisible ownership, setup under the new regional system.

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The same thing will prevail. You support technology of let's say a textile or some chemical field. The multinational corporation will benefit from it. What will happen to that technology then and who will benefit from it at the end? It is not possible to go beyond that point. So technology is an international property. It becomes such at either the hands of the multinational corporation or the nation that gets it. After the point of giving it, who will profit from it is the question. It's the thing to do because it will have the label of being generous, but it may backfire.

Representative FASCELL. I agree with that. I think we ought to transfer technology. I think we ought to make it available. I think the United States can stay competitive, but who benefits is the question. If 80 percent of the people are outside the economic mainstream of that country there isn't a thing United States transfer of technology policy or multilateral institutions are going to change. The only thing that is going to change unemployment and the inability of people to participate is the political decisions of the local government.

Mr. CASAS-GONZALEZ. That is true. And that is where the question of policy comes in. Do you want dictatorship in Latin America? We know you don't want Communist governments because no aid is being given to Castro. But do you want dictatorships, or do you want democratic policies. You said it yourself. This gets assurance in that since more people participate the best of course, the higher the effective government or the technology transfer is.

Representative FASCELL. You and I are in agreement. We want to support the growth of democratic institutions. There is no question about that, but we deal with the governments as we find them.

Chairman LONG. And where do we draw the line with respect to the human rights issue for example? Do we draw the line on Chile and give no aid at all because of their violation of human rights at this time?

Obviously the answer is no, we don't want dictatorships. We have to take these countries as we find them. How do we determine which ones we help and which ones we don't help. What is the attitude? What is the attitude on your assisting Chile at this time with trade or aid issues? What would be the feelings?

Mr. CASAS-GONZALEZ. I would appreciate not having to give a particular opinion on a particular Latin American country at this time. I appear here as a citizen of a Latin American country. I do have my opinions and you know what they are. I do feel there are instances of violations of human rights. I mentioned we can live with pluralistic systems. We can accept them.

But you can not favor governments who are violating human rights, I think, because that goes against the constitutional ideals of the U.S. Government. I think it's a contribution.

Chairman LONG. Certainly.

Mr. CASAS-GONZALEZ. I mean you were not going to give perference to countries in Asia or other countries that go against you own system and your own ideals, but this doesn't mean that you can not trade with a country.

What I mean is, you can not give preference in a systematic way. And I am not saying this is what the Government does, but I think you must be very careful not to show that you are giving perference to countries that are violating human rights. And here I am talking about dictatorship. I don't like dictatorships personally, of course.

Chairman LONG. Mr. Clark.

Mr. CLARK. First of all, on the question of so-called human rights issues, I think the U.S. Government has taken a very fine position in accepting and dealing with the countries on a bilateral basis. They are each different and have to be considered.

Certainly in the case of Chile you would rather have the present regime than the Communists. In the case of Argentina you would rather have the present military regime than the Argentina we had before.

Certainly this applies to Brazil now. But don't forget a Communist takeover was planned that everyone was worried about at an earlier time. Who are we to say what government of any country should be, any more than we here in the United States would not like that it if others would try and impose their will on us.

I think we have to accept that and deal with it as it goes. Now, on the question of technology, I deal with this as another form of production and services.

We have no monopoly on the private enterprise system. It is for U.S. firms to decide when to sell or not, within the limitations set by government agencies.

Finally, you asked what we should do about the situation. The biggest problem we have is the U.S. State Department, and I say that without any maliciousness or disrespect for many of the people that work for it, but it is a morass from which we can not seem to escape. They try to equate Latin relations with the rest of the world. You can not do that. I would like to respectfully suggest that your subcommittee consider the establishment of a Latin American department in the Department of Commerce.

We are talking about business. All these things stem from business. Trade is what we are talking about. We can talk about cultural relationships all you want, but you can't have that unless you have a good trade relationship first. And you won't get it with the State Department. You go into an American Embassy and you talk about the problems of businessmen, because the problems of every business is important to a steamship line because if they are not in business then you are not in business. And the stock answer is, we have to worry about overriding political considerations as they effect us in other parts of the world.

We are not going to get anywhere as long as you get the State Department to decide these issues. You get the "benign neglect" because they are more concerned with Yugoslavia where they are getting more aid, or Japan because we are worried about the economy, or Europe because we are worried about the Communists there.

You need one cabinet officer or one subcabinet group to dedicate our efforts toward Latin America. And if we don't do this, Mr. Chairman and gentlemen, well we are going to be alone—our greatest ally should be the Western Hemisphere—the raw materials are there.

Can we depend on all the rest of the world? Let's come up with a policy and I think you are doing a great thing by holding these series of hearings to find out and develop a new policy toward Latin America.

Chairman LONG. My belief is that it has to be based on an economic relationship. My experience, limited as it has been, is that relationships are based upon common fear or economic advantage. If we look at it, our programs have been based to a great extent on mutual fear. We need to move to a lasting political relationship and we need to have a strong economic relationship. This is the reason I have been pushing and continue to push, to see if we can't develop some system of priorities for moving from a strictly political relationship where the economic decisions are based upon the politics involved to a more long term and stable relationship.

Representative FASCELL. I have problems with that, Mr. Chairman, and I appreciate what you have been saying. My experience, for whatever it is worth, has led me to feel that politics follows economics and economics does not follow politics. I agree with whoever said that there is more influence exercised on what happens because of U.S. business interests than there is as a result of the State Department.

The State Department has the job strictly of implementing from day to day, whatever U.S. policy decisions have been made. They don't have a great deal to do with economic policy. I know that's a source of great problems for the businessman. And I have had it thrown up to me that Americans can get from the British Embassy better treatment than from the U.S. Embassy. I know that is a myth. But economic policy is made largely by U.S. business; the policy is not made by the U.S. State Department.

Mr. CLARK. Perhaps you put your finger right on it. You said exactly what I was saying that politics follow economics and this is why I am recommending a cabinet or sub-cabinet on that in the Department of Commerce because the State Department is not going to do it. That Department falls in the State Department which is under Kissinger. They are not going to move without him. We need someone to take it and counterbalance it.

Chairman LONG. Well, we would like to take this opportunity to thank you all very much for appearing here this morning. We have enjoyed this very much. This has been a most moving discussion we have had here this morning and we are looking forward to the continuation of this discussion.

This hearing will now be in recess until 3 p.m. this afternoon.

AFTERNOON SESSION

Chairman LONG. This session of the Subcommittee on Inter-American Economic Relationships will come to order.

This afternoon the subcommittee is going to continue its hearing on the economic relations with Latin America and the Caribbean. We will have a panel to discuss problems and prospects of trade between the two areas. We have the privilege of having with us Deputy Assistant Secretary of State for Inter-American Affairs Grunwald, who will make a presentation to us.

First, a couple of remarks before we begin. All of us recognize that trade is of prime importance to Latin American economic development. I think this was definitely brought out this morning. Although Latin America has sought to diversify its market toward the European community and Japan, the United States remains the most important trading partner for the region as a whole. For some countries like Mexico trade with the United States accounts for more than two-thirds of that country's total trade. Because what happens in the American economy has a direct impact on the economies of our southern neighbors, the willingness of the United States to expand our imports from Latin America is of critical importance to the future growth of these economies.

Trade also plays an increasingly important role in the American economy as our economy continues to change.

The economic contribution of trade to our gross national product has doubled in the last decade.

Our trade with Latin America continues to be of particular importance as a source of raw materials and as an import/export market. In January 1976, the United States extended a generalized system of preferences, known as the GSP—we discussed here this morning—to all of the developing world including Latin America. These tariff cuts were designed to give preferences to the American market to exports from these developing countries. Although recognizing that it is still too soon to know what the full effect of the GSP is we would like to know what countries will benefit most from these cuts. In the long run, would all across-the-board tariff cuts from manufacturers benefit Latin American economies more than just a future exclusion of GSP. Also as I mentioned this morning, I will be particularly interested in hearing from our witnesses on the exclusion of Venezuela and Ecuador from the GSP and what overall effect this has had on United States-Latin American relations.

We will be considering, in addition, the recent U.S. initiatives in commodity policy, which Latin American economies will find useful. Should we reconsider our position on the integrated commodity scheme that UNCTAD proposed and what would be the cost and benefit of such a scheme for the United States?

We are honored to have four distinguished witnesses this afternoon. Our first witness will be Mr. Joe Grunwald, the Deputy Assistant Secretary of State for Latin American Affairs. Mr. Grunwald, if you can come on up and have a seat and proceed in your own way.

Congressman Fascell, do you have anything before Mr. Grunwald starts?

Representative Fascell. No, Mr. Chairman.

Chairman Long. Then proceed in your own way, if you would, Mr. Grunwald.

STATEMENT OF HON. JOSEPH GRUNWALD, DEPUTY ASSISTANT SECRETARY OF STATE FOR LATIN AMERICAN AFFAIRS

Mr. Grunwald. Thank you, Mr. Chairman. I am particularly glad to be here and have this opportunity to appear before this subcommittee and say a few words about United States-Latin American trade relations.

As you indicated this is a very important subject; 16 percent of our exports go to the Latin American Caribbean region. And as this committee knows well we rely on external sources for many important supplies. We look to the Latin American area for major shares of our import of several important commodities including petroleum, 34 percent; coffee, 68 percent; sugar, 57 percent; bauxite, 96 percent; and iron ore, 35 percent. For Latin America, as you indicated, Mr. Chairman, the trading relationship with the United States is even more significant. The region is dependent on the U.S. market for 38 percent of its exports and 33 percent of its imports.

Truly this is a highly interdependent region. That is why trade relations take on such major importance in our hemispheric relations. What is the nature of this trading relationship? Let me endeavor to examine this question in recent historical context.

We are familiar with the shibboleth: Latin Americans ship raw materials north and get back manufactured items. That situation is changing, and in some cases quite rapidly but often not rapidly enough to satisfy Latin American desires.

Before World War II, the description was quite accurate. After the war, Latin America's development objectives concentrated on industrialization and earnings from basic commodity exports proved inadequate for financing the capital and other goods required by these nations. Foreign aid, of course, helped enormously, but it was limited; long-run development required high levels of foreign trade, much higher than existed or were protected on the basis of then existing trends.

In order to accelerate economic growth, many countries in the region resorted to import-substitution: Produce as much as possible at home of what was previously imported using incentives for domestic production and tariff protection against outside competition.

To some extent this process has worked. But something obviously was wrong. As each country erected trade barriers to protect its nascent industrial sector, it discovered that domestic markets alone did not permit efficient scales of production. Locally produced goods generally cost much more than the imports for which they were substitutes. Additional balance-of-payments strains resulted as the production of the import substitutes required increasing imports of capital and intermediate goods. High production costs did not permit exports of these new products.

As economic realities became increasingly apparent, Latin American countries recognized the need to expand their exports. This meant not only raising raw material production for export, but also producing manufactures on a scale too large to be absorbed by domestic markets alone. While they needed larger markets, they were not yet ready to compete with the industrialized countries. They concluded, therefore, that as a first step they needed to specialize on a regional basis and exchange goods in much large amounts among themselves. They moved to form regional trade associations with the goal of reducing tariff barriers and increasing trade among themselves so that costs could be reduced through economies of scale in industrial production, as well as through increased competition among the Latin American countries.

The LAFTA, the Latin American Free Tade Assosciation, the CACM, the Central American Common Market, the Caricom, the Caribbean Common Market and the Andean Common Market were formed. There has been modest success in reducing intra-area trade barriers. Trade within the region has expanded. Growth of manufacturing exports made up much of the increase in intra-regional trade, so that by 1970–74, about one-third of Latin America's manufactured exports remained within the region.

But success in reducing tariffs and stimulating trade within these groups led to fears in individual countries of the possible adverse effects of the increased competition. Governments, faced with growing migration of workers from rural to urban areas, feared increased unemployment; and, faced with balance-of-payments difficulties, they feared a further worsening of their international payments positions. Many were reluctant to undergo short-run economic disruptions for the long-run gains of economic integration. We know about the power of entrenched interest groups, and we know about the feeling of national pride that comes from having one's own steel mill, automobile assembly units, and the like—regardless of costs. By the 1970's these strains on integration led to institutional crises in all of the major integration schemes in Latin America, as they approached levels of intraregional trade liberalization that necessitated higher degrees of adjustment. There is a danger that stagnation, or even reversal, of the supporting institutional development of integration will impede the rapid growth of intraregional trade.

Economic integration in Latin America thus requires a new thrust of enthusiasm. If that desire is to produce results, means of alleviating the pains of adjustment to more open economies must be found. The United States is prepared to discuss with the Latin Americans how it might be of assistance in this regard. The main effort, however, must be by the participants in these freer trade arrangements themselves.

The efforts to accelerate economic development by emphasizing exports had some effect. In 1960, manufactured goods made up 12.5 percent of the region's exports; in 1970, the proportion had increased to 18 percent. But the Latin American governments look at this the other way; they point out that 80 percent of their exports are still primary commodities. They see large earnings being lost by their inability to process these commodities more extensively before they leave their shores.

They also complain about the volatility of commodity prices. Since their economies are so closely tied to commodity export receipts, their economic plans are disrupted by cyclical booms and busts in commodity markets.

Take the upswing of the early 1970s when all industrialized countries were producing feverishly: The impact on Latin America was extreme—prices of the area's 15 basic export commodities jumped by 300 percent between 1970 and 1971. There was a huge spurt of economic activity—manufacturing output in the region grew at an 8.5 percent annual rate, gross domestic product by 7 percent. Exports of manufactures went from \$1.8 billion in 1971 to an estimated \$7.4 billion in 1974. Manufactured exports to the United States alone increased from close to \$900 million in 1971 to \$3.6 billion in 1974.

These were major advances. They were recorded, however, mainly by the more industrialized countries in the region. About three-quarters of the Latin American exports of manufactured goods come from Mexico, Brazil and Argentina—evidence of the region's economic inequalities.

The generally favorable trade situation in 1970–1974 encouraged widespread adoption of ambitious development programs. Most of them ran into balance-of-payments difficulties when oil prices escalated and a recession affected the industrialized nations. Prices of the traditional exports of these countries, oil excepted, tumbled. Economic growth in the region dropped to 3 percent—oil countries included—barely above the rate of population increase. Some countries actually experienced negative changes in gross domestic product.

Trade balances of some countries went into large-scale, even unprecedented, deficits. The United States, which has traditionally run trade surpluses with Latin America, reduced its imports from the region by 12.5 percent in 1975, to $16.1 billion compared with $18.4 billion the year before.

Much of this drop was a result of reduction in imports of oil from Latin America, but other countries too were affected; Mexico, for instance, shipped to the United States two-thirds of a billion dollars less food, metals, and manufactured goods in 1975 than in 1974.

Our exports to Latin America, however, actually grew by 8 percent, going from $15.7 billion in 1974, to $17 billion in 1975. In large part the increased imports from the United States represented a desperate effort on the part of Latin American countries to maintain their development programs despite export earnings losses and high oil import bills.

The result was unprecedented U.S. trade surpluses last year—including export surpluses of $2 billion with Mexico and $1.6 billion with Brazil. Our trade surplus with the non-petroleum-exporting countries of Latin America made up over half of our $9 billion global trade surplus. This large demand for U.S. exports has been a significant contributor to our economic recovery.

Trade deficits are not alarming in themselves for developing countries. Imports of goods needed for development are usually financed by borrowings and other capital flows. However, the size of these trade deficits since 1974 has increasingly strained the economies of many countries. In this situation, freer trade strategies suffered at least temporarily. Some nations of the area have imposed tighter controls over imports of what are considered to be less vital items.

The economic recovery of the industrialized countries will help reduce these Latin American trade deficits, though the impact of high petroleum prices will remain as a severe continuing burden on most of the economies of the region.

If Latin American countries are to achieve speedy and significant improvements in their living conditions, they must develop their export trade much more effectively.

Success in this effort will also expand the regional market for U.S. exports.

Advances in economic integration can help enormously, but the industrialized nations, including the United States, must cooperate in expanding mutually beneficial trade relations.

Many Latin American countries are approaching the point where they can earn their own way. They have less need of official assistance, but more need of expanded trade opportunities.

The United States, a nation that believes in unimpeded trade, has been providing such opportunities. Despite criticisms of certain of our trade actions, our economy remains largely an open one. Our borders are not open simply out of charity. We recognize that we benefit from imports and exports.

The Trade Act of 1974 provides us with the means of improving the welfare of our country, as well as others, through the judicious use of trade policy instruments.

As you mentioned, Mr. Chairman, title V of that act allows the United States to provide duty-free treatment—GSP—for a broad range of manufactured and semi-manufactured products and some agricultural and other primary products imported from developing countries.

The system will contribute to the economic growth of the developing regions and help them to become stronger trading partners with the United States. Eliminating duties on particular imports also benefits the U.S. economy and U.S. consumers by lowering prices.

The act makes clear that the impact on domestic industries in the United States must be taken into consideration. The administration of GSP is a very good example of how our domestic and international interests must be balanced if the program is to be successful. This is accomplished in part through intensive interagency deliberations within the U.S. Government, as well as through consultations with all domestic groups and parties that choose to be heard. We also consult with foreign governments, especially in Latin America, to determine which products they consider most important in increasing their countries' export opportunities.

At the outset, GSP treatment was extended to 2,700 items. As expected, some domestic groups would like to see certain of these items removed from the list, while other domestic groups and foreign exporters would like to have various items added. The list is not a once-and-for-all-time compendium. We will keep it under constant review. The list is generally recognized as substantial contribution to increasing trade opportunities for developing countries and as a measure that can give our own economy a boost by reducing import costs and stimulating competition.

We hope that our GSP, together with the preference systems of other industrialized countries, will serve to spur economic development of developing nations around the world. It is likely, however, that countries that already possess some industrial infrastructure and manufacturing capability will be the main beneficiaries of these preference systems at first. In Latin America, countries such as Mexico, Brazil, Colombia, and Argentina are in particularly good positions to turn these new trade opportunities into powerful instruments of development. The competitive-need formula, however, precludes limiting the benefits to such countries, and opens opportunities for less advantaged countries to compete with the more advanced developing countries.

The Trade Act, of course, also provides the authority for the United States to participate in trade negotiations. In the long run, in my view, the multilateral trade negotiations now in progress in Geneva can prove of greater significance to developing countries, particularly the nations of Latin America, than even GSP. Generalized preferences are temporary and nonbinding. The LDC's as well as developed countries have a very great deal to gain from movement toward a more open international trading system.

Under the authority contained in our Trade Act, it is possible for us to negotiate significant reductions in tariffs and other trade barriers that exist around the world. In this process of world wide trade liberalization, the United States could reduce to zero the duties now set at 5 percent ad valorem or less, and make cuts of up to 60 percent on other duties. This mandate is the largest in percentage terms that Congress has ever provided. The United States intends to make maximum possible use of the tariff cutting authority to grant concessions on products of special interest to the developing countries.

The Geneva negotiations are also expected to result in unprecedented reductions of nontariff barriers. The United States has indicated that it is willing to give priority attention to the question of subsidies and countervailing duties and other measures that affect trade with Latin America.

And there will be important changes negotiated in trade rules. Escape clause actions, for example, have been a matter of concern to most Latin American countries. A modernized safeguards arrangement would go a long way toward providing these countries with greater assurance that measures of protection in the industrialized countries will be limited and temporary.

These negotiations also provide developing nations with an important opportunity to examine their own trade barriers. While these countries are not expected to provide full reciprocity for the benefits they will derive, they are expected to make contributions that are consistent with the level of their development.

Rationalization of their trade regimes is, we firmly believe, in the interest of the developing countries, as well as that of their trading partners. The Geneva negotiations provide one occasion for them to review this situation. We also hope that the countries of Latin America will approach the difficulties in their regional and subregional integration movements wih a new determination to move ahead, based on an appreciation of the advantage of larger market units.

Mr. Chairman, the United States has recently launched a large number of initiatives to improve international economic relations in order to help the poorer nations with their development efforts.

Secretary Kissinger's statement at the OAS General Assembly in Santiago last month included several initiatives in the trade field, in addition to proposals concerning commodities and technology: The reduction of tariffs on processed raw materials; avoiding trade restrictive measures whenever possible; extension of technical advice on trade promotion; and the establishment of a new and more comprehensible trade consultation mechanism for OAS countries.

Let me conclude, Mr. Chairman, by saying that trade is the most important ingredient of our economic policies affecting Latin America because of its major role in the region's economic development. The United States can make the international trading system even more effective, both for us and for the LDC's. In this, the Congress and the administration need to work together.

Thank you.

Chairman LONG. Thank you, Mr. Grunwald.

I appreciate the general thrust of your statement and I think that its views are similar to mine that the basic movement should be in trade. Let us take that premise and proceed from it. You end up with the conclusion that the countries other than Mexico, Columbia, and Argentina will have to depend basically upon something else. What should the United States do with respect to these remaining countries? What ought to be some priority items with respect to helping them?

Mr GRUNWALD. As I indicated in my statement, Mr. Chairman, I personally feel that the economic integration of the region is a necessary irgredient for the acceleration of economic development of most of the smaller countries of Latin America. And I would go even further. I would say that even the larger countries like Argentina, Brazil, and Mexico would benefit greatly by lowering barriers to trade with their particular countries within LAFTA. As I pointed out, the main stumbling blocks impeding the integration process are the various fears that have merged. Everyone fears of losing.

We all know that that is impossible. Not all countries can lose in their integration arrangement. Some have to gain. We made several studies when I was still at the Brookings Institution which pointed out that very few countries were actually experiencing losses. It is true that the benefits from integration would not be equally distributed.

It therefore seems quite rational for the United States to try to determine whether there is a reasonable role for her to play in helping Latin American countries overcome their fears about the integration process. We would be ready to consider proposals. These proposals have to come from the Latin Americans themselves.

Chairman LONG. Let me ask you about two of them that were discussed here by the witnesses this morning. And they shared your view, particularly the gentleman from Venezuela, that this was a very important part of the economic development of Latin America at the present time. In his prepared statement he pointed out that Canada had made direct grants to the Andean common market. There were three grants of substantial amounts, if I remember correctly, and they had been made without any strings attached. He made the counterpoint that the United States had contributed something like $3,000, and had tied strings on it as to exactly for what purpose that money could be used.

Would you think that our policy should extend to the making grants for the development and strengthening of the common market in an effort to better economically integrate the various less viable units?

Mr. GRUNWALD. Dr. Chairman, I think that the figure of $8,000 is not correct. Though it does involve private transfers, the Ford Foundation has made some grants to the Andean Group much larger than $8,000: more in the neighborhood of $100,000 to $200,000.

Chairman LONG. Even assuming that we would still be making a nominal contribution compared to the three grants that Canada has made.

Mr. GRUNWALD. Maybe so in respect to the Andean Common Market secretariat. But the United States has provided $15 million to the Andean Development Corp. Nevertheless, I feel that the most useful role for the United States would be to elaborate by offering assistance for specific projects to Latin American institutions to which we can make a contribution. For example, an Inter-Latin American payments union might be one such worthwhile project. It might apply to the Andean group of countries or LAFTA as a whole.

There have been previous discussions for a U.S. role in Latin American integration, for example during the so-called Summit Conference of presidents of the countries of the Western Hemisphere in Montevideo in 1967. The United States stood ready to assist but somehow nothing came of that. I do believe that now we would be prepared to seriously consider any project designed by Latin Americans to which we could make a contribution. I am, of course, speaking for myself when I mention possibilities like payments unions or adjustment funds for industrial reorganization or for labor force retraining, and the like.

Chairman LONG. Let me be the devil's advocate for just a moment. How is the integration, the economic integration there going to help the U.S. economy directly and American business insofar as any direct assistance to them is concerned?

Mr. GRUNWALD. Well, in the most general terms, Mr. Chairman, if integration is really going to result as I believe it will, in accelerated development of Latin America, it will create strong economies in the region and therefore strong trading partners for us.

It is our general policy to strengthen the economies of Latin American countries and of all developing countries around the world. This is bound to help our exports. Some large countries in terms of population do not present very strong markets for our exports at the moment. They have to raise their incomes first. Their purchasing power has to be increased before they really can be significant trading partners for us.

A strengthened Latin America also represents greater investment opportunities for U.S. businesses. We must be careful in this respect because in the past some Latin Americans have tended to look upon our interest in Latin American integration with some suspicion. They saw in that, perhaps, another attempt on the part of the United States to create the conditions for additional penetration of multinational corporations.

Chairman LONG. I think on balance, while it's an indirect type of an aid and it's more long range than we would like to look, I think that you are right and I am inclined to agree with you. I think that the advantages far outweigh the disadvantages and anything we can do to strengthen it in turn would be of assistance to all of us.

The commodity grievance has been something that has escaped my attention or interest for a long period of time. It seems as though if you go into a specific commodity agreement, it's one of those situations where if the price of the commodity is up at the time, the attitude of the major producing country is that the United States is trying to take advantage of us. And on the other hand the price of the particular commodity is down at the time you are trying to negotiate, they say well, what we are trying to do is we try to bail them out. It works one way or the other.

How successful can we be in the negotiating session and would you restate for me what the U.S. policy is?

Mr. GRUNWALD. We consider it more useful to look at commodity arrangements possibilities on a commodity-by-commodity basis rather than an integrated common fund type of approach as proposed by some countries in Nairobi at the last UNCTAD meeting.

The reason is that we feel that commodities behave differently, one commodity from another. To put them all in the same pot may not be to the advantage of the producing countries concerned. We are not opposed to commodity agreements. We have recently signed a coffee agreement.

We have signed a tin agreement. Both of them by the way are awaiting action by the Congress. They have to be ratified. We would like to renegotiate the cocoa agreement because we feel it needs some modification or adjustment. We committed ourselves to study a group of 18 commodities at the last UNCTAD meeting, not necessarily to conclude formal commodity agreements, but to engage in producer-consumer consultations. We have proposed consumer-producer consultations on commodities like copper, bauxite and iron ore. And then there are 15 or so others that we have committed ourselves to study together with the developing countries.

Chairman LONG. Relate that again—for me to International Resources Bank?

Mr. GRUNWALD. The International Resources Bank, Mr. Chairman, is a proposal which is still in the state of an idea. It is not technically elaborated in all details yet.

Chairman LONG. But is it a general concept which we of the United States officially favor; do we not?

Mr. GRUNWALD. We certainly do.

Chairman LONG. Let me ask you the next question.

Is that not inconsistent with a commodity—by commodity type of approach?

Mr. GRUNWALD. No, it is not, because the International Resources Bank would be a guarantee agency that would act as a third party between private companies and user countries—the recipient countries. It would act specifically for each type of investment. It would not necessarily establish across-the-board rules for all commodities. Each investment would be dealt with specifically.

Chairman LONG. In keeping with the same principle followed by specific commodity agreement, in that you at least deal with each product individually?

Mr. GRUNWALD. You would deal with a particular commodity and particular country individually. The IRB, the International Resources Bank, is designed to foster investments in natural resources through arrangements including specific countries and specific investments.

Chairman LONG. Could you show me how the specific commodity agreement would work in the International Resources Bank? How does the Department of State see the two concepts, to use the overworked word, integrate——

Mr. GRUNWALD. In respect to the existing tin agreement, the foreign investor would know as the producing country knows what the price range of maximum and minimum prices is and how the buffer stock would be managed. Those aspects constitute the framework not only for trade but also for potential investments. On the other hand, IRB would concentrate on arranging the investment making it possible for the recipient country to pay for the investment and making it possible for the investor to have certain security. I don't see any inconsistency.

Chairman LONG. It's more complimentary than one running in conflict with the other.

Mr. GRUNWALD. That's right. If a commodity arrangement exists it constitutes a framework for the investment relationship.

Chairman Long. Referring to your prepared statement—this may be a technical point that you could help me with—you say countries with some industrial intrastructure and manufacturing capability will be the main early beneficiaries of these preference systems. We discussed before that Mexico, Brazil, Colombia, and Argentina would best be able to benefit at the present time from GSP.

Let's explore again, if we may the question of what we do other than the economic integration that might be of assistance to the others. One of our witnesses this morning, rather than speak of the foreign aid was talking about using the term economic cooperation. What do you see as the future of this? How much additional economic cooperation or foreign aid or whatever you might call it—how long is the United States to see this having to continue? You have an official position on that?

Mr. Grunwald. If you are talking about official U.S. aid, Mr. Chairman, you know that the position of the U.S. Government is to concentrate its aid on the basis of humanitiarian considerations and aid to the needy people, primarily in agriculture. The reference to my statement refers to my view that the first countries to derive an immediate advantage from GSP are apt to be those that already have in place industrial infrastructures. I also indicate there, however, that we do have a competitive-need formula. This means that we limit GSP to those countries whose exports to the United States, in the previous year, constituted either less than 50% of the total imported of that particular commodity into the United States or were less than $25 million, adjusted for changes in the U.S. GDP since 1974.

Today, it would be something like $16.5 million. So any country, Argentina, Brazil, and Mexico, that would export more than $26 to $27 million of a particular GSP-designated product to the United States would not be eligible for GSP. The objective of that is to give other countries a chance to compete against established foreign suppliers in the US. market. That is a very modest advantage, I recognize. In addition to that, our efforts of helping to stabilize commodity prices would also help the smaller countries of the region. And then there are our efforts in Geneva to give special considerations to the developing countries in our negotiations, where we would perhaps give differentiated treatment to countries that provide certain subsidies to their exports, because, as you know, the Trade Act provides that if exports are subsidized for any reason, we must retaliate with countervailing duties. There is room for negotiation here, establishing criteria on the basis of developing countries' situations.

I feel, however, Mr. Chairman, that there are fairly light limits as to how far we can go to help these countries, the small weak countries. I would say that there are many LDC's that are not economically viable. They need economic cooperation from the outside. Rather than receiving direct official aid, regional economic integration would be of greater benefit, in my personal view.

Representative Fascell. Or foreign capital investment which they don't want.

Mr. Grunwald. Or foreign capital investment which they don't necessarily want, Mr. Congressman. They put certain obstacles in our way. However, I would say, foreign investment usually is not deterred so much by the investment controls or relations a particular country has with another as it is by the lack of dynamism of a particular country. We have known countries that have strong reins on foreign investments but these didn't deter U.S. investment, because the country had a dynamic economy.

We can give examples, such as Mexico, which is known to have a rather strong set of foreign investment rules. But Mexico, being a dynamic economy, always has attracted foreign investment. The same thing can be said for Brazil. But in a small economy that is stagnant, one which doesn't move very fast, even a favorable investment climate would not attract foreign investment.

Chairman LONG. Thank you.

Representative FASCELL. Thank you, Mr. Chairman.

Given the situation, why was there such reluctance and skepticism about the International Resources Bank concept? The rejection of that, it seems to me, was political. In other words, it came from the United States so automatically, the Third World just vetoed it.

Mr. GRUNWALD. Let me say first Mr. Congressman, I don't think there was a rejection. It was an accident.

Chairman LONG. That's right, but not getting reelected and then saying, well, I didn't get the vote, Mr. Grunwald.

Mr. GRUNWALD. Well, it may be a rationalization; but the fact of the matter is, as you know, many countries were absent during the vote for the IRB. The vote was taken in the early morning hours. Of the 60 countries that voted, 29 voted for and 31 against the IRB. It was a difference of only two votes.

Representative FASCELL. In other words, you are saying it wasn't as bad as it sounded.

Mr. GRUNWALD. It wasn't as bad as it sounded.

Representative FASCELL. Why would some of our colleagues from other industrialized countries, then, say that the industrialized countries were very badly prepared; that the Third World countries had worked on this matter months and months and that the industrialized countries went into this meeting with absolutely no consultation, and no idea what they were going to do. It has been suggested that we were just doomed to failure before we ever got started.

Mr. GRUNWALD. Well, let me make three points why LDC's would look at the IRB with some suspicion.

One, it can easily be viewed, particularly if it's sprung on them as suddenly as we did spring it on them, as another gimmick to let the multinational corporations enter their economies in fields involving primary products, politically the most sensitive area in these countries. Our intent was the opposite. Our intent was that because the issue is sensitive, we wanted to have an international organism come in between the foreign private investors and the recipient country.

Representative FASCELL. Well, I——

Mr. GRUNWALD. May I continue with the other two?

Second, some countries reason that such a mechanism will stimulate production of primary goods, and therefore lower prices of raw materials. Their presence is to maintain prices at relatively high levels.

Representative FASCELL. Part of the concept is stabilization of prices.

Mr. GRUNWALD. Let me complete that and then indicate what our idea was.

Third, countries like Brazil, which in Latin America is probably the country most opposed to the IRB concept, felt that they can get all the foreign capital they need anyway and don't need this mechanism. In addition, they felt that this mechanism, by making it possible for other countries to receive foreign investment in resource development, would result in increased competition for their own products.

Well, having said that, I think you are quite right. Talking in a personal capacity, I feel that there were insufficient consultations, including those with our allies, the OECD countries, but——

Representative FASCELL. But it would not have changed anything if you had sufficient consultations.

Mr. GRUNWALD. Well, one of the reasons why we were unable to consult adequately, as you know, Congressman, was that we had to get our own house in order as far as the various government agencies were concerned. That took almost until the last day. If the concept had been agreed on sufficiently, we could then have consulted with the LDC's, but the idea of the International Resources Bank is, of course, one which does not appeal to some countries because it is seen as a scheme to lower over the long pull the prices of basic raw materials. After the oil shock, you well remember, our Government embarked, or wanted to embark, on Project Independence, at least in petroleum. The general mood was to try to become independent in various other commodities as well, but we can't. The United States produces copper, iron, ore and many, practically most, other minerals. But since we are a fairly well-explored country, we don't have many low-cost reserves anymore. We want to increase output of many resources, but domestically it's a high-cost effort.

That holds true of other industrial countries as well. So it doesn't make any sense from a world point of view, we feel, to develop further high-cost sources. From a global point of view, it benefits the world to find cheap sources of supply of the basic commodities. In order to do that we have to find them in the developing countries which have not yet been fully explored and where there are enormous quantities of reserves of all sorts of raw materials. That is the basic rationale of the IRB. But that kind of rationale doesn't always appeal to countries that fear for their export earnings because they believe that demand for many raw materials is inelastic and that therefore if you increase the supply the price will drop very much and their revenues from these raw materials will decline.

Representative FASCELL. Well let me see if I can't translate that. It seems to me that however its bought or whoever buys it is really immaterial if you are a producer of a primary product. If you are subject to the market, what you really want is a contract that maintains a high price and fluctuates upward constantly. That's all they really want. Therefore, they are not going to be for any kind of multilateral organization. They are going to be for a bilateral arrangement with the most important market in the world or the next most important, unless they have a cartel like oil because the object of the producer of the product is to control the price.

Mr. GRUNWALD. This doesn't contravene the effort of getting the best markets. It doesn't contravene the concept of the IRB.

Representative FASCELL. No; not from our point of view but it does from an LDC point of view.

Mr. GRUNWALD. Not necessarily, because the IRB is not an arrangement to fix the market for these products.

Representative FASCELL. How about the price?

Mr. GRUNWALD. The price is a different matter. But if there are commodity agreements, they could constitute the framework.

Representative FASCELL. In other words, that's because IRB is not going to buy.

Mr. GRUNWALD. The basic concept of the IRB is to provide a guarantee mechanism.

Representative FASCELL. It's not going to buy and store?

Mr. GRUNWALD. That's also under consideration. But as I said in the beginning, the concept has not yet been fully, technically developed. This subject is under negotiations. A buffer stock arrangement can be an adjunct——

Representative FASCELL. And any bilateral commodity agreement could fit within the concept notwithstanding the prices fixed.

Mr. GRUNWALD. That's right.

Representative FASCELL. Now, how about open market purchases on primary products. For example, the United States goes into the market to raise the price of copper. Why do we do that and then get criticized. The Russians do just the opposite. They dump it on the market to break the price. We buy to raise the price.

Mr. GRUNWALD. I am sorry, Congressman, who would criticize us?

Representative FASCELL. Well, the people who are not selling copper, copper users.

Mr. GRUNWALD. But not the copper producers.

Representative FASCELL. Of course not. The copper users love us theoretically. That is if the price is high enough they love us.

Mr. GRUNWALD. Well——

Representative FASCELL. That's what's going on.

Mr. GRUNWALD. Well, it's my understanding that, Mr. Congressman, we don't have a copper stockpile any longer.

Representative FASCELL. No; but we just started purchasing again.

Mr. GRUNWALD. But, the official strategic stockpile concept has been abandoned some years ago.

Representative FASCELL. I understand that. If we buy the copper we have to do something with it. I mean the United States is doing this. We are going to have a unilateral resource bank. That guarantees us direct purchase. I assume we are going to do that with bauxite.

Mr. GRUNWALD. Well——

Representative FASCELL. In other words, how can we help copper producing countries and bauxite producing countries?

Mr. GRUNWALD. I thought the problem is the low price rather than the high price. I have not heard any criticism of high prices outside of oil.

Representative FASCELL. I was pointing out the obvious, which is that as long as the United States buys bilaterally or unilaterally on the market to raise the price, it is fine provided we have a bilateral agreement on a primary product that guarantees price, but it's bad if we decide to put producers and consumers together to protect everybody.

We'll take care of ourselves. We are trying to help them and we are going to get criticized. You know, so what do we do?

Can your U.S. policy really affect this issue?

Mr. GRUNWALD. Yes; I think if we can persuade producing countries to sit down with consuming countries not necessarily to enter into fomal commodity arrangements, but at least to confer, we will have come a long way.

Representative FASCELL. I would certainly agree with that. Speaking of consultation, if it took you until 1 day before the Nairobi conference to get Treasury to agree with something which they didn't agree to, where are we now? I mean—are you calling the shots or is somebody over in Treasury?

Mr. GRUNWALD. It's my understanding, Congressman, that everyone is happy.

Representative FASCELL. Everybody is smiling but they are not consulting.

Mr. GRUNWALD. No; but everybody has agreed that the IRB is a concept that should be kept alive.

And, if you remember, that concept was raised with the OAS assembly.

Representative FASCELL. That's Rogers at State?

Mr. GRUNWALD. Undersecretary.

Representative FASCELL. And who is over in the Treasury?

Mr. GRUNWALD. Parsky.

Representative FASCELL. Yes.

Mr. GRUNWALD. But there is no controversy.

Representative FASCELL. OK, I am glad to hear it.

Mr. GRUNWALD. As a matter of fact, let me say before I forget to mention it, I believe Under Secretary Rogers testified to that effect—we have received very positive reactions from Latin American countries about the concept of the resources bank. They didn't call it a resources bank; they called it a fund at the last OAS General Assembly——

Representative FASCELL. Called it something, Latin——

Mr. GRUNWALD. I believe that perhaps if the time is not ripe yet for a global IRB, we may well wish to start with a regional resources bank, not to jeopardize the global concept but as a step toward the global concept.

Representative FASCELL. Am I correct that as far as U.S. policy is concerned that the United States considers it's position both on commodities agreements and the resource bank a very positive strong forward initiative and a complete change in U.S. policy?

Mr. GRUNWALD. I am sorry. I didn't quite understand the question—do we consider it——

Representative FASCELL. Do we consider this initiative, that is our willingness to enter into commodity arrangements and to consult on commodities, and to propose a resource bank or resource fund, a major change in U.S. policy?

Mr. GRUNWALD. I would call it a major set of new initiatives rather than a change, because we have signed commodity agreements in the past.

Representative FASCELL. I know that.

Mr. GRUNWALD. But these are new concepts that have been elaborated.

Representative FASCELL. This new concept elaboration is rhetoric on the part of the United States and people are demanding action in the LDC's Western Hemisphere. What's the next step? Whose got the football?

Mr. GRUNWALD. At this particular point, Congressman, the Latin American countries are consulting among themselves both within the OAS and also the Economic Commission for Latin America, the United Nations unit in Santiago, Chile. They are studying specific proposals for such an arrangement or arrangements. The timetable is such that we will receive completed proposals before year-end.

Representative FASCELL. I have two very brief questions, Mr. Chairman.

Chairman LONG. Go ahead.

Representative FASCELL. Mr. Grunwald, what input do you have on decisions on U.S. votes in the IDB or the World Bank?

Mr. GRUNWALD. You mean the U.S. Government or me personally?

Representative FASCELL. Well, you representing the U.S. Government. What input, if any, do you have on the United States vote in the IDB or the World Bank?

Mr. GRUNWALD. I am glad you asked me that question, Congressman.

Representative FASCELL. I knew it was one of your favorites.

Mr. GRUNWALD. Basically let me point out that the State Department is a member of the National Advisory Council which is a group which helps instruct the executive director as to how to vote in the IDB, and in the other international lending agencies, such as the World Bank, as well.

The State Department voice is not the strongest voice in the National Advisory Council.

Representative FASCELL. This interdepartmental agency or committee, is that chaired by State?

Mr. GRUNWALD. It's chaired by the Treasury. It is primarily Treasury responsibility.

The Governor of the IDB is the Secretary of the Treasury, as is the Minister of Finance in other countries. There is input by the State Department; but as you probably are aware, as of June 1 of this year, there is an amendment that was attached to the IDB replenishment legislation, called the Harkin amendment.

The Harkin amendment provides that the executive branch of the Government has to instruct the executive director of the IDB to vote "no" on loans or grants going to countries which are found to be engaged in a consistent pattern of a gross violation of human rights, unless this loan or grant would go to the needy.

We have, along those lines, voted "no" in a $21 million loan for industrial credit to Chile, because of findings of the Inter-American Human Rights Commission, and the State Department. This is a State Department function and responsibility. It found Chile to be in violation, as specified by the Harkin amendment.

I am morally in agreement with the thrust of the Harkin amendment, and I think I reflect the view of the State Department; but I believe that kind of thrust should be limited to U.S. bilateral relationships—to our bilateral aid, or bilateral dealings with countries—rather than to international economic agencies such as the IDB.

These international lending agencies are concerned with development as such. As I mentioned before, our own aid program is now geared to needy people. It's based on humanitarian considerations and therefore we have no problem with any restrictions on human rights grounds in our bilateral aid.

But in the international lending agencies, if we were to apply the law very literally it could very well lead to the destruction of the international lending agencies. And I would regret this very much. I would feel that we should deal with that subject of human rights, which is a bonafide subject for U.S. policy, because it is an international concern and certainly a concern of ours. But I believe that we should deal with that subject bilaterally and by strengthening international human rights commissions rather than in international economic institutions where non-economic considerations should not be injected.

Representative FASCELL. One final question. Mr. Grunwald, has your office focused on Caribbean trade issues?

Mr. GRUNWALD. We are concerned with Caribbean trade issues. We have not necessarily focused on it because——

Representative FASCELL. The reason, I asked was because, when the Secretary was before our committee upon his return from Latin America, and he advised us that he had designated task froces to take up every single issue that had been raised on United States-Latin American relationships. I asked then if he would expand that to include Caribbean issues as well. He said that he would and I would personally appreciate it if, when we have the opportunity to go back to Washington, you would remind the Secretary.

Mr. GRUNWALD. I shall certainly take this into account, Congressman. Our concern will be with the Caribbean as much as it is with any other part of the region.

Representative FASCELL. Thank you, Mr. Chairman.

Chairman LONG. Thank you, Mr. Grunwald.

We are most appreciative to you for coming down and being with us today and sharing your views with us.

Mr. GRUNWALD. Thank you, Mr. Chairman.

Chairman LONG. We have three distinguished panelists.

One of them was good enough to come back this afternoon at our request and invitation, Mr. Antonio Casas-Gonzalez.

Mr. Casas-Gonzalez, Mr. Robert Flammang, professor of economics at L.S.U., and Mr. Seymour Goodman, professor of economics at Tulane. You gentlemen would come forth, we would appreciate it.

I would like to welcome you and tell you that we do appreciate you coming and I know that you put work into the comments you are going to make for us today and I am sure they will be helpful to us. Mr. Flammang, if you would proceed.

STATEMENT OF ROBERT FLAMMANG, PROFESSOR OF ECONOMICS, LOUISIANA STATE UNIVERSITY

Mr. FLAMMANG. Thank you, Mr. Chairman, Congressman Fascell, ladies and gentlemen. First, let me thank you for inviting me to testify at these hearings. I consider it an honor to be asked, and I welcome the opportunity to express my views on a question which I feel is extremely important.

On any question of the type we are addressing today, that is our changing economic relationship with Latin America and the Caribbean, I believe that it is imperative to begin by asking "what will the future be like?" And "what do we think our position in it should be?"

Actually, the future is not all that dim in broad terms, especially when we look at the world economy.

We know that population is growing fast, and that the rate will probably not slow down until we have many more people on this Earth than we have now. We know that much of our present production and consumption are based on nonrenewable resources which are pretty randomly scattered all over the world. We know that we can expect shortages of at least some of these before too many more years, and that we cannot realistically expect technical progress to miraculously fashion a timely solution for us in each case. We know—or should know—that the long-run thrust of our policy should be on conservation instead of finding new deposits to exploit, because discoverable deposits are finite no matter what the price of the resource may be, because conserving cuts back on every form of pollution without necessitating stack scrubbers or waste disposal, and because conserving can be done without hurting life styles, especially if technology is focused in that direction. We know that world output and wealth are distributed so unequally, both within countries and among countries, that this economic inequality has become the root cause of both political and military confrontation around the world.

Given these tendencies, then, what should the United States position in the future world be? Naturally, we would like to see it as stronger, more powerful, more respected, and richer, and as free or freer than it is now. But much of our present power and wealth is derived from nonrenewable resources that are no longer as plentiful as they were; our dependence on the outside world has been growing steadily since World War II and will likely continue to do so, allowing for temporary reductions in the degree of dependence as Alaskan oil and the like come to be available. Similarly, the rest of the world is nowhere nearly as dependent upon us as it was in 1945. In consequence, we don't have the relative power or wealth we used to have, and can't call the shots as a virtual monopolist like we used to. There is little reason to expect that this erosion in our relative economic importance to the world will slow up or stop in our lifetimes.

So I expect that we will be relatively weaker in a more crowded, shortage-ridden world than we have today. The world will probably be more conflict-prone, because it will become increasingly likely that the income and wealth gains of one individual or country will have to come at the expense of other individuals or countries, and even though the world as a whole may enjoy higher living standards, we are all still very sensitive to how well we live relative to the other guy. So we will have to devise policy which channels disputes into courts and arbitration proceedings instead of war or civil violence. And we will have to distribute income more equally. There is no escaping that fact. Rich countries or individuals of the world may try to prevent it, but history is not on their side.

I believe that we should anticipate these changes as a country and place ourselves on the side of history to the fullest extent possible. All too often in the postwar period it has been the Communist countries which have identified themselves publicly with the relatively poor. Thus it always seems that the United States is on the defensive, battling to defend privilege against greater equality—acting, in other words, in a manner directly opposite to the ideals expressed in the Declaration of Independence and our other seminal documents.

Obviously we cannot stave off the future. But we can insure our own future as a country by taking policy steps which show the world that the United States is no less interested in bringing the poor up to a higher standard of living than the Soviet Union or China are. Why should we let them have the role of champion of the underdog to themselves?

Equally obviously, the progress of poor countries in the future will depend primarily on what they are able to do for themselves. Even so, the focus of most of the underdeveloped world is on what others can do for them—and this is natural since they are young countries, most of them, and are not yet selfconfident as they may expect to be later on.

All of this says that we should be doing our very best to conserve resources—our own as well as foreign. Reduced usage, not expanded production, should be our long-run resource policy at the national level.

This should, if successful, give us less pollution, less dependence on other countries, make us less of a competitor with the poor countries for their own resources and more of a supplier to the rest of the world of whatever we have in relative abundance. Since this policy would leave the rest of the world with more resources, it should contribute nicely to reducing gross income inequalities. Let me repeat: The major thrust of our policy should be greater efficiency in the usage of resources—all resources, but especially nonrenewable resources, and among those, energy resources. To me, this is just common sense.

But for the medium and shorter time periods, we will need a policy which also looks to the supply side.

This is a needed to buy time so that reducing waste can be made technologically possible and socially acceptable. This brings us to trade policy, since we will have to depend increasingly on foreign resources, particularly minerals, as our own supplies are exhausted.

Since 1934, the United States has been committed to a policy of liberalizing trade by means of reciprocal concessions, primarily by cutting tariffs. This policy has been most effective in the period since then—world trade has grown enormously from the twin stimuli of lowered barriers and mushrooming incomes. But the policy was predicated on the assumption that trading partners were equal—hence the emphasis on reciprocity. That worked fine as long as the bulk of trade concessions were confined mainly to industrial goods traded by industrial countries, because these countries weren't all that unequal. But is reciprocity—the exchange of equivalent concessions—appropriate policy for trade between unequals, like the rich and poor countries? I think not. The United States did not insist on strict reciprocity during the Kennedy round of GATT negotiations during the mid-1960's, and the International Trade Act or Trade Reform Act of 1974, grants preferences for certain categories of manufactured goods from less-developed countries, and these are steps in the right direction. But I think we should be prepared to go further. According to Secretary of State Kissinger, the present system of preferences extends to some 2,700 items from nearly 100 countries, with an estimated value of $2.5 billion annually. This sounds impressive until you reflect that 27 items per country, on average, is not very much, and $2.5 billion works out to less than $1 per person per year in the less-developed countries. We should make every effort to enlarge the coverage of the preference system.

I think that our trade policy, vis-a-vis, poor countries should have three additional elements in it. First, we should restructure our tariff system so that finished goods, semiprocessed goods, and raw materials are subject to similar duties. At present, finished goods are taxed the heaviest, followed by semiprocessed goods and raw materials; this encourages processing industries to locate in the United States. Since some of the best possibilities for industrialization in the less-developed countries lie in the processing of their raw materials prior to export, a lowering of duties on finished goods and semiprocessed goods could be most helpful.

Second, we should encourage the establishment of international commodity agreements wherever there is reasonable prospect that this will stabilize prices. Both exporting and importing countries stand to gain from this—more stable earnings assist development planning and execution in exporting countries, and reduces the likelihood of import-induced inflations in importing countries. The United States, which is also a major exporter of primary products, should have as much incentive to participate in these agreements as any country.

But should these international commodity agreements be employed to raise commodity prices above their long-term trend lines, that is, converted into international price-support programs? In general, I would say that this would be a mistake. It would raise costs to consumers, discourage producers from shifting to the production of something else where prospects may be better, and invite the development of substitutes.

However, I see no reason for the United States to oppose the integrated commodity stabilization program proposed by the UNCTAD Secretariat. The aim of the program is presumably price stabilization, and as long as it remains so, both selling and buying countries should gain from it.

Third, we should continue to supplement international commodity agreements with compensatory financing arrangements. These enable poor countries which experience below-average export earnings to continue their development programs without serious interruption, stabilizing the incomes of countries which export to the poor countries at the same time. However, compensatory financing should not be thought of as a substitute for commodity agreements, but at a complement—such arrangements do nothing to stabilize prices, so resource misallocations stemming from too-rapid price changes would still be a problem, as would the "inflation shock" effect upon importing countries.

What are the implications of all this for Latin America? This region is something of a special case for U.S. policy—it has the closest trade ties with us of all the less-developed areas, and it is the richest of them as well. Manufacturing has become a major outlet. This means that tariff restructuring on our part can be especially significant for Latin America, as can extended tariff preferences.

Since both of these actions can be expected to generate some injury to competitive producers inside the United States, our adjustment assistance program should be made both more generous and easier to qualify for. Since nonreciprocity makes sense for this region, I think we should be prepared to accept discriminations against our goods and services just as we did in Europe during the period of dollar shortage after World War II. For example, I believe we would be wise to accept discriminations in favor of shipping in Latin American vessels, so that the region could trim freight drains on its balances of payments. I also think we should make a special effort to ease our restrictions on the importing of basic necessities such as food and clothing from the region—these are called "wage goods" by economists since they are heavily purchased by low- and middle-income groups which work for wages, and it is these industries which need special stimulation in Latin America. Buying more refined oil from Venezuela benefiits the well-to-do more than it does the poor, but buying clothing, shoes, or other handmade objects helps the bottom income receivers which need help the most.

It goes without saying that we should eliminate the provision of the International Trade Act which denies tariff preferences to OPEC members. Venezuela and Ecuador, after all, did not take part in the 1973–74 oil embargo.

On investment in the poor countries, I think we should move on several fronts. To insure continued access to vital raw materials, I think the notion of an International Resources Bank outlined by Secretary Kissinger in Nairobi has much merit, but I want to underline that this should be regarded as part of our short and medium term policy on natural resources—in the long run, only conservation will do the trick. In regions like Latin America, I believe that we should accept divestiture as a natural process. We have had a presence there for many years, and our firms have made an enormous contribution to development by adding their know-how, capital, and marketing knowledge, but many countries within the region feel that the outside contribution is no longer so necessary and want to take an enlarged role in directing their own economies. I do not feel that this is necessarily true in Asia and Africa. These areas are at an earlier stage of development than Latin America, and outside investment can still add significantly to their development; here, then we would encourage private investment while accepting restrictions on outside ownership if a given country thinks it necessary.

Also in Latin America, we can continue to assist the region's development by continuing to support the Inter-American Development Bank. We recently added to our already substantial commitment to the Bank, and should be prepared to do so again when the funds are needed.

We should, however, use our influence with the Bank to promote a growing focus on the small producer. All too often, efforts to promote development help the already rich and do little or nothing to aid the poor in the poor countries—"trickle down" just has not worked. Projects which aid the smaller producers, which contribute to the success of cooperatives, which foster the wage-goods industries, and which promote the development and usage of so-called "intermediate technologies" to absorb labor and add to high-utility output—these are the projects which the United States should want the Bank to encourage.

Let me summarize my message here today: The United States is going through a period of relative decline in power and influence, based both on our declining stock of raw materials and the rising affluence of the rest of the world; to make the best of our lot in the years ahead, the major thrust of our long-term policies, both domestic and foreign, should be to conserve raw materials; in the shorter runs, we need to foster increased exploration and development of these materials, wherever they may be; in this connection, we should be prepared to enter into international commodity agreements products aimed at price stability only; pooling may be a good idea; compensatory financing should be continued and enlarged as needed; for Latin America, tariff restructuring and enlarged preferences would be especially helpful, and the anti-OPEC provision of the International Trade Act should be relaxed for those countries which did not participate in the oil embargo; other nonreciprocal trade measures should also be explored, we should expect, accept and perhaps even encourage divestiture in Latin America, but continue to support the Inter-American Development Bank in its prodevelopment activities, and encourage it to give particular attention to the low-income producer directly with both capital and promotion of intermediate technologies more appropriate to Latin America's needs.

Thank you very much.

Chairman LONG. Thank you very much, Mr. Flammang. Certainly you set forth your views very particularly and we appreciate them. We will get back to you in a few minutes with a discussion on the more controversial aspects of what you are advocating here.

Mr. Goodman, we are happy to have you and if you would proceed in your own words.

STATEMENT OF SEYMOUR S. GOODMAN, PROFESSOR OF ECONOMICS, GRADUATE SCHOOL OF BUSINESS, AND ASSOCIATED WITH THE LATIN AMERICAN STUDIES CENTER, TULANE UNIVERSITY

Mr. GOODMAN. Thank you, Mr. Chairman. It is a pleasure as well as an honor to be present before this subcommittee. I would like to especially mention Tulane University's Latin American Studies Center who were responsible for arranging my being here today.

A common view of inter-American relations in this country and as well as abroad is that the Latin American region has for some time suffered the status of neglected stepchild of U.S. global diplomacy.

Overly broad characterizations of policy—as undoubtedly this is—are seldom convincing or correct. Yet it can scarcely be denied that, insofar as recent United States-Latin American commercial relations are concerned, a status quo exists that has become increasingly outmoded in a world of "special relationships", in which historical ties between nations become strengthened by exclusive trade and financial arrangements. The United States, still by a considerable margin the world's most affluent nation and leading trader, has never accorded this sort of special recognition to smaller neighbors in the southern part of this hemisphere, however much the Monroe Doctrine may be brandished from time to time. To attribute the secularly shrinking relative volume of trade between this country and Latin America, including the Caribbean, solely to the absence of a scheme of preferential trade agreements would be manifest exaggeration. Nevertheless, the increasingly inward-looking trade patterns of the region are likely to resist change until and unless the United States takes the initiative and formulates some approach to the problem.

The question of how we can improve our trade relations with Latin America is clearly subordinate to the issue of where the region really fits in with our global priorities, of whether the costs of moving off center in this respect are not overbalanced by the sacrifice of political and/or economic opportunities elsewhere, given our enhanced awareness that we can no longer be all things to all nations. While this is, of course, a decision for policymakers at the highest levels, it cannot, or should not, be undertaken in an intelligence vacuum, and therefore can and should be illuminated and guided by legislative fact finding that focuses on issues of inter-American economic relations. Whatever insights and informed judgments arise from this process are also bound to be affected by the trade issues specifically, by perceptions of the opportunities and challenges involved in any significant furthering of United States-Latin American trade. And these, realistically, cannot be traded wholly separately from the feasible means for achieving that end. The remainder of this statement is directed toward exploring these matters.

To provide some perspective, Latin America and the Caribbean represent a distinctive world region containing slightly more than 300 million inhabitants, 8 percent of the world's. Brazil alone accounts for a third.

Birth rates have long been among the highest anywhere, accounting for population growth that is confidently expected to add 40 percent—125 million more—to the population by 1985. Comprised exclusively of developing economies, gross product is small, barely $200 billion in 1972, or only some 17 percent as large as in this country alone. Product per capita, though on the average larger than in most other developing countries, varies considerably by country, the extremes of the range being Haiti with $90 and Venezuela with just under $1,500 in 1972. These figures provide indirect evidence of the extreme inequality of incomes known to exist within the region; various estimates suggest a 30–35 percent income share for the upper 5 percent of the population and 3–5 percent for the poorest 20 percent. With income disparities of this magnitude, the region is not a promising mass market for the consumer goods of industrial society.

On the whole, internal economic gains, as measured by the growth of gross product per capita, have been sustained, if modest, since 1960, comparing well with that for the world's developing market economies as a whole. For the first few years of the present decade growth has been nearly as rapid as the average for the advanced economies, and even higher for countries as Mexico and Brazil. There is no evidence, however, of any widespread distribution of the benefits. Still, this progress, in which all nations have shared to some degree with the exception of Uruguay, has been achieved in the face of recurring governmental instability and extraordinarily high rates of population growth and urbanization.

Though international trade has experienced almost explosive growth since the end of the Second World War, Latin America and the Caribbean have not shared in this expansion commensurately to the region's prewar position. It accounted for only 6 percent of the value of the world's merchandise shipments in 1974, measured by exports or imports, which is only half the level of 1948. This relative decline has been roughly the same for all the region's major countries, including oil-rich Venezuela. The experience has been shared by other developing countries since it stems largely from a long-term decline in relative importance in global trade of primary commodities, the preponderant export category for the entire less developed world. Price movements have played an important role in this trend, but for Latin America and the Caribbean the growth rate of the volume of exports, at least from 1960 through 1973, has lagged considerably behind that of the developing market economies collectively. It must be concluded that there are some special factors underlying the region's reduced role in international trade, aside from its status as part of the developing world.

Since 1960 the market for exports of United States merchandise in Latin America and the Caribbean has undergone few, if any, changes of note. The region absorbed just under 20 percent of all U.S. exports, in value terms, in 1960; since the midsixties the proportion has fluctuated mildly around 15 to 16 percent. The eleven South American countries of LAFTA; the Latin American Free Trade Association have been the major outlets, accounting for a steady three-quarters of shipments to the region as a whole. Mexico and Brazil, the two largest individual markets, are the only ones to show a capacity to increase their share of United States exports, and this only recently. In the Caribbean, the Dominican Republic alone has increased its share.

Growth, of course, is not precluded by the lack of structural change. Maintenance of the region's share of total U.S. exports over the past decade has permitted these shipments to more than triple, equivalent to a compound annual rate of about 15 percent, which is nearly twice the average rate of increase in average export prices during this period. Preliminary data for 1975 indicate no special impact on the Latin American market from the worldwide recession, with growth in exports to the region running close to the growth rate of all exports.

There is some indication in these facts that the region has reached a point of stability in its capacity to import, which would warrant optimism that future sales to the area over the near term would not suffer in comparison with markets elsewhere. This observation also appears supported by evidence of the shifts in the commodity composition of our exports to Latin America since 1965. Considering only the more important commodities in our export structure, the most important change was in grains, mainly wheat, which doubled its share of this market to reach 10 percent. Other but smaller relative gains came in chemicals, electrical apparatus, pulp, paper and manufactures and iron and steel mill products, commodities which also should strengthen the market's internal economic development. Except for chemicals, these commodity groups have had a higher rate of expansion since 1965 than total U.S. exports. Hence, the region has been able to absorb relatively greater amounts of some of our fastest growing exports. Further, in connection with manufactures, data from IDB, the Inter-American Development Bank show that, despite some programs of import substitution in the region, this broad commodity group has not undergone any decline in its three-quarter's share of the region's imports.

The apparent neglect of this country in fostering Latin American trade appears most vividly in the geographic distribution of United States imports. Between 1960 and 1972, the import share from Latin America and the Caribbean fell by more than half, from 27 percent to less than 13 percent. This was not a period of outright contraction since volume did grow at an estimated average rate of 2½ percent per annum, along with a greater increase in value, but these rates were far less than the growth of our purchases from other world areas. Beyond 1972 there is a dramatic change because of a single factor—oil. By 1974 oil imports from the region sufficed to restore its position among our external suppliers to where it was nearly a decade earlier, when it accounted for a fifth of our overseas purchases. The period of decline, however, has clearly left its mark on United States-Latin American trade relations. In its last annual report, the Inter-American Development Bank shows that while the United States remains by far the major foreign market for Latin American goods, its share of the region's exports has slipped in relative terms some 15 percent—between 1960–1963 and 1970–73, with Japan, Germany, and other countries of the region particularly, taking up the slack.

It should be noted that the Latin American or Caribbean beneficiaries of the extreme elevation of petroleum prices that began in late 1973 are quite few—Venezuela, Ecuador, the Netherlands Antilles, Trinidad and Tobago, and to a slight extent, Mexico. No other country in the region has succeeded in even maintaining its share of the U.S. market, although Brazil has stabilized her's since about 1970.

Consideration of the commodity structure of our imports from Latin America and the Caribbean produces no surprises and generates no optimism over a reversal of trend. Coffee imports in 1974 were only a third as important in the structure as in 1965, with the effect of falling volume more than canceling a long-term price increase. Refined as well as crude petroleum shows a substantial gain, as does sugar. Among leading imports in the manufactured goods category—aside from petroleum products—only in textiles is there even a slight increase in the relative amount of purchases from the region, but these account for barely 10 percent of all U.S. imports of this commodity group. Except for sugar and petroleum, imports of significance from Latin America and the Caribbean appear confined to commodities whose growth rate is less than for all United States imports collectively. In short, there is little indication in the current data of any significantly increased purchases from the region in the foreseeable future. This forecast is even more certain if and when we become less dependent on foreign sources of energy supplies.

Considering the purpose of this hearing, the question naturally arises whether, among other policy changes, the preferential tariff treatment of certain imports from developing countries that we have incorporated in the Trade Act of 1974—GSP, known as the generalized system of preferences is likely to produce more traffic from Latin America and the Caribbean.

It should be noted that since GSP became effective only on the first of this year we have as yet no real record of experience to analyze in order to determine just how restrictive have been the tariffs on the 2700 products covered by GSP that have been rendered duty free when originating from designated developing countries. While it is always dangerous to indulge in categorical statements or judgments in economics that require an empirical basis, it is difficult to avoid at least a tentative judgment that GSP is not the answer to the trade problems of Latin America and the Caribbean.

Let me provide several reasons for this view. First, by the end of 1974 fully 71 percent of the value of our imports from the region carried no duty, as compared with only 45 percent as recently as 1970. The current proportion is approached by no other world area except Africa, where it is as high or higher for much the same reason—namely that these regions are suppliers predominantly of primary products to consuming nations lacking domestic substitutes or in which consumption far outstrips actual or potential production. How much more liberalization may be accomplished GSP is indicated by the Bank of London and South America, a subsidiary of Lloyds Bank, in the February number of its "Review," which reports that the duty-exempt fraction of U.S. imports from Latin America would rise to 75 percent from 67 percent earlier—in relative terms by 12 percent.

Second, by the terms of the Trade Act, GSP is fairly heavily hedged against potential damage to domestic producers, through eligibility provisions which exclude the more competitive suppliers of the listed commodities as well as several categories of so-called "import-sensitive" commodities, and by sundry limitations on preferential treatment. This protection comes in addition to the liberalized provisions for adjustment assistance under title II. As only one illustration of how certain exclusions affect imports from Latin America and the Caribbean, of the 253 items on the GSP list that currently will not receive duty-free treatment when exported by specific developing countries, these are Latin American or Caribbean countries in 109 cases—43 percent. Third, but perhaps least significant, is that where quotas still remain for commodities that may be listed, possibly for meat, or where other nontariff barriers exist, such as sanitary or health regulations, as for certain agricultural products, GSP may be of no benefit. To all this I would add that on the basis of a casual examination of the GSP list and comparison with some recent statistics of U.S. imports and leading Latin exports, GSP is likely to impact to a measurable extent commodities comprising 8–10 percent of U.S. imports, in particular fish, vegetables, cocoa, inorganic chemicals, nonferrous base metals, ores, and plywood, with Mexico, Brazil, Chile, Peru, and Jamaica as the main beneficiaries.

To the extent that further trade liberalization by the United States remains a politically viable option, a once-and-for-all reduction or elimination of both tariff and nontariff barriers against all nations, or all developing nations, may be a better policy in the Latin American view, since it should thereby reduce uncertainty which is inherent in the Trade Act of 1974 and hence encourage long-range planning in the developing countries. It would also close the breach in what had been one of the few cardinal principles in U.S. commercial policy, that of nondiscrimination. There is still much to be said for this.

Neither can I endorse one or other of the various commodity stabilization schemes as a long-run solution to the trade problems of the region, whether or not underwritten by the United States and other developed primary products consumers. This applies to UNCTAD's much-publicized plan for integrated buffer stocks of several primary commodities, financed by a common fund. Such proposals never distinguish, conceptually or operationally, between the need to stabilize purely erratic price movements, in which both reducing and consuming countries have the same interest, and the desire to alter the long-term trend in world market price, which inevitably brings them into conflict.

Moreover, such arrangements never cease to be plagued by operational problems, such as over price ranges to be sought or the frequency of adjustment; similarly, the distribution of marketing quotas among producers, given that stable prices do not necessarily bring stable earnings. These problems have terminated many such an international agreement before; the great difficulty of providing accurate long-term forecasting has also in the past depleted buffer stocks or bankrupted the arrangement. It is indeed difficult to understand why some must feel that history will not repeat, sooner or later.

Even if these plans are capable of achieving a measure of success in transferring resources from the developed to the developing economies, the trade problem are only symptomatic of a deeper malaise which is not thereby cured. Dependence of the developing world on primary goods production of a degree that currently exists should not be encouraged, as indeed may be the outcome of a more or less permanently higher level of export earnings from such commodities. What is important is what the resources gained are transferred to. Rational policymaking must assure that the economy's production base becomes more diversified, and in a manner that provides for the fullest utilization of the work force. This is the true meaning of economic development and even industrialization.

If this much is recognized, then it would appear that short-run financing of shortfalls in the export earnings of developing countries by advanced countries, particularly in the case of significant primary commodities, should be encouraged if the funds advanced are largely, if not exclusively, utilized to finance continuing industrial diversification policies. For this reason, attacking the trade problem of the Latin American and Caribbean countries through compensatory financing plans, which need not be subject to open-ended costs, as exemplified by the facilities of the International Monetary Fund, would be a meaningful first step to a comprehensive solution. Thank you.

Chairman LONG. Thank you, Professor Goodman.

The general impression I get from your statement is that you are not at all optimistic with respect to the major thrusts that are being advocated by Secretary of State Kissinger at the present time.

Mr. GOODMAN. No, Mr. Chairman, I am not. I see very little distinctively new in these proposals. They have been argued and at times, in part, implemented before, but the general history of the commodity stabilization agreements is a rather short and rocky one. We need only enumerate the various coffee agreements. But the only saving grace of, for example, UNCTAD's proposal is that it's on a larger scale and hopefully provides more diversity of risks. That is, if tin prices are low then maybe cotton prices would be high, cotton being among the commodities included.

But the general evidence is that primary commodities as a group have not uniformly moved together in price relative to industrial goods. So I don't even see the risk of diversification.

Chairman LONG. This basic conflict you are speaking of here is the one I was trying to get at earlier and which Congressman Fascell explored to some extent a few minutes ago. It seems to me it is one that is just about impossible to overcome. Very, very difficult to overcome. And that seems to be your view on that.

Mr. GOODMAN. Yes, I don't believe that this was really a long-term solution. I believe perhaps to some extent it may solve some short-term political problems, perhaps of the United States as well as of some other developing countries, but if we take a long-term point of view, this is not the answer. This is not the answer in terms of the interest of the world as a whole. We are making short-term of resource allocations to solve what I think are not even short term on economic problems but short term on political problems.

Representative FASCELL. I agree.

How do you feel about Mr. Flammang's answer concerning conservation measures? Is it easier said than done?

Mr. GOODMAN. Well, I think I disagree with Professor Flammang in that I view as one of the main critical problems in the whole Latin American-Caribbean region the closing of the inequality gap. I don't believe one can do that by policy that limits growth. I think we need a policy that encourages economic growth. In part some of that growth will have to come about through increased primary goods production, but not the whole part.

And I don't think that encouraging primary goods production to the extent that commodity stabilization plans would solve this. And the same goes for the International Resources Bank proposal of Secretary Kissinger.

Chairman LONG. Professor Goodman, I would like for you to comment on the following assertion. Professor Flammang, you assert that the United States should not demand reciprocal concessions from these developing countries in the current trade negotiations and that we should really go further than that and tolerate discrimination even if it is against American goods and against American services.

Even if I accepted your thesis, which I am not willing to do, what are the limits to which you would go with respect to the amount of discrimination we should accept? Should we continue this into the indefinite future and virtually forever?

Mr. FLAMMANG. Well, Mr. Chairman, I don't—my paper did not mean to indicate that I would accept all forms of discrimination from whatever source. My argument is basically that with respect to poor countries, and the poorer they are the less equal they are to a rich country like the United States.

The less we treat them like they were another United States the more likely it is that our policies would do them some good in the areas of either trade investment or aid. As a matter of fact, the idea of nondiscrimination, basically means to treat equally where they are situated.

And if they are not equally situated we have never, never have, as a matter of practice treated them the same. We have farmers' subsidies that fell far below the national average, we have subsidized our merchant marine when we felt it was necessary. We have subsidized our coal industry, we have discriminated against Communist countries. You can go down the list of one discrimination after another, whenever we have found that someone is less equal than someone else we have treated them differently. And I am just advocating that as general proposition when we confront countries that are not as rich as we are that we should not exact from them the full measure of a concessions in trade or whatever that we might have the power to extract from them. And in general we should except a discrimination which is not truly discrimination.

Ronald Page many times has argued that nonreciprocity in trade in the case of Latin America is really true reciprocity and he argued from the grounds that if the United States would unilaterally reduce tariffs, for example, and say expand large American earning by $1 billion a year that you could be darned sure that every last dime of that would be spent on U.S exports back to Latin America. They are not going to pile it up. Some of it would, of course be diverted to other places, but—such as Japan, Germany and so on. But there is a built in reciprocity whenever the richest country lowers it's restrictions. It can nearly always count—not necessarily with the particular tariffs. Reducing tariffs to Latin America we necessarily cause Latin America to buy that much more commodities from us but it would certainly cause Latin America to buy that much more period.

And of course dollars falling into the hands of foreigners are going to do something to stimulate our exports too.

So that's what he means—this is what he calls implicit reciprocity. If we lower a little bit we make it possible for them to continue to buy from us. And as many of the witnesses stated here, wherever investment wants to it goes, if market prospects are right, notwithstanding attempts to keep it out, et cetera. My feeling is that even if Latin America doesn't say reduce its nontariff burden, et cetera, they will still buy a good deal from the United States in the future.

I don't know if that's clear.

Chairman LONG. I understand it. I don't necessarily agree with you. It seems to one like an awfully indirect way to get it done but perhaps worthy of consideration. Professor Goodman, what is your view on that subject?

Mr. GOODMAN. Well, I think the evidence has indicated that Latin America is simply turning away from the United States as a market for it's goods and I think that this is a fact that we should become very, very aware of. It is clearly inward looking now. It recognizes or at least believes that part of the solution to the general economic problem might be found by a more integrated kind of system, although implementation of that is horrendously difficult and there is a constant squabbling over it, for example, the virtual collapse of the Central American common market was based on such considerations as which industry should go to which country for what reason.

Chairman LONG. Also, the limited market available within those countries as a result of integration of which you spoke before, doesn't really sound very promising?

Mr. GOODMAN. Well, the rationale of integrated trading is that we can create, or the countries can create, a larger internal market, but whether or not that market will materialize if it is not present depends not on trade policies for the integrating countries but rather on the general economic growth of these countries and their rate of population growth. It's not the process of integration that will create the market that can sustain integration industry, but the general economic growth of the area.

Chairman LONG. Mr. Casas-Gonzalez, do you have any comment on this?

Mr. CASAS-GONZALEZ. Yes, Mr. Chairman, I would like to comment on some of the points that have been made so far.

Chairman LONG. By the way, I didn't mean to preclude you from making a general statement so feel free to take a few minutes and do that if you want.

Mr. CASAS-GONZALEZ. I don't think it's necessary to take your time with a general statement. I think it was sufficiently covered.

I would like to comment on some of the things that have been said here by my colleague. First of all on the few things that Joseph Grunwald mentioned, Deputy Assistant Secretary Grunwald, I do believe that the Bank scheme—the International Resource Bank I believe—is a very interesting one as I said this morning and I do think that Latin America is regarding this proposal with an open mind and I think this was demonstrated recently in Santiago as Mr. Grunwald mentioned.

I would like to insist on a point that I made this morning, however. In conceiving such a bank and in the negotiations I think that there has to be a very sure idea in the United States on what the purposes are for this Bank because there is the impression among the Latin American countries that the United States is presently interested in this because of the possibility of new "OPEC's" arising, because of the tendency in the prices of raw resources and so forth and so on.

If this is so, it would be very ill taken by the Latin American countries as such. I believe that the Bank will have to be very clear on its policies. However, I do feel that it could be conceived as regional type of initiative as Mr. Grunwald mentioned, as an alternative in case it's not accepted by other countries. So far in my consultations with some people in the last few weeks, I think it is an interesting proposal and as I said, in my country I know for a fact that they are considering it.

Mr. Grunwald said something that I would like to comment on. He said that we have to convince the LDC's to discuss problems concerning primary resources. I think it's been the other way around. I mentioned in my statement this morning that President Caldera in 1972 visited the U.S. Congress, and at a joint meeting of Congress proposed negotiation government-to-government on the question of oil. This was not received well by the United States, and is not accepted by the United States now. Past meetings were welcomed by the LDC's. Nobody had to convince them to go. In general they were welcomed.

We are worried concerning the past meetings of course, and the sort of negative attitude—as I mentioned before—with regard to an indexation scheme. I think that before a bank, such as the proposed International Resources Bank, can be established a very clear definition has to be made as to what the commodity-importing countries' position will be with regard to trade policies on the part of the exporting countries. I mean what would be the accepted criteria. If it's not indexation, what is the criteria and I think this has to be clear.

The last point concerning Mr. Grunwald's intervention—I would like to clear one point I made before. The information that I got from the Secretariat only 5 days ago, when I visited the Andean Secretariat and that I gave here was given to me directly by them. In other words, he is right that the United States has of course assisted the Andean Group in many ways through private investments, through technical assistance, bilaterally to each of the member countries through the IDB and so forth. But the Secretariat as such has only received $3,000 for a petrochemical publication, as far as the information was given to me by its members.

Now, with regard to what was said by Mr. Grunwald, I think it is a very interesting issue and I feel that it is something that is not quite understood in the United States especially in the case of Venezuelan oil policy for example.

I remember when I was a student in Venezuela most people were very proud of the fact that we would increase our oil production week to week. I remember I used to tell my schoolmates as soon as we reach 1½ million we are going to reach 2 million next year, and another year we will be to 2½ million and so forth and so and on. And this was in general the attitude of Venezuelans. This attitude could be changed as you know in the last 15 years. Now we have taken cognizance of the importance that a nonrenewable resource has. And the signficant thing is not to produce more but to use it better to conserve it to get the best that we can from it and in other words, to increase as much as we can the benefits from each barrel of oil. Now it's good to talk about conservation, but I think there is another element which we cannot forget. I also mentioned it this morning and I would like to repeat it because I think it has something to do with the point that Mr. Flammang made. It's not only the conservation but the other important point is the processing; the processing of the primary resources. This has become a more and more important issue in all of the commodity producing countries.

In other words, at the moment in Venezuela it's not only a matter of conservation. My generation of professionals in Venezuela, economists, and engineers are thinking more in terms of whether it's convenient for us to continue using oil as a source of energy. Is it not better to use part of our oil resources into the production of petrochemicals and to other products. And I think this is becoming a more important issue from day to day and I think it's an issue that has to also be held in mind when we are thinking about this International Resource Bank idea.

Chairman LONG. Thank you. On a personal note there, this seems to me an idea whose time has come and is time to recognize the issue.

You know I ran for Governor of Louisiana many years ago. At that time I made the statement you just made, that we should strive for a greater share of processing. We should look for a better use of our products and in particular our natural gas, which is getting to be pretty extinct. And it is strange that even at that time this was coming.

The oil companies and the industry in the State of Louisiana probably labeled me as a antibusiness type of a candidate. What they did at the time was a remarkable political hatchet job from the standpoint of merely suggesting that what I was advocating was communistic in nature. I think that most of them can go back now and look at it and they would think that perhaps this was a policy that would certainly be better for the State of Louisiana and probably better from the standpoint of the producers themselves.

Mr. CASAS-GONZALEZ. I think this is very interesting, Mr. Chairman, it shows also that attitudes change with respect to the same type of situation or the same processing of certain production. In referring to what Professor Goodman said about production, I do feel that it is important to maintain a dynamic situation in Latin America because this is the main source of income for Latin American countries. However, I think that processing would become more and more important. Some very interesting schemes have appeared in the last year and half. I don't know if you are familiar with what Mexico and Jamaica are doing. They have just established three joint ventures, two companies which have their headquarters, or will have their headquarters, in Jamaica and one in Mexico.

The first one in which there is a majority shareholding on the part of Jamaica with some participation on the part of Mexico, is a bauxite extraction operation.

The second one is an aluminum plant in which Venezuela may participate also as a minority stockholder. The third company is a joint venture in Mexico with Mexican majority shareholders and Jamaician participation which will process the alumina and convert it into aluminum and aluminum products. So this is a very, very new scheme. It's something completely new. Between Venezuela and Guyana, Prime Minister Brown, who was elected a short time ago, came to see our president and I understand they also talked about a possibility of setting up some sort of a similar joint scheme. So there are many of these cooperative ventures that are going on concerning primary products.

In this Jamaican-Mexican project, Mexico is putting up the capital as a loan. I don't think it even has interest, it's almost a noninterest loan, I think there is a capital subscription to accompany them. A lot of these new schemes that I think will be very important in thinking over the possible activities of this bank.

I do agree also with Professor Goodman that trade depends in an integration scheme also on the growth process, per se. But it also depends on some other things such as the internal structure of each country. One of the reasons that growth has been rather slow has always been the fact that the industrial structure of the Latin American countries is very similar. Especially the major countries, the larger countries and also the intermediary countries. Well, this too is happening to a certain degree with the Andean Group. In other words, to a great extent trade—new trade has to be based on new production and new types of products. And this is a slow process.

Thank you, Mr. Chairman.

Chairman LONG. Thank you, Mr. Casas-Gonzalez.

One point that I—so I can keep my score cards straight here that you can comment on. The proposal has been made quite often that we ought to have special trade preferences for Latin America. Taking out of the context of the Third World—going down the line Mr. Flammang—what would be your view on this?

Mr. FLAMMANG. I don't think it's necessary and I don't think it's desirable. I think our trade with Latin America is—would naturally be greater than any other part of the world just by virtue of its geographic location, common history, and things of that type.

I don't see any special benefit to extending special concession to Latin America that we don't extend to other parts of the world, because for one reason Latin America is richer than the other undeveloped areas. And if you want to talk discriminations in favor of one set of underdeveloped country over another we presumably would be most generous with the poorest.

Chairman LONG. Mr. Goodman.

Mr. GOODMAN. My instincts are fairly universalistic so that simply on an instinctive basis I would tend to second Professor Flammang's argument. But I think that we don't live in an ideal world. I think we are experiencing a situation in which major world powers are, in effect, taking special measures, special arrangements to, in effect, assure themselves to the greatest degree possible the loyalty and support of other nations. I think we need Latin America, at least from that point of view.

I think that we need Latin America in the same way and perhaps even more so than reflected in other preferential arrangements by major world powers. And if this wasn't the case then I would prefer my instincts for a universal approach to trade. But I do think that in the present world situation, that special preferences for Latin America are justifiable.

Chairman LONG. There are some other factors that need to be involved here. How about giving us the Latin view on this Mr. Casas-Gonzalez?

Mr. CASAS-GONZALEZ. I agree. I can subscribe to Professor Flammang's words 100 percent. I think that the general approach is much more convenient for both sides. I have as a Latin American, some opinions also on the significance of vertical preferences. I think they create a certain type of political dependencies which are not really convenient. I was vice-minister of development in Venezuela when we renounced to the bilateral treaty with the United States. I was coordinator of the study group that recommended that decision. And one of the facts we found was that the treaty had not been really an operative treaty for many years but it had created a sort of mental dependency on the part of Venezuelans which affected our policy possibilities in many ways.

For example, it created tremendous complications in our going from a specific tariff situation to an ad valorem situation. We were way behind times in this and it was mostly because of our large amount of exchange with the United States in this we would have had to denounce the treaty but nobody took the decision to do this. A lot of people kept on saying that the treaty is good, the treaty is good but nobody ever said why. And I feel that this vertical type of arrangement is inconvenient.

In Latin America in general, I think this would be the position with the exception perhaps of some political leaders and some economists. I think they are a minority and as far as an official position of the country is concerned I would say that the only country to be inclined, to this type of attitude is Colombia. This is so because since President Caldera they have been defending vertical preferences for many years.

Chairman LONG. Mr. Grunwald, I need your comment on this to complete my score card.

Mr. GRUNWALD. I tend to agree with Mr. Casas-Gonzalez and Mr. Flammang for reasons that they have indicated. I don't think we would want to tie the world up in spheres of political or economic interests just because the Europeans have tended to do that in the Lomey agreement. We should not go the road of vertical preference. It's not in the interest of Latin America in my view.

Chairman LONG. Thank you.

Congressman Fascell.

Representative FASCELL. Mr. Chairman, I only have one question at this point. If the present rate on products is 75 percent duty free was a 100 percent today, what difference would it make?

Mr. FLAMMANG. If the percentage——

Representative FASCELL. In other words, on those preferences you already have 75 percent of all products to the United States duty free so we raise it tonight to 100 percent. What would be different in Latin America?

Mr. FLAMMANG. Are you asking that to any particular individual?

Representative FASCELL. No; to the whole panel. Does it solve the food problem, the population problem, the housing problem, the economic development problem, and the political problem. What does it do?

Mr. GOODMAN. Well, I will answer that first and say it doesn't do enough. It doesn't do enough in terms of problems I think this panel was seeking a solution for. I would say——

Mr. FLAMMANG. I would say the same except to add that preferences should not be justified on the basis of the present trade patterns but on the basis of potential trade patterns. The present mix of products from Latin America is one thing, but we know for sure that by the year 2000 it will be very different from what it is today. And the percentage of them that is subject to zero duties will be considerably different from what it is today.

Representative FASCELL. Mr. Grunwald.

Mr. GRUNWALD. Some preliminary definites have been made, I understand, and the figure that we got was approximately a benefit of a billion dollars additional trade if it were to be completely duty free into the United States, but again I agree with Mr. Flammang, we should look at GSP as we would look at the infant industry argument. Not only to encourage or to expand the existing trade patterns but to encourage countries to invest in new kinds of production that could enter the U.S. market.

Representative FASCELL. Well supposing we open up manufacturing processes?

Mr. GRUNWALD. It would make a difference.

Representative FASCELL. You mean it would attract local capital going to manufacturing in order to sell in the United States or would it attract Japanese or German capital or U.S. capital?

Mr. GRUNWALD. Both.

Representative FASCELL. Do we consider that good or do the Latin Americans consider that good or is it good?

Mr. GRUNWALD. I can't speak for the Latin Americans, Antonio Casas-Gonzalez can do that; but I would think any kind of expansion of industrialization in Latin America would be good provided it does not signify a denationalization of industries in the region.

Mr. CASAS-GONZALEZ. I agree with Mr. Grunwald. I feel that in the sense that it will increase industrialization and new opportunities, and it could attract investments. I think it is good. But in trade, of course, it is not a matter of pulling away from trading with a particular country. I think it was Professor Goodman that mentioned today, that Latin America was pulling away, or something like that, because it's not a conscientious process. In other words, it's a matter of opportunity; whose the best seller, what are the best prices, what are the most convenient products, and what are the products to be used to the best account? The aggressiveness of the salesman is an important thing and also very important of course are the buying conditions. In other words what type of financial conditions can you get to buy the products?. I know for a fact that somebody mentioned this morning about purchases in communistic countries. I belong to a country which purchased two electrical ovens for ferrous sodium and calcium carbide production in Hungary. We did this because we felt we really got a very good purchase price and very good financing conditions. And it wasn't really our decision. It was the decision of our advisers and our advisers weren't Hungarian. So this is what I mean, that the conditions are really what generate trade. And I feel that by opening up these general preferences it's going to facilitate trade. It's one of the ways to facilitiate trade.

I know of companies, for example, U.S. companies, and I am on the board of directors of one of them, which has its main office in New York. I mean it is a Venezuelan company which was established and one of the reasons for them to come to Venezuela was because of the petrodollars, certain funds were set up to facilitate exports. And this is the kind of product that needs long-term financing. So they were getting more and more difficulties in getting finance in Latin America thru the Export-Import Bank.

They felt that it was an opportunity to come to Venezuela and establish this company. So I mean it could be many.

Representative FASCELL. Professor Goodman.

Mr. GOODMAN. I think the question you raised, Congressman, is such a broad one that we can get lost in its very generality.

First, I would argue that, certainly in the first analysis. in terms of looking to where Latin American products are currently going in terms of the shift in destination, it's a question of market. But is it only that?

Is it not also a question of to what extent are we helping, for example, through appropriations to the Export-Import Bank, helping financing trade from Latin America to our shores as opposed to the kinds of credit that the Japanese are currently giving. So that it's not just a question of market price unaltered by any other consideration. And questions of financing can be something that is affected or impacted by legislation as well as by administration policy. So that the absence of policy on our part, or the absence of this kind of forward looking policy, that is to some degree losing us some business from Latin America. Then I think if we are talking about opening up manufacturing under the concept of GSP, then I think we are making a mistake because I doubt that over the long run there will be as much of an impact as what I have heard here today. Obviously there is a cost. We are all aware of the considerable cost that will be incurred in terms of our domestic producers. And that has to be weighed in any policy decision that we make.

But aside from that, we have to consider whether Latin Americans, whether they are financed by Japanese or Russian or German capital or by United States capital for that matter, are going to be satisfied in making their longrun plans with a piece of legislation that says in 10 years we may abolish all foreign preferences. It says if you get too competitive, in other words, if you continue to reduce your costs and increase your exports to the United States, we will cut you out, that every year we are going to revise this list and this country will not be able to export this product to our shores. In other words, GSP is riddled with these kinds of what I call hedges. And they create uncertainty. They are the antithesis of long-range planning that can produce a genuine degree of economic stability.

So I'm not convinced, aside from the obvious costs to domestic producers, that opening our shores to manufactured goods under the present legislative framework will do what they are saying now it will do.

Representative FASCELL. I am not sure who has been saying that would do any of that. I have never really found anybody that said it would. That's one of my problems. Of course, I can generalize as a layman. I don't have all the restrictions of a professional in the way, nor do I have the worries Mr. Casas-Gonzalz has because he's in the field and in the business.

I can view it entirely differently, but you know, I have to go back to square one, which is: What are you really talking about? We are talking about trade for trade's sake and the guys who engage in it; the people who are involved in it get benefits out of it and that's good. Now if we are talking about development, whatever that means, we have to agree on a definition for that. Are we talking about development of a particular country which we call underdeveloped for whatever reason. Somebody's going to have to convince me I haven't seen it yet. In other words, I don't think we can reconstruct a model like the United States. I don't think we can reconstruct a model like Germany. Thank goodness you can't reconstruct a model like Russia. But I just see an entirely different problem. Trade for trade's sake is fine. I am a liberal trader by instinct, and I think it's good, but I don't know what it does. We are talking about conservation, for example, and we can conserve everything. And we get into a wonderful program. How does that get the other guy's food. I don't understand that. We can conserve all of our energy here. We can conserve all of our useful primary products. We even get Europe to go along with us. And then the primary guy says, what are you trying to do, kill us?

Mr. FLAMMANG. If I may speak to that—of course, that assumes that there are no demands—the argument that "well, we better get in there and dig everything out because the poor countries need the income and if we don't dig it out they won't get the income" assumes a lack of demand. It is a hazy type of question, if you'll pardon my using a term like that.

It seems to me that we—what the economists—have been doing through the years, and I say wrongly so, is ignoring the supply side. We have been—ever since the depression—assuming that supply would always rise to meet demand if we just kept demand ahead of it. We have become very demand oriented.

I think if we don't conserve there is a great danger that the underdeveloped countries in their desire to develop, which in many of their minds means more industries, will not be able to find sufficient resources. If we don't conserve, they are not going to have that much in the way of raw materiels for their own use.

Chairman LONG. Let's say I agree with you. Now, how do we get the country that has a primary product to agree with us? They are going to say you and I are agreeing because it suits us, it doesn't suit them. How do you get them convinced on it? What do we give them by way of incentive? We are going to pay you now to conserve your own primary product?

Representative FASCELL. Good question—I understand, I think——

Chairman LONG. That is the issue here as I see it.

Mr. FLAMMANG. My answer would be that low prices for raw materials can be a stimulus to their own industry. If a country has iron ore I should think of nothing that would stimulate their steel industry more than low-cost iron ore—using it themselves, rather than exporting it in unprocessed form.

Representative FASCELL. I don't know. We'll ask the gentleman from Venezuela when he took over the iron mountain and the steel mill whether he is shipping steel around the world at a price cheaper than it can be imported into Venezuela.

Mr. CASAS-GONZALEZ. No: our problem was a little bit different. In other words, we were exporting around 14 million ton of iron ore a year. And we were only processing internally about one-tenth of that. And the intention now is not necessarily to increase our overall production of iron ore but each year to increase our internal use of the iron ore. In other words, to increase our steel production capacity we are going to move from about 1 million tons per year that we have now to 5 million by 1985.

Representative FASCELL. That's internal consumption?

Mr. CASAS-GONZALEZ. No, that's for export of the processed product. So when you talk about conservation in this framework, you have to think a lot about what conservation means in the case of each product——whether it is renewable or nonrenewable and what type of commodity it is.

In oil, for example, we were—when we talk about conservation we are talking about a lot of things, and one important element is pricing. We can reduce our production as we have done, but we have increased our revenues. We haven't reduced our revenues. So I mean this idea that producing less means less revenues is not necessarily so. It is so in most cases, but it is not necessarily so.

Representative FASCELL. Well, producing less and getting a better price doesn't necessarily mean you make more money.

Mr. CASAS-GONZALEZ. It depends on what capacity you have to use.

Representative FASCELL. Well, it depends on what your imports are costing you, and your cost of imports far outstrips your ability of earning income.

Mr. CASAS-GONZALEZ. I am very glad to defend our position.

Representative FASCELL. I have no argument about that.

Mr. CASAS-GONZALEZ. That situation has exactly been our position.

Representative FASCELL. I have fought for years to get the quota system lifted in the United States so we can import more very cheap Venezuelan oil.

Mr. Grunwald wanted to say something here a minute ago.

Mr. GRUNWALD. Well, I am not sure whether the thrust of the discussion is to commit U.S. policy. After all, we are limited in what we can do. I think these hearings are geared to discuss U.S. policy toward Latin America and our economic relations. What we are talking about now are really policies by Latin American countries. and it's their decision whether to conserve or expand production. They may have their own motivation. These motivations may be economic, political, or may be based on what we would call emotional nationalism, but we have no basis for judging that.

And I think what we can do in the United States is to attempt to make a very small contribution toward increasing investment in Latin America for Latin American development by making it possible to expand trade; and if you expand trade, it has been shown over the history of the economic development of nations that it will benefit their growth and their own development.

Whether that development is equally distributed or not equally distributed is mostly due to national policies in these countries.

Chairman LONG. Mr. Grunwald, in your prepared statement you said that "we firmly believe rationalization of their trade regimes is in the interest of the developing countries as well as in the interest of their trading partners." That seems to me to be just a little bit odd to the demand of the developing countries in the current trade negotiations since the GSP was extended to all the developing countries. Has the United States set forth any policies with regard to the negotiations in Geneva for the preservation of the GSP or for its gradual diminishing through across-the-board tariff reductions? Where does that situation stand? What's your view on that?

Mr. GRUNWALD. Well, in Geneva, the thrust is to get an international trading system which is more open. The thrust is not toward increasing GSP. Obviously, as we lower trade barriers the value of GSP will diminish. As Mr. Goodman pointed out, the long-run benefits of getting a freer world trading system will eventually far outweigh the short-run benefits of GSP. In the long-run negotiations in Geneva, as I pointed out, we are trying to make certain concessions toward the developing world. If we take into consideration their needs, they may have to give certain export subsidies, and therefore our reaction to that should be modified. Things of that nature can be of greater benefit to the LDC's over the long pull. But I think that the value of GSP, until we get this new trading system, is that in the meantime we can help stimulate investment and trade in the developing regions.

Chairman LONG. Well, gentlemen, we are most appreciative. I would like to ask you, if I may, if, when we review the record, we see a couple of holes in the testimony, we might pose additional written questions or you may have additional comments for the record, on some of the things that we discussed here today.

We are most appreciative to all of you for appearing. Professor Flammang, Professor Goodman, and Mr. Grunwald, our Latin in residence, we are particularly happy that you agreed to come by and be with us again this afternoon.

[The following information was subsequently supplied for the record:]

LOUISIANA STATE UNIVERSITY AND AGRICULTURAL AND MECHANICAL COLLEGE,
COLLEGE OF BUSINESS ADMINISTRATION,
Baton Rouge, La., July 21, 1976.

Hon. GILLIS LONG,
Chairman, Subcommittee on Inter-American Economic Relationships, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: I wish, once again, to thank you for inviting me to testify before your Subcommittee in New Orleans on July 7. It was truly an honor.

Although it has been two weeks since the hearings, I would like to add a few remarks to my oral testimony, which may be added to the formal record or deleted, in whole or part, at your choice.

First, I would like to emphasize that the long-run emphasis on conservation which I advocate is merely a suggestion that we try to be more efficient in our usage of scarce, nonrenewable resources, and that national resource policy be directed to that end. Greater efficiency is certainly clearly enough in the national interest to be a noncontroversial goal. It is true that producers of these resources may find their incomes somewhat reduced (in the short-run) to the extent that conservation is effective, but their reserves and their incomes can thereby be expected to last longer. For example, I would argue that it would be short-sighted policy to pump Louisiana's oil and gas out of the ground at maximum rates in order to satisfy short-term demands by owners of large cars, motor homes and what-have-you for "cheap" fuel; I believe that we will benefit more from our resources by encouraging their careful usage, husbanding what supplies we have over a longer period of time and stretching our income from it over a longer time, as well. We should get more income from our resources that way, and preserve the value of our refining, marketing, and other related investments in both plants and people that much longer. We are going to have to conserve these scarce materials someday, anyway, as we begin to really exhaust our supplies; I simply think it would be wiser to do it sooner rather than later.

Second, my argument for nonreciprocity was to apply only to poor countries. We should, of course, demand reciprocal concessions from countries whose incomes per capita are close to our own. In fact, I think we should demand some trade concessions from Latin American countries in return for the ones we grant. I just don't see why we should demand as much from the very poorest countries, like Haiti, Bolivia, Honduras, and Paraguay, as we should from Mexico, Brazil, and Venezuela. The better situated they are to have demands made on them, the more we should demand in exchange for our own concessions. We already have recognized the principle of nonreciprocity when we adopted the General System of Preferences. I simply feel that we ought to be willing to do more of that type of thing—for political reasons, if not for economics.

Third, I would like to comment on Mr. Joseph DiRosa's question regarding the comparatively light usage which the Port of New Orleans' Free Trade Zone receives. One reason for this, I believe, is the U.S. tariff structure itself. As I mentioned in my formal testimony, we tax imports of processed goods more heavily than raw materials; to the extent that the Free Trade Zone is used to process raw materials before re-export into United States customs territory proper, then, operations there will operate at a competitive disadvantage. If this country lowered duties on processed goods to something like the level of applying to raw materials, we should help our free trade zones as well as stimulate manufacturing in poorer parts of the world like Latin America.

Fourth, I want to add that I think our State Department's cool attitude toward the UNCTAD Secretariat's suggestion that we pool commodity agreements is unwarranted. Pooling these agreements in no way keeps us from negotiating each commodity agreement separately, according to each commodity's special characteristics. Pooling would, in fact, cut back somewhat on the necessary financial commitment we would have to make. One witness at the hearings commented that commodity prices usually move together, so that there would be little advantage to pooling. But they don't always move together, especially when minerals and agricultural products are both included, so I see occasional advantages to having the agreements pooled, and no reason whatever for not pooling them, unless we simply oppose whatever the UNCTAD Secretariat proposes as a matter of routine policy. And God help us if that is the case.

Finally, I would like to say some nice things and some not-so-nice things about Mr. Kissinger's proposals at Nairobi concerning the sharing of technology. First the nice things: his proposals are good, as far as they go. We should share our technology more generously. But we should be aware that much of our technology is inappropriate for many underdeveloped countries, which need new labor-saving technologies like they need a hole in the head. The major thrust of our technological aid should be in the direction of helping the poor countries, including Latin America, develop technologies that are more in tune with their needs. They need garden tractors more than they need computers, at this point in their development.

Again, thank you for your courtesy and hospitality. I applaud your reactivation of the Inter-American Subcommittee and the way you are giving true meaning to the term "Congressional oversight."

Best personal regards.

BOB FLAMMANG.

RESPONSE OF HON. JOSEPH GRUNWALD TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN LONG

Question 1. Has trade between Latin American countries and Communist bloc nations increased substantially in the last 5 years? Please break data out for the Soviet Union and Eastern Europe separately.

Answer. Total Latin American trade with Communist countries has increased substantially during the period 1969–1974, with the major growth registered in Latin American exports to Communist nations. Latin American imports from the Communist world has in fact declined as a share of total Latin imports. As shown in the attached table, the result has been a growing Latin American surplus in its trade with Communist countries.

LATIN AMERICAN TRADE WITH COMMUNIST AREAS, 1969–74

[In millions of U.S. dollars]

U.S.S.R.	Eastern Europe	PRC	Cuba	A, Communist country total	B, total World trade	A as percent of B
104.3	196.4	0.3	0.9	301.9	14,560	2.07
25.1	133.5	8.1	1.5	168.2	14,013	1.20
77.8	251.0	3.8	16.9	349.5	16,240	2.15
9.4	137.7	3.9		151.0	15,975	.95
116.3	266.1	50.7	22.9	456.0	16,900	2.70
15.0	155.5	6.9	27.7	205.1	18,171	1.13
164.2	268.6	183.4	31.5	647.7	18,983	3.41
32.0	154.1	14.6	9.0	209.7	19,547	1.07
386.6	390.5	295.3	26.4	1,098.8	27,547.	3.99
55.8	150.9	36.0	31.5	274.2	25,937	1.10
419.5	687.4	352.7	97.3	1,556.9	44,460	3.50
71.5	217.6	29.5	12.7	331.3	45,011	.74

Note: Using official Soviet statistics for the years 1969–73 for U.S.S.R. trade and available figures for all other entries. Imports on c.i.f. basis would be about as listed above.

Question 2. What are the principal non-tariff barriers affecting U.S.-Latin trade? Which ones are most likely to be removed through the Multilateral Trade Negotiations?

Answer. Latin Americans have indicated that they consider U.S. quantitative restrictions, including both import quotas and voluntary export restraint programs, to be a significant non-tariff barrier affecting their exports to the U.S. market. They have also expressed concern over agricultural marketing regulations, sanitary and labelling requirements, standards, and government procurement practices.

The principal non-tariff barrier by Latin American countries which affects U.S. exports is the import licensing system designed to protect (1) balance of payments positions and (2) infant industries. Latin American countries also use quota systems, and government procurement regulations to restrict imports.

All of the above non-tariff barriers are being discussed at the Multilateral Trade Negotiations in Geneva. We are hopeful that the negotiations will succeed in reducing all unnecessary barriers of these kinds to some degree. It would be premature to attempt to assess the relative chances of success on an item by item basis.

Question 3. In what categories have U.S. exports of manufactured goods increased most rapidly to Latin America?

Answer. Over the past few years U.S. exports to Latin America have grown significantly in most product categories. Among manufactured goods, leading performers have been chemicals, automotive vehicles and parts, electrical machinery, construction machinery, and civilian aircraft and parts. Values for 1971–1975 are given in the attached table.

U.S. EXPORTS TO LATIN AMERICA, LEADING GROWTH CATEGORIES OF MANUFACTURED GOODS

[In millions of dollars]

1971	1972	1973	1974	1975	Value increase 1971–75	Percent increase 1971–75
665	645	946	2,108	2,090	1,425	214
561	568	720	1,042	1,310	749	134
402	515	578	846	1,198	796	198
402	510	675	953	1,026	624	155
232	243	308	688	627	395	170

Value of exports and imports, Bureau of the Census, 1971–75.

Question 4. Please outline briefly which Latin American countries are, and would be, affected by existing commodity arrangements and those proposed by Secretary of State Kissinger in Santiago.

THE INTERNATIONAL COFFEE AGREEMENT (ICA)

Answer. The 1976 ICA would affect most Latin American countries. The producing countries expected to be members, ranked by size of reported exports, are Brazil, Columbia, El Salvador, Guatemala, Mexico, Costa Rica, Ecuador, Honduras, Peru, Nicaragua, the Dominican Republic, Haiti, Venezuela, Paraguay, Bolivia, Trinidad and Tobago, Panama and Jamaica. The new ICA should benefit producing countries by contributing to the stability of the market at acceptable price levels. It is designed to provide incentives for rational policies concerning production and stocks, and for expansion of consumption. The 1976 ICA is to replace the 1968 agreement as extended without economic provisions. That extension preserved a forum for consultation, and negotiation, as well as statistical record keeping.

THE INTERNATIONAL TIN AGREEMENT (ITA)

Bolivia, the world's second largest free world tin producer, benefits from the Fifth ITA. Like previous ITAs, the new ITA seeks to stabilize tin prices within floor and ceiling prices agreed on jointly by its producer and consumer members. This is done mainly through a buffer stock which buys tin to defend a floor price and sells tin to defend a ceiling. The ITA also has export control procedures developed to defend the floor price. Bolivia has been a member of the various ITAs for twenty years. The U.S. is participating provisionally now on the basis of a non-binding notification of our intention to ratify the agreement.

THE INTERNATIONAL WHEAT AGREEMENT (IWA)

Argentina, a major wheat exporter, and Brazil, an importer, are most affected among the Latin American countries by the IWA. Other Latin American members of the IWA include Mexico, Uruguay, the Barbados, Bolivia, Colombia, Costa

Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, Peru, Trinidad and Tobago, and Venezuela. The 1971 IWA, which has just been re-extended for two years through June 1978, provides a useful forum for wheat-trading nations but does not contain economic provisions normally associated with a commodity agreement. This extension maintains a framework for international cooperation on wheat trade matters. The International Wheat council has also served as the principal forum for discussions of a possible international system of nationally held grain reserves. IWA's Food Aid Convention sets up commitments for minimum annual quantities of food aid.

THE INTERNATIONAL SUGAR AGREEMENT (ISA)

Sugar exporting Latin American members of the International Sugar Agreement include Argentina, the Barbados, Belize, Bolivia, Brazil, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Paraguay, Peru, and Trinidad and Tobago. Chile is an importing member. The present ISA serves as a statistical clearing house and provides a framework for negotiating a new ISA with economic provisions. These would probably include floor and ceiling prices and a quota mechanism aimed at market stabilization. Negotiations are expected to take place in the spring of 1977. The United States is not a member of the ISA.

THE INTERNATIONAL COCOA AGREEMENT (ICA)

Cocoa exporting Latin American members of the ICA include Brazil, Colombia, Cuba, the Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Trinidad and Tobago, and Venezuela.

The effectiveness of the buffer stock and export quotas has not been tested because high prices have prevailed since the ICA came into effect in 1973. The recently negotiated new cocoa agreement does not have sufficient producer support to enter into force as scheduled October 1. The United States is not a member of the ICA.

SECRETARY KISSINGER'S SANTIAGO COMMODITY PROPOSALS

The Secretary proposed in Santiago that the hemispheric countries undertake a three-part commodities program to:

(1) Establish a regional consultative mechanism on commodities;

(2) Give particular attention to global solutions for commodities; and

(3) Take a new look at the problem of ensuring adequate investment in commodities in Latin America. The last concept was embodied in an OAS resolution calling for a study on the feasibility and desirability of setting up a financial mechanism to stimulate the production and export of basic resources. This could eventually affect many Latin American countries.

Question 5. What are the principal Latin American positions on the proposed UNCTAD integrated commodity scheme and why have they tended to follow these positions?

Answer. An integrated program for commodities resolution was accepted by consensus at the May 1976 Nairobi UNCTAD meeting attended by most Latin American countries, the U.S., and most other countries of the world. This resolution reflects significant efforts by developing and developed countries to reach agreement on procedures to deal with commodity issues. Resolutions adopted by the developing countries prior to UNCTAD gave high priority to an integrated program for commodities. UNCTAD had been working for two years to create such a program for a range of commodities of export interest to developing countries. In advocating the integrated program, UNCTAD declared that a main goal is to improve these countries' terms of trade.

Many commodity supplying nations desire higher and more stable prices for raw materials. Raw material export earnings are still critical for the Latins and will continue to be so for years to come. Increasing balance of payments difficulties and rising domestic expectations have intensified the drive for greater financial return on commodity production. Latin representatives have stressed that they hope that a successful integrated program will result in increased earnings for their commodity exports.

Question 6. As countries like Mexico and Brazil, as well as others, industrialize, imports of labor intensive manufactured products are likely to impose severe adjustment burdens on some industries in the U.S. Which industries in this country are likely to be most seriously affected? Is it worth attempting to plan with Latin American countries on the rate of growth of shipments to the United States of certain manufacturers in order to avoid excessive rates of investment in some industries south of the U.S. border and adjustment pains north of the border?

Answer. As Latin American countries industrialize, they seek to market additional products in the United States. This process benefits the developing countries by diversifying their exports and easing their dependence on primary commodities. The U.S. also derives benefits through increased availability and lower costs for a variety of products. At the same time to the extent that these products compete with domestic U.S. production, they impose adjustment burdens on the U.S. industries involved. We have seen examples of this need for adjustment in industries such as textiles, footwear, and electronics.

The Trade Act of 1974 provides a number of mechanisms through which U.S. industries which feel they have been adversely affected by increased imports may seek redress. The U.S. also has at the present time bilateral trade consultation arrangements with Mexico, Brazil and Argentina in addition to the consultation mechanism of the Organization of American States. Through the judicious utilization of these mechanisms, I believe the adjustment problems of U.S. industries can be minimized while maintaining the U.S. commitment to an unencumbered trading system and the benefits it offers.

Chairman LONG. Tomorrow morning at 10 a.m., we will reconvene in this same room and will continue with our hearings.

We will be discussing several investment-related questions and all of you are invited to attend.

This hearing is recessed.

[Whereupon, at 5:35 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, July 8, 1976.]

U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

THURSDAY, JULY 8, 1976

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

The subcommittee met, pursuant to recess, at 10 a.m., in the executive conference room, International Trade Mart, New Orleans, La., Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representatives Long and Fascell.

Also present: Sarah Jackson, professional staff member; and Charles H. Bradford, minority professional staff member.

OPENING STATEMENT OF CHAIRMAN LONG

Chairman LONG. This session of the Subcommittee on Inter-American Economic Relations will come to order.

This morning, the subcommittee continues its hearings on the U.S. economic relations with Latin America and Caribbean with a panel on investment problems and prospects. Public attention usually is focused on the contributions our aid programs have made to Latin America. Private capital flows, however, as all of us know, contribute far more to the development of these economies than have the official aid programs and that point was vividly brought out here yesterday.

This is particularly true, I think, in the case of Latin America because the American companies have played a special role in the development of Latin America and their economies historically. Today nearly 70 percent of all the U.S. direct investments in the developing world is invested in Latin America. It's invested, of course, in everything, from oil, copper and other raw materials to factories making the very latest in the computer series. Increasingly there have been criticisms in many Latin American countries that private capital and especially multinational corporations take more out than they bring into the particular country. Latin American governments, the Andean countries, in particular, have moved to restrict private investors and to require that their investment make a greater contribution to national development of the host country.

Today we would like to examine not only what's going on in various Latin American economies but also which ones are particularly favorable to investors whether by the lack of restrictions that their governments have imposed or by the tremendous growth potential a particular country might have. We want to find out to what extent the countries of Latin America will be able to attract the capital they need to develop their own economies.

We will also be focusing on the role of the U.S. Government in protecting and promoting American companies abroad. Does OPIC the Overseas Private Investment Corporation, which provides political risk insurance for American companies encourage American companies to operate in Latin America? Are the Hickenlooper and Gonzalez Amendments to U.S. foreign aid legislation—which would require the U.S. Government to invoke certain sanctions when U.S. property is seized without compensation—really effective in deterring expropriation of U.S. companies? And would the new International Resources Bank, that Secretary of State Kissinger spoke of in Nairobi and also in Santiago really serve a useful purpose in meeting Latin American development needs?

These are the kinds of questions that I am hoping we can address this morning. Yesterday we were hoping to hear from Mayor Landrieu, he's with us today and in just a minute I am going to call on him; now Congressman Fascell.

Representative FASCELL. Thank you, Mr. Chairman. I have nothing.

Chairman LONG. Mayor Landrieu, we are particularly pleased to see you with us and to have you with us today. We are sorry you did not do better in your legislative session in Baton Rouge yesterday than the newspaper said you did. New Orleans has been most hospitable to this subcommittee. You know my long association with New Orleans has a very personal as well as political basis. We are very appreciative of New Orleans and we are appreciative also of the Trade Mart. They have gone out of their way to make our stay here as productive and pleasant as they possibly could; the people of New Orleans and your office has been very cooperative and we are appreciative of that.

STATEMENT OF HON. MOON LANDRIEU, MAYOR, CITY OF NEW ORLEANS

Mayor LANDRIEU. Thank you, Mr. Chairman, and I appreciate the invitation. I am quite sorry that I was not able to be here yesterday to welcome the subcommittee at it's opening session, but I did have to go to Baton Rouge and as you know there have been studies made from various bodies that no one is quite safe when the legislature is in session and I consider it a great victory to come back alive to be honest with you. I am just pleased to be here.

I want to thank you not only for this hearing but for the work that you have done on behalf of the cities of this country. I so often tell my other colleagues that I have a Member of the House that represents more rural districts in the United States and one of the most articulate spokesman that we have and also Congressman Fascell also demonstrated a great interest in assisting in major cities. And I think it's that kind of sensitivity that leads into examination upon which you have embarked. Obviously I have a great interest and great love for this city and of all the cities and it's in the cities that you find the new Americans coming, seeking a better way of life, wanting to maintain their ties in finding a kind of association and heritage which makes them feel welcome.

And, of course, with that, we gain a tremendous asset by having different peoples from all over the world coming to the cities. It does create an initiative problem as with any developing asset, in terms of assisting those who come and who will later be extraordinarily productive citizens. But the city of New Orleans is always itself fortunate to have had a very strong mix of various nationalities and we are particularly thankful that we have had a very strong Latin American influence in this community. I think you can see it in our life style. You see it in our architecture, you see it in the very building in which we are holding this meeting.

There are many people in this room, obviously with an eye to deal with technicalities which you are searching but perhaps I can be of some assistance to you.

Chairman LONG. I think a couple of things you might help us on.

What really is the percentage of the population in the metropolitan area that is of Spanish-American origin?

Mayor LANDRIEU. Those things are rather soft—the statistics are rather soft, if we look at the whole metropolitan area which we estimate to be around 1,250,000 people. We estimate that we have got about 100,000 Latin Americans, somewhere around 8 percent. But now, as I said, those figures come soft, because of the statistical data and the selection process and the identification process.

But of that million, let's say 100,000 and most of those I think within the city, the vast majority.

Chairman LONG. What is the basic native origin or nationality of most of those?

Mayor LANDRIEU. I would guess principally Honduran and Cuban would make up about 30 percent of all the Latin Americans here, Honduran and 20 percent Cuban. I don't know that those who live here have established a kind of ethnic neighborhood. They seem to be spread across the city very widely. So that there hasn't been any kind of—in any traditional vein, in any event, separate neighborhoods established. I think a significant retention of the ties to their native country, they have been community facilities and private facilities and local organizations that have strengthened that ethnic kind of bounds and yet we haven't developed a kind of ethnics in the neighborhoods. Of course, New Orleans never have really developed that kind of thing. Our neighborhoods have taken on the characteristics of physical boundaries rather than the religious or ethnic kind of a base.

Chairman LONG. Do you think the fact that this has not occurred has been an encouragement to the participation by the Latin community into the integrated society of the Greater New Orleans Area?

Mayor LANDRIEU. I really don't know, Mr. Chairman. I think in the long run it's going to be a benefit to everyone I believe that when mellowed down into a kind of multinational society that we have that if there is the proper social structure and community facilities around which people can still maintain that identification and at the same time move into the kind of mainstream which—if you will—of society. I think that's a healthy situation we can have.

Chairman LONG. Do they have an opportunity to participate in the Government? Are they active in the operation of the Government?

Mayor LANDRIEU. Well, let me say that in the last mayorality campaign I don't know of any candidate that wasn't very actively and aggressively seeking the Latin American vote. And, I might add too, that it is not monolith. It runs the gambit, I suppose, of the Democratic or Republican Party, from conservative to liberal; and were very active in the political process.

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So, that to me, is a very healthy sign. It wasn't simply a question of becoming passively involved but rather actively involved in the elective process. After the election, we have tried to maintain a close contact, make some board appointments. I don't think that we have made enough, but we are very conscious of it to bring Latin Americans on the board of commissions. We recognize the love of soccer as a national pastime and built a modest—but nonetheless very useful and functional kind of stadium—which is used primarily for soccer. We have any number of foreign ships that come in, not only Latin American, but French, German, and others who enjoy soccer too, so it's available to them, but basically under control, and named the Pan American Stadium.

We also created, put Spanish-speaking people on our answer desk, which is a volunteer service, provided at city hall for those who are looking for information, guidance to various social agencies, or might need assistance. Also, in order to assist in the hiring of Latin Americans, we have a language problem, and we try to assist civil service, and civil service at least placed bilingual people in the department to make that role easier for the job retention.

But also under our CETA program we tried to assist in that regard, too. But there is much more to be done. I don't think that many places have scratched the surface.

Obviously, in terms of the great migration of Cubans who came into this country, who were forced out without property, without a cent, it was a less orderly process This was mass numbers that came to this country, and they came in very mixed numbers to New Orleans, and we were most happy to have them, quickly turning to fine businessmen once they get over the hurdles of the language and are able to build up any kind of resources which it takes to start a new life.

But you know that is not the only area in which we have been short. But because of the press of money there are many other areas not only in the field of accommodation of Latin Americans but in elderly citizens and youth and across the board we have not been able to provide the kind of services that we like. We are conscious of it, and I think we have made a reasonable effort at it.

Chairman LONG. Congressman Fascell is of the city of Miami, which as you know, has had a great deal of experience in this than New Orleans and the State of Louisiana.

Representative FASCELL. Thank you.

Mayor LANDRIEU. I know Mayor Ferré quite well and he's a great man.

Representative FASCELL. Well, Miami is certainly bilingual, as is New Orleans. Coming back to New Orleans, I must say I have been very impressed to see what's been happening. I must commend the officials and the people of the city. They have really been doing a fantastic job keeping the city's charm and yet moving into a whole new way of life. I think that's the secret to it. If you take everything and put it in this black, smoky glass, you lose everything you have got.

Mayor LANDRIEU. We are trying desperately and I think to an extent we are succeeding and I appreciate your compliments. I do think that you understated our linguistic talent because we are not only bilingual but we have got some folks in the ninth ward that speak a language nobody understands.

Chairman. LONG. That is true.

Representative FASCELL. Let me ask you what is the relationship between the city and the port authority?

Mayor LANDRIEU. I suppose I can best describe to this wonderful, very warm and cooperative partnership. The port authority is a State agency.

Representative FASCELL. It's autonomous?

Mayor LANDRIEU. Yes; it is an autonomous State agency and the city exercises no control over it but we have such a——

Representative FASCELL. How about the land needs of the authority?

Mayor LANDRIEU. The city owns what is known as the riparian rights. That is all the river banks underneath the wharfs. The dock board has the virtually absolute right of servitude and can use any section of those wharfs of the river front for wharf purposes. We have also servitudes of the public railroad which you walked over to get here, at least under, in fact, right under us now.

Representative FASCELL. The city has the environmental problems; correct?

Mayor LANDRIEU. Yes. And at one time the city and the dock board were not very close but we have an extremely close working relationship now. I think they have come to understand our problems much better and we have learned to value the great business asset that it is, our biggest industry.

So we are very conscious of what it takes to make a good port and I think they have been quite considerate in development of the lands that we own and to see that they do not adversely impact unnecessarily of the developments.

Representative FASCELL. Well, does the city have responsibility for implementation of some kind of a master plan for the maritime industry or is that strictly under the port authority?

Mayor LANDRIEU. No, sir, we leave that strictly up to the port authorities themselves. They control every bit of waterfront property that we have, say out on the lakefront which is not commercial and not for trade, but other than that, the dock board has extraordinary powers.

Representative FASCELL. So then it becomes a problem of coordination.

Mayor LANDRIEU. Yes, sir.

Representative FASCELL. What is the relationship between the city and the International Center?

Mayor LANDRIEU. They are a very fine organization. The International Trade Mart is private and International——

Representative FASCELL. That's what I meant.

Mayor LANDRIEU. The International House is private but we work cooperatively with them. This building is built on city property and will revert to the city in 56 years which is the original term of the lease nad it was done on tax-free bonds so that they——

Representative FASCELL. The bonds are backed by the city or the——

Mayor LANDRIEU. I don't believe so. They were backed—they were revenue bonds but I think that, but I am not so sure about the garage, they are not backed by the city but the city plans sits on it so, and so does the garage which is now being incorporated into the Hilton Hotel as part of the——

Representative FASCELL. In other words, the Trade Mart had special legislative authority to issue the bonds—revenue bonds.

What is the relationship between the city, Mayor and the Latin American countries? Do you have any kind of official or unofficial relationship with the country or the cities to the south of you?

Mayor LANDRIEU. Yes, sir, we have an international relations office which is part of the overall public relations office of the city and Mr. Albert Fowler is head of that office now, I guess for about 12 years and he is the initial point of contact and the official city representative with all foreign countries. Now obviously I greet every consul general when he presents his credentials to the city but in terms of functioning with the various countries through their consul general we do it through that office and of course, any serious problems are resolved directly with me.

In terms of the development of trade while we participated, we have felt that the International Trade Mart and International House do that function much better than we can from a governmental standpoint.

So they——

Representative FASCELL. They have the responsibility then for all upriver and foreign trade?

Mayor LANDRIEU. Yes, sir.

Representative FASCELL. Thank you.

Mayor LANDRIEU. Thank you.

Chairman LONG. Thank you very much, Mayor.

We are very appreciative of your taking the time to come and visit with us.

Mayor LANDRIEU. Thank you very much.

Chairman LONG. Again I thank you for your welcome to the city of New Orleans.

Mayor LANDRIEU. Thank you and I will see you in New York.

Chairman LONG. See you in New York.

Before we get into our panel there is one thing that we were particularly anxious to do.

Mr. Ronnie Raney, the former president of the Tallahatchie County Bank and the Secretary of the Mississippi Marketing Council just returned from a six-country trade promotion trip through Latin America and the Caribbean and while his remarks do go more to our yesterday's discussion on trade, we wanted to squeeze him in today as Mr. Raney couldn't be with us yesterday.

Mr. Raney, would you come forward. We are pleased to have you.

STATEMENT OF RONNIE RANEY, EXECUTIVE SECRETARY, MISSISSIPPI MARKETING COUNCIL

Mr. RANEY. Thank you, Mr. Chairman, for the privilege to testify before this committee. I am sorry that I wasn't able to be with you yesterday and I am still trying to recuperate from this 2-week trip with our Governor and brought back a souvenir from South America, a chipped bone in my elbow. So I am still recuperating. It was a fantastic trip.

I am Ronnie Raney, secretary of the Mississippi Marketing Council. My background includes 13 years in the private banking business.

Most recently I was president of Tallahatchie County Bank up until the Governor appointed me to this position.

The Mississippi Marketing Council is the official agency of the State of Mississippi entrusted with the development of international markets for the agricultural and industrial products of our State. We are headquartered in Jackson, Miss., and we also maintain offices here in New Orleans and also in Brussels, Belgium.

Since our establishment in 1964, the council has undertaken a vigorous program to increase our share of world markets. Indicative of our success, the council was awarded the Presidential E and E Star award for excellence in export promotion service. We have always considered the developing Latin Market as the primary for trade development.

This assumption on our part was initially made due to our geographical proximity to the area and what we subjectively perceive to be of interest to Mississippi farmers.

This assumption has recently been documented utilizing our computerized trade information system.

The State of Mississippi has approximately 1,600 firms with exportable products. Of this number almost 500 are actively pursuing foreign markets. Forty-eight percent of the latter have targeted the combined Latin market comprised of the Caribbean, Mexico, Central and South America, as their primary area of interest for increased trade development.

During the past 10 years the marketing council has conducted three trade missions, two Latin American and has participated in three international trade fairs. In addition, in early 1975, the marketing council sponsored agri-fair 1975, which hosted 50 select buyers of agricultural equipment from seven Latin American nations in an exhibition in Jackson. Our interest in Latin America is further evidenced by the conversations held just recently between Governor Cliff Finch and President Balaguer, the Dominican Republic and also the newly elected as of Sunday, President of the Republic of Mexico, Jose Lopez Portillo.

These discussions were the highlight of a five-country Latin American trip, taken by the Governor and myself from a period of June 20 to July 20.

During the past 10 years our trade efforts in Latin America were broad based covering a wide range of agricultural products and industrial goods. However, in light of the inability of worldwide food shortage and the common desire of all developing countries to become self-sufficient in food production, we now have begun to explore the possibilities of concentrating our efforts in Latin America to this vital international wish.

Mississippi, until recently, maintained an agriculturally based economy. Along with these, commercialization of our farmer operations and the shift to large scale agricultural production interest, many agricultural related manufacturing firms have also developed in our State. These firms possess a level of expertise that complements the expanding need in developing countries to the desire to become self-sufficient in food production.

Because of the agricultural heritage of the State of Mississippi, and the important strides in our agricultural technology which has been made in our State over the last 50 years, we sincerely believe that we have an excellent opportunity for increasing our share of the Latin American market.

As Secretary of State Kissinger said last month in Santiago, Chile, and I quote, "Technology is basic to economic development. It is technology that enables us to master the raw gifts of nature and transform them into products needed for the well-being of our peoples."

We further concur with the administration's proposal that was stated by Mr. Kissinger to explore "cooperative business in which small and medium size United States firms will provide technical technology to individual firms along with the management expertise needed to select, adapt and exploit these technologies."

For us, however, technology is not an end in itself. We view technology as a key to the ultimate sale of Mississippi products. Because of the increase in interest by firms in our State and the ultimate economic benefits that can accrue, we feel that every effort should be made to continue strengthening trade relations with Latin America. This move, however, will not be without its drawbacks. There can be no doubt that for Latin America to advance it must rely on importing capital goods. Historically, possibly the greatest problem adherent in all Latin American economic situations is their traditional reliance on predominately warm agricultural crops, for foreign exchange earnings.

The natural facts affecting market price coupled with world commodity prices has adversely affected many Latin American nations' ability to purchase the needed interstructure required. This historical situation, of course, has been worsened in the past several years by the worldwide energy crises.

How petroleum prices are having an adverse effect on the balance of payments position of these countries in an area that must depend upon imported petroleum for its energy needs. In light of this situation, it becomes imperative that international financial institutions as well as selected individual countries assist in providing the needed long-term financial commitments to these developing countries.

During the transition period in the Latin American market as these countries begin to stablize their long-term development program our nation will need to remain cognizant of the following potential hazards:

First, the economic nationalization.

Second, the manner and influence under which regional economic integration is developed.

Third, the continual problem of protecting its trade barriers.

As I stated, our resources are limited in correcting the type of national problems that I just mentioned. However, as a State we feel that the strengthening of our relations with our close Latin American nations can best be carried out through a concerted effort of programs designed to develop more of a one-on-one relationship.

As an example, the State of Mississippi's largest institution of higher learning maintains as an integral part of its overall educational scheme the Latin American Institute devoted to providing English language training for foreign students prior to admission to the regular university.

In addition, all Mississippi institutions of higher learning are developing and implementing special programs designed to recruit Spanish-speaking students. The State has also made up efforts in the area of sister city programs and cultural exchange programs of several Latin American countries. Most of you know the State of Florida is the leader in pioneering the sister city program and it has been quite effective and this trip that was mentioned in every country that we went to, is to develop that program and follow the lead of the State of Florida.

We think that through programs such as these a greater understanding of each other's cultural, economic and political problems can be gained and that because of the better understanding and hopefully a mutual respect of the problems of each are confronted with a sounder base for the development of solutions of the conflicts, economic and trade policies developed in programs can come about more rapidly with long-term results.

I cannot overemphasize the importance of international trade to the State of Mississippi and to our sister States in the Midsouth, Louisiana, Arkansas, Tennessee, Alabama, and so on. Mississippi is extremely and strikingly similar to the countries of Latin America in that we too are a developing country, if you will. Mississippi is a developing country as these countries are in South America. Mississippi currently stands 50th in the United States in per capita income and we are striving to improve this unenviable recognition. World trade, in my opinion, offers the vehicle in which Mississippi can bridge this gap and Latin American trade, I earnestly feel, offers a key to trade for Mississippi.

As you know, it has been said that one new job is created for each additional $15,000 in export sales. This being true, we are wholly determined to increase our world trade efforts and create more and better paying jobs for all Mississippians. In an effort and in order to obtain the maximum benefits and in the least amount of time I would urge that the Federal Government consider providing more direct assistance to the States that have—presently have established international trade promotions agencies. In my opinion, it will help each State, and particularly Mississippi and the Midsouth, help us to overcome, if you please, an export of tax dollars back to the Federal Government instead of a net import that we are now.

Again I thank you very much for the opportunity.

Chairman LONG. Thank you, Mr. Raney. I think your statement is just a classic example of the wisdom of regional hearings. They give us an opportunity to get this point of view that we generally would not get, sitting in hearings in Washington. And I think it's been very enlightening to me and I am most appreciative of your taking the time to come down and be with us.

Congressman Fascell.

Representative FASCELL. Thank you, Mr. Chairman, I would like to ask Mr. Raney, just a couple of quick questions.

Mr. RANEY. Yes, sir.

Representative FASCELL. Basically, what do you sell them?

Mr. RANEY. Mississippi, of course, we sell them everything. But basically and as you know, what we try to do is sell what we do best. Mississippi is an agricultural State. That's what we do best. We are second to none in agricultural technology. Food products and lumber products are our strong suit and in the Latin American markets this is, in so many cases—this is what they need.

Representative FASCELL. Right.

Generally, what's the financing on that? Is that cash on the barrel head or do you extend some terms or what? How are you doing it?

Mr. RANEY. It depends on the situation, as you know, Congressman, but——

Representative FASCELL. Well more or less—you know.

Mr. RANEY. More or less the countries that—cash on the barrel head but not necessarily required. The Government through the Ex-Im Bank and AID and others and various agencies have done a commendable job in this area and they—there are ways if the need is there and if we have a problem.

Representative FASCELL. To get the financing?

Mr. RANEY. To get the financing.

Representative FASCELL. In the areas that you are selling, where is your competition coming from, Louisiana?

Mr. RANEY. From our sister States. And that's great as long as Louisiana and Mississippi and Arkansas and Alabama, Tennessee are competing—you know—are the United States we can't lose. Our competition, of course, in soybeans for instance.

Chairman LONG. Mr. Raney, as you know, we have developed here in Louisiana some of the most sophisticated handling of equipment.

Mr. RANEY. Right.

Chairman LONG. Over in my district, some of the most sophisticated cane handling equipment that is in existence today and the major market is developed in South and Central America for this cane handling equipment. I am sure you also have done that in Mississippi for most products in which you specialize.

Mr. RANEY. Right.

Chairman LONG. You have some major business going which offers another very interesting point, Mr. Raney. These have basically been undertaken by small and medium size firms rather than the monstrous, multinational corporations.

Mr. RANEY. Right.

Chairman LONG. They really offer great opportunities.

Representative FASCELL. That is what I wanted to ask next, Mr. Chairman, which is the size of the businesses that are trying to get into the export market.

Are they basically——

Mr. RANEY. These are not the multinationals. These are the small firms, which are needed.

And Mr. Chairman, you hit a point that I discovered so vital. Louisiana—you mentioned the cane equipment in Mississippi, and soy beans in the State of Tennessee and so on. But we are similar, and I think I said yesterday, but not only Mississippi and Louisiana, but the mid-South—we are so strikingly similar to the countries in Latin America. They need what we've got, they need technology. They are going through what we have been through.

And in a lot of instances, they have come through what we are going through now.

Chairman LONG. If they keep going, Mr. Raney, they might be able to elect a president, too.

Mr. RANEY. Right.

Representative FASCELL. Yesterday one of our witnesses made the point that really, it was a myth to assume that Latin America was really any kind of a potential market for American business in the future, given the state of where they are right now in terms of their earnings and their capacity to buy. Yet, 40 percent of the people in Mississippi who want to export, have targeted it as a primary market, the Caribbean, Central America, and South America. So, you know, there we have a direct reverse of what the dynamics of the situation—might lead you to conclude otherwise. But businessmen are not paying any attention to that; they are apparently creating dynamics of their own.

Mr. RANEY. I certainly hope that gentleman that said that is one of my competitors in the international trade, because while he is saying that, I am going to be eating his lunch.

Representative FASCELL. You are going to get his trade.

Mr. RANEY. Right.

Representative FASCELL. One final question.

What kind of help does your State agency get from the Department of Commerce?

Mr. RANEY. I am glad you asked that question, Congressman.

We do. We have a satellite office, which is located in my office. We have one man assigned to the office, and he is a good one, and is a lot of help.

But I was hoping that you would ask me this, but it is my opinion, really, to tell you the truth, you know, what revenue sharing is to the States and to the cities. I sincerely believe the Federal Government maybe should assign Department of Commerce people, and State Department people to these States, to our State, and to the other States that are actively involved in world trade.

You know, I have been in the banking business 13 years, and I have been to Washington three or four or five times, and I am hitting against all the walls, and finally getting out the door.

But if I had the expertise available to our State through the State Department and the Commerce Department—two or three able bodies that could help me, then it would help my State, tremendously.

Chairman LONG. Thank you very much, Mr. Raney.

Mr. RANEY. Thank you, Mr. Chairman.

Chairman LONG. We are glad you came down.

Mr. RANEY. Thank you, sir.

Chairman LONG. Our panel of three distinguished witnesses today—and I wish they would come forward—is Mr. Richard Arellano, who is the director of International Marketing Institute at the University of New Orleans, Mr. William Glade, who is the professor of economics at the University of Texas, at Austin, and Mr. Louis T. Wells, professor at the Harvard Business School.

Also, if Mr. Antonio Casas-Gonzalez is here—Mr. Casas-Gonzalez sat with us all day yesterday, and made a major contribution.

Mr. Casas-Gonzalez is the former Minister of Planning in Venezuela, and really has some good insight in things, and we want to hear from him. Here he comes now. I am giving you all these laurels.

Mr. CASAS-GONZALEZ. Thank you.

Chairman LONG. I forgot to say you were AWOL. [Laughter.]

Chairman LONG. If you would sit in with us, we would appreciate it, Mr. Casas-Gonzalez. Pull up a chair.

I was telling them of the contribution that you made yesterday, and I told them of how appreciative we are of it. And if you would again sit in with us today, we would again be appreciative of it.

Mr. CASAS-GONZALEZ. All right. Thank you.

Chairman LONG. Mr. Arellano, why don't you begin for us?

STATEMENT OF RICHARD C. ARELLANO, DIRECTOR, INTERNATIONAL MARKETING INSTITUTE, COLLEGE OF BUSINESS ADMINISTRATION, UNIVERSITY OF NEW ORLEANS

Mr. ARELLANO. Mr. Chairman and Congressman Fascell, it is certainly a pleasure to be here with you this morning, and I also consider it a great honor to have been asked to testify before you.

Representative FASCELL. Do you want to pull that mike a little closer to you?

Mr. ARELLANO. I would like to explain to you just a little bit about the kind of things that we do here in Louisiana at the International Marketing Institute.

We are an agency of the State, which operates through the Louisiana State University system. The International Marketing Institute was formed back in 1967, and sort of looked for a reason for its existence for some time.

I came on board in 1970, and very quickly decided that we couldn't compete with the International Marketing Institute at Harvard with the kinds of things they do there, which are much more academically oriented than what we do here in Louisiana.

So what we have done basically, is we have taken an analog from the Agricultural Extension Service, and said, "Hey, we want to be the extension of the business school in a specific area, and that specific area is foreign trade."

And I have spent my time from 1970 to 1976 doing what small things I can in terms of getting Louisiana businesses and regional businessman a little more interested in foreign trade.

We have a seed that we take out to this businessman and we plant it, and we hope they will try a little bit of it and see if it will grow and bring some of the things that Mr. Raney spoke of.

So, our focus has been more of a look at the pragmatic things. We don't write very much. We don't do the usual kinds of things that academicians do. And I might add we pay the penalty, because most academicians wonder what in the world is going on over at the IMI.

I might explain to you also that Louisiana does not have an official State international trade promotion agency. As you know, the Louisiana Department of Commerce and Industry, ably represented Mr. Clarence Breau, who is in the audience here, concentrates basically on inducing foreign investment to come into Louisiana. But they don't have—and Clarence will be the first to admit it, I believe, and in fact I am quoting Clarence—"they don't have a specific interest in promotion of foreign trade from Louisiana."

I have never understood this. I hope that one of these days they will put me out of business, or that the State will put me out of business, but nevertheless, there was a vacuum there, and we thought we should, and do try to fill it.

For example, we publish the Louisiana International Trade Directory. We didn't have one before 1972. Now we have one. We are revising it now. We will have a new issue out this year, hopefully.

Representative FASCELL. How do you finance that?

Mr. ARELLANO. Out of my supplies and expenses budget. We then sell the directory. It has been selling for $12.50. It is going to be $15 this next time around.

But we have been doing things that really aren't the usual kind of things that academicians do.

The first industry-organized, Government-assisted trade mission from Louisiana was a sugar cane machinery mission. I promoted that with the assistance of the U.S. Department of Commerce and the businessmen from our district.

We went down, and we visited Colombia and Venezuela, and in the 2-week trip racked up $450 some odd thousand worth of orders. So the business is there.

I don't agree with Mr. Fabry. I don't agree with his assessment of the potentials in Latin America.

Latin America has a big potential for Louisiana and Mississippi. Many people think it doesn't and we are going to let them go on thinking that. I mean Miami and Florida don't believe Mr. Fabry's position. I was asked by Chairman Long if I would gear my presentation to a discussion of how American investors, while accepting the increasingly restrictive rules imposed by Latin American governments, so if you will forgive me, I am going to talk to you the way I talk to my clients in the field, because when they hear that kind of statement, and they hear it regularly, it scares the hell out of them.

They say, "Hell, I don't want to go down there. I am going to loose money if I go down into Latin America."

I have something that I try to give most of them, and that is essentially what I am going to do today.

Chairman LONG. Good. I think that would be a major contribution.

Mr. ARELLANO. Let us very, very quickly look at some of these major types of restrictions. They have restrictions of ownership. Some industries are closed to foreign ownership, such as soft drinks in Mexico, financial institutions, news media. These are closed in most Latin American countries, except to nationals. They are in this country, by the way. Some areas closed to private ownership of any kind are the petroleum industry, public utilities of varying kinds. An example of this is the so-called Mexicianization program in the mining industry in particular, whereby you are required by law to have a majority Mexican ownership. And this type of nationalization process is happening throughout Latin America.

We also have provisions for new ventures to have 15-percent local ownership in some of these countries.

You can understand these kinds of restrictions and what they do to the average businessman who is loooking at investment in Latin America. He looks at it. and he doesn't understand what is happening, and he worries quite a bit.

And then the bank starts to talk to him. They talk to him about the restrictions on monetary repatriation, restrictions that limit you on how much you can take out, and royalty payment restrictions, profit remittances, how much you can take back home—and they are going to force you to keep it down here—royalty payments, how much you can pay yourself for service payments.

Other folks come along, and say, "Well, you have got restrictions of what you can bring into the country." These people aren't going to let you import just anything you want. That is true.

Throughout Latin America, they are trying to produce things down there they can sell to themselves. And I don't think we can really blame them for this.

Then he comes along and tells you you can't export everything. You go down there, and there are certain things you can't export. Yes; there are. Foodstuffs and energy products are restricted. There are restrictions placed on a number of these things throughout Latin America.

Then all these bad news people talk about your personnel. You are going to have restrictions there. You can only have so many foreign executives. And they force you to phase in locals to executive positions. They really put the squeeze on you this way.

And then to cap it all off, they tell them about all these horrible social benefits these countries have. They make you do things like regularly train workers. They have things like welfare programs. You must pay them so much per year worked if they quit, or if you fire them, severance payments. You are required to pay insurance benefits, and for medical services. You take care of not only employees, but the families of the employees.

Well, anyway, when they get through with this, the small- to medium-sized investor in this part of the world says, "Holy God, I am not going down there. I'm going to stay here in the United States."

And I like to caution them. I say it really isn't as bad as it sounds. If you read these requirements, it looks pretty gloomy. It looks glum. But I feel, and my experience has taught me that the reality is far from being the desired ideal.

You know, official policy in Latin America is in many cases aspiration for what politics should be. Many of the people who make these policies have been trained here in this country. Many of them have been trained in our universities. Many of them are academicians, so they construct these ideal models with all the restrictive assumptions academicians like to make in order for them to work in the laboratory, and then they go out and publish these in the Diario Oficial. And then the average businessman looks at these, and he reacts to it, and says, "The law is for the damned fools."

Well, our Anglo-Saxon sense of things is sort of offended at this apparent scoffing at the majesty of the law, but really what we have is an articulation for survival. Latin Americans have a lot of commonsense. They want to survive, and so they have found out how to deal with the politics. In many cases you just ignore it, and it will go away.

So what do you do, and what do you tell the small- to medium-sized U.S. investor about how he is going to do business down there, and what he ought to do?

One of the first things that I tell them is: Hey, go on down there and take a look, and see how the locals are doing. If they are prospering, and you have got a skill that you think you can market down there, chances are you are going to prosper, too. Don't pay too much attention to the kind of groaning that you hear from businessmen in Latin

America, because they are like businessmen here in the United States. They complain a lot. But you have to listen to the quality of the complaint. You have to understand what they are complaining about.

And then again, you can ask yourself, well, does that sound like the kinds of complaints that I make in the United States, and if it is, why come on in, the water is fine.

Sometimes, for example, you hear one of them complaining that his profit margin is down from 80 to 60 percent. Well, I wonder if that is going to keep you out of the market?

Well, how then specifically can the U.S. investor-businessman go about making a success of his desire to join this productive process in Latin America?

I am reminded of some advice that was given to me by a well-respected businessman in San Antonio some years ago—a Jewish businessman, and a damned good one. I was a youngster at the time, 14. And he said, "Richard, if you want to make money, remember that the essence of a good transaction is that both buyer and seller must leave the deal feeling that each got the bargain." And he had a knack for doing that. He made folks that came into that store of his really feel when they left that they got the bargain. He gave them the traditional "Descuento." You sometimes didn't have to even ask for it. But when you left, you had a glow. And he had a glow, too, and he glowed all the way to the bank.

Now at first glance, you might ask yourself, well, how can both people come out on top? We are so conditioned—and you heard some of this yesterday—to thinking of the world as being a zero sum world, you know, a poker player's world where everybody's gain comes at someone's expense. So we find it hard to conceive of a world which is not this way. Or, to use the academic jargon, a nonzero sum world. Rather, I believe, we live in a world where instead of having a pie that is fixed in size, it is an expanding one. This is the Texas view of the world. You know, let's not quibble about who gets what size of the pie, or what share of the pie. Let's make that pie bigger, and then all our shares will be bigger as we go along.

This isn't an either/or model. We have a profound difference in looking at the world here: The endowments, our place in it, and very importantly, how are we going to ante up the loot?

If we look at the world as a place where I got to take it at your expense, well. we have got problems. It is my belief that Latin America in particular is an unbounded system. In other words, it is a growing system. There is an awful. awful lot of opportunity down there. Man, with his intellect, and his God-given technology, plus some of these other resources gives us the condition in Latin America that approaches what our forefathers found when they left the civilized side of the eastern Mississippi—and joined all of us ruffians over here on the west bank—in other words, you have got a frontier side. And Latin America offers. I believe, Louisiana and Mississippi Delta businessmen. especially those that have this feeling for our Latin heritage, the challenge to growth that many of them feel doesn't exist any longer here in the United States.

So, I think if you look at that area down there and you find the many opportunities that exist in Latin America, that this really belies some of the things that we heard yesterday.

I have some examples here in my prepared statement that I won't dwell on, but you can read them. One of them has to do with our Cajun catsup here. In fact, a lot of our mash for hot sauce is coming from Latin America. And we need more of it. Here is an opportunity for agriculture types. They are moving down and working, but they are working in a kind of arrangement that I am not too happy with.

You have essentially technical assistance being extended, and supply contracts being signed. I would prefer to see joint ventures. I would like to see people put out and get a piece of the action, and get tied up in it where they come out ahead if they win, and where they get hurt a little bit if they lose.

Recently I have seen in Central America, in fact on this last trip, some joint ventures, believe it or not, between cooperatives and U.S. businessmen. That is an interesting twist, because it is a little bit harder to do business with a cooperative society than a private businessman. But they seem to be doing pretty well.

U.S. businessmen are furnishing technical, marketing abilities, some capital, and appropriate managerial expertise. And let me qualify that. I said appropriate, because we are finding out more and more, American businessmen are finding out, that our notion of management and managerial styles sometimes flies, but most of the time doesn't. And we are learning to take a back seat, and let Latin Americans manage their own affairs. If we can put in some advice every now and then, we will come out ahead by doing it that way.

Why do we get into this problem of ownership? Well, I think it is the control question that is a thorn in the side of a lot of people. We all want to be masters of our destiny, and so we have insisted in the past, as Mr. Casas-Gonzalez spoke of yesterday in owning things. And one of the reasons that is given for this one of the excuses is, well, we have got to do it because we have got problems with Justice if we don't. You know, antitrust problems and so on.

Believe me, that is just an excuse, and there are ways to get around that.

Another reason that is given for wanting total ownership is that of the conflict with the local partners. The local partners want dividends paid. They want to have a return on their investment as they go along. Again, there are ways to get around this. There are differing types of stock that can be issued, preferred stock and so on.

I might add, by the way, that there are good reasons for Latin American investors seeking payouts of earnings. Risk of exposure goes down. Once you have gotten the original investment out, you are scott free.

And unfortunately, you still have Fidel lurking in the background, and the minds of a lot of businessmen in Latin America. And so you know they want to take care of theirs and their own. If they can get that original investment out, somehow or another, they feel better. There is a conflict there. But I don't think it is one that should keep us from sharing of ownership.

I argue strongly for sharing, and I mean really sharing and not going in with name lenders and things of this sort that we have seen in the past. Dummy partners give form, but they don't give substance.

So, in Latin America, my view is that we really want and we really desire to have local partners.

Now one of the problems is that many Latin Americans are less desirous of having American partners than they were in the past. They are basically taking the position, we really don't care whether we get any gringos down here or not. We want to own our own stuff. We will hire appropriate expertise, and we are going to develop our business.

So, what do we have to do if we want some of that business? We have to go in and sell. We have got to sell ourselves on, we can do it, and how well we can do it.

Well, my time is running out. I will leave my prepared statement with you. I think again, if you want a prescription for doing business in Latin America, it's a very simple one. It comes back to my Jewish "uncle's" admonition. Both of you have got to feel that you are getting a good share, that you are getting a good piece of the action, that it is in your mutual interest to do business together.

And then, finally, I think that if you apply a very simple test, the test that the Jewish carpenter some 2,000 years ago articulated, you know, "Would you like to have it done to you"? If you apply that test to business transaction, and the answer that you get is, "No, I wouldn't want it done to me," then stay away from it. The answer that you get is, "Yes; that feels pretty good," the maybe it is time to get in.

And this is how I talk to the people in the field here, and you would be surprised. Most of them have an awful lot of common sense, and it makes sense to them. And we are seeing quite a bit of interest in small and medium investors in Louisiana, in particular moving back into Central America, and picking back up where they left off in the forties. Thank you.

Chairman Long. Thank you, Mr. Arellano. We will make your prepared statement a part of the record of these hearings. And we will get back to you with further discussion in a few minutes.

[The prepared statement of Mr. Arellano follows:]

Prepared Statement of Richard C. Arellano

Gentlemen, my name is Richard C. Arellano, I serve as Director of the International Marketing Institute of the College of Business Administration at the University of New Orleans. My background includes experience as an overseas employee of several large U.S. multinational corporations, as an independent businessman having operated in Venezuela, Mexico, and Central America, as a private consultant in current practice, and as an academic teaching in the interntional business field.

Today, I would like to address you primarily as a pragmatist offering some views relating to how the U.S. investor desiring to do business in Latin America will best serve himself and his country. Specifically, I would like to address the issue of how American investors, while accepting the increasingly restrictive rules imposed by Latin American governments, can profit both themselves and the host countriés.

Let me begin by simply presenting a partial listing of the major types of restrictive regulations which are increasingly being faced by foreign businessmen desirous of investing and working in Latin America. Of course, not all of the enumerated restrictions apply in each and every country, and the enforcement quality is highly variable. However, it is of value simply to understand that these varying kinds of restrictions can and do exist throughout Latin America.

A partial description of existing or developing restrictions on foreign investors in Latin America is as follows:

I. Restrictions on Ownership

a. Some industries closed to foreign ownership (i.e. soft drinks in Mexico, financial institutions, news media, etc., in most Latin America countries).

b. Some areas closed to private ownership of any gendre [petroleum industry, public utilities of varying kinds (telecommunications, electric utilities, telephone service, etc.)]

c. Requirements for a majority share of local ownership (i.e. "Mexicanization" of mining, etc. Provision for all new ventures to have 51 percent local ownership).

d. Requirements for local partnership in some stated percentage, but not necessarily a majority share.

e. Sell out provisions of Andean code type, which, over time, bring about majority national ownership.

f. Reluctance to have foreign investment in certain areas—marked preferance for local capital (e.g. Tourism "superstructure" in some countries, which others going this way.)

II. RESTRICTIONS ON MONETARY REMITTANCES

a. Capital repatriation restrictions. Limits on amounts and frequency.

b. Profit remittances. Limits on amount allowed to leave country.

c. Royalty payments. Limits on amount which can be paid.

d. Service payments. Limits on amounts chargeable.

III. RESTRICTIONS ON IMPORTS

a. Consumer goods—Autos, Foodstuff, Household goods "(linea blanca)," Electronics, etc. "(linea negra)"

b. Certain rare restrictions on capital goods. Situations where labor intensiveness is preferred for socio-political reasons.

IV. RESTRICTIONS ON EXPORTS

a. Foodstuffs. Ceilings and limitations on exports of foodstuffs required by the local populace, (e.g. meats, beans, corn, etc.)

b. Energy products. Limits on exports of crude petroleum, natural gas, etc.

V. RESTRICTIONS ON PERSONNEL

a. Limitations on number of foreign employees and executives which each firm can hire.

b. "Phase in" provisions in executive positions; requirements to employ, or bring about employment of nationals in upper echelon executive slots.

VI. PROVISION OF SOCIAL BENEFITS

a. Training requirements for upgrading of human capital.

b. Social welfare programs—labor laws relating to *Antigüedades, cesantia* (cessation or severance), retirement and pension plans.

c. Insurance—life and disablement.

d. Medical services, both for employees and dependents.

e. Educational benefits for employees and dependents.

f. Housing—for employees and dependents.

The foregoing is a rather sketchy, and admittedly incomplete, listing of the general type of "roadblocks" which U.S. entrepreneurs frequently have presented to them in the investment climate in which they will have to operate when they choose to do business in Latin America. The picture is a bleak one when viewed simply in the light of an cataloguing of potential problem areas for the foreign investor.

Many U.S. investors take one look at this list of potential woes and immediately forget any notion they might have of exploring entry into the local markets. But it is the reality as harsh as one would suppose from merely taking a superficial "read" of the requerimientos"? My view is that no, the reality is not the same as the desired (by the local governmental entities) ideal. We must remember that in Latin America, as in the United States, much of what is stated as "official policy" is the aspiration of a concerned government bureaucrat or official, or staff assistant. Not infrequently these "policy making" public sector employees are, as in our country, products of training grounds (i.e. Universities, Polytechnic Schools, Military War Colleges, etc.) that emphasize the development of "ideal models" constructed with appropriate restrictive assumptions to make the model operable under laboratory or simulation conditions. However, the real world frequently forces the recognition of additional variables because these variables are, in fact, necessary operating conditions. The result of this recognition of reality leads to an ameliorating effect on the restrictiveness of the proposed ideal. In other words, the law or regulation is there, but its application is tempered by the demands and exigencies of the reality of the situations. It is not mere Latin cynicism that gives rise to the "dicho popular" (folk wisdom) "!La ley es para los pendejos!" (The Law is for damn fools!).

Our Anglo-Saxon sensibilities may be offended at this apparent scoffing at the majesty of the law, but our common sense tells us that what has been articulated for us is the mechanism for survival in the Kafkaesque milieu which once created, can't be lived with, and much less enjoyed. So, a well developed Latin sense of survival comes into play.

How then does a small medium U.S. investor who desires to do business in the enticing environment of Latin America survive? Again, we return to the rule of reason, and not necessarily the rule of law.

We begin by observing the local pattern of doing business. How are locals making it? Are they withering and dying on the vine? Occasionally, the answer to this latter question will be yes. Obviously the strategy here is simply to avoid the situation; stay out until the offending force, or forces, are straightened out. On the other hand, if the local appears to be prospering—in spite of the "bitching" which one may hear from them and here what you must listen to is as much the quality of the "bitch" as well as the content. If the complaint is about conditions of doing business, and not the business per se, the complaint is usually a healthy one. Then the situation merits close perusal to see how, in fact, they are doing. After all their complaint may be that their return on investment has gone to hell; down from 80 to 60 percent. This is not an unusual type of complaint. Would this situation merit your staying away from the market? I hardly think so.

How then, specifically, can the U.S. investor-businessman go about making a success of his desire to join the productive process in Latin America? It is here that I am reminded of a bit of advice given to me many years ago, by an adopted Jewish "uncle" of mine living in San Antonio: His admonition to me was simple: "Richard, if you want to make money, remember that the essence of a good transaction is that both buyer and seller must leave the deal each feeling that they got the best bargain."

At first glance, this seems to be an almost impossible admonition; how can both the buyer and the seller each come out on "top"? We are so conditioned to believing that we live in, to indulge in a bit of academic jargon, a "zero-sum" (or poker players) world where everyone's gain performance must be at someone else's expense. We find it hard to conceive of a world which is "non-zero sum." That is, a world where rather than the pie being fixed in size is an expanding one. This latter view is sometimes referred to as the Texas view or "let's not quibble over who gets which slice, but concentrate on getting a bigger pie."

There is more than just an operations research model here. What we have is a quite profound difference in how we view the world, its endowments, our place in it and quite importantly how we are going to "divy up the swag."

It is my belief, reinforced by personal experience—both winning and losing—that if the game (and that is really what we are talking about in business entrepreneurship, a sophisticated multi-faceted, adult game) is considered as unbounded, then that is what, in fact, it becomes.

Particularly, at this time in Latin America we find that Man (with his God-given intellect, aspirations, and drives) when he joins nature and the application of science (technology) comes up with a resultant force vector much like that which operated on our own Western Frontier during the 18th and 19th centuries. Today, young men and women who are ambitious, bored and unchallenged by contemporary U.S. society should "Go South." There they will find the challenge that our forefathers found when they left the "civilized" eastern side of the Mississippi and joined all the ruffians on the West Bank.

Latin America offers the U.S. businessman (and especially those of us in Louisiana and the Missisippi delta who have the "feel" of our Latin heritage) the challenge to growth which so many in the U.S. argue no longer exists. There abound exciting and challenging opportunities in the business environment south of the United States.

I have not as yet been specific, let me now give an example of two: At this time I can take you to an automobile battery factory in Central America owned by an octogenarian with no heirs. He wants desperately to sell this going concern to some younger person who has the capacity to make it grow. What are we talking about in potential? I would say 60–80 thousand dollars net per year;

deteriorating market share. Competition doesn't wait for anyone! Why do I say imagination . . . because the next logical step in this business is a vertical move into further supplying of aftermarket electrical parts for auto and truck ignition systems. The old gentleman knows this, but is just plain tired, and he really has earned his spurs. It's time for the next risk-taker.

Let me take another case in a completely different area. Agriculture. Here in Louisiana we pride ourselves on our "cajun catsup." Louisiana hot sauces are known the world over. We have not one, but many varieties and marks sold throughout the globe. Just recently I engaged in a favorite past-time of mine, prowling the aisles of "super markets" in Latin America. In Honduras, Guatemala, and El Salvador, I was gratified to see a nice sample of Louisina hot sauces on the shelves. Selling, I might add, at premium prices over the local products. (Talk about bringing coals to New Castle!) But at the point I wish to make is not that of our exports, which indeed we have, but of the fact that an increasing amount of the raw "mash" which comes into Louisiana to be aged and blended into our famous product, comes from Latin America and more specifically from Mexico, Venezuela, and Central American countries.

And this demand for imported pepper mash continues to be an increasing one (some estimates place the increase in hot pepper consumption at a 10% yearly increase) with U.S. food processors unable to satisfy the demand. My institute has studied capsicum, or "chile," from both an academic and market place point of view. The reasons for our need to import raw materials basically stem from labor scarcity (some say unwillingness) in this country; and, to a lesser extent, from a limitation on appropriate lands to cultivate the desired peppers on. The net result is that a shortage of increasingly valuable raw material can be seen on the horizon. For a minute we might consider just one of the implications of this condition: What happens to that most luscious of all . . . Our own Bloody Mary!? Well this situation is such that we see developing a scramble among the hot sauce processors to find adequate sources of supply. We are in contact with one manufacturer who has flatly told us that he will buy 1,200,000 lbs. of peppers yearly if he can find a reliable source.

The key word here is reliable. One of the biggest hurdles which U.S. buyers face in Latin America is that of sources which can be counted upon to deliver consistently and with a reasonable degree of quality control.

Recently, some U.S. importers of pepper mash have solved some of their problems by sending down technical advisors to work with the local growers in Mexico and Central America. They have not gone into active partnership with the local land owners, but are merely following the U.S. practice of contract growing. The arrangement, with minor problems aside, is working well.

However, I would go one step further and share the risk by associating myself on a partnership basis with local agricultural interests, be they individual owners or the emerging cooperative grower societies. Why? Because the profit linkage becomes more vital when both are in the same boat. Additional product opportunities, different processing schedules (as for example in the degree of local processing which takes place), and in general more avenues of opportunity will be explored. The result will likely be a continuing association, based on a more solid, and profitable grounding.

I have mentioned cooperative societies because this form of association appears to be on the increase among smaller businessmen throughout Latin America. The primary reason, of course, stems from economics of scale both in purchasing and in marketing.

In recent months there have been a number of joint ventures formed between fishing and shrimping cooperatives in Central America and U.S. businessmen. They seem to be doing well. The U.S. entrepreneur furnishes technical and marketing abilities, some capital, and appropriate managerial expertise. I say "appropriate managerial expertise" because we are more aware today of the pitfalls which await us if we assume that "our management style is the appropriate one and should be transplanted. Sad experience has taught, first-hand, many a U.S. manager of truth in what the management theorist describes as pitfalls which await us if we assume that "our" management style is the appropriate environment.

It is the control question which has been a thorn in the side of many incipient joint ventures between U.S. businessmen and their counterparts in Latin America. For many years it has been axiomatic that a U.S. investor moving to Latin America had a control, in toto, the investment. In part this has stemmed from a fear of prosecution by U.S. authorities on Anti-Trust grounds (collusion with foreign sources which might diminish competition in the marketplace.) Very likely, however, the principal reason for insisting on 100% ownership (or as near to this as possible) has simply been the very understandable desire to not subject oneself to uncertainties which were believed to be inherent in sharing ownership locally.

The problem which might come about as a result of anti-trust violations can be minimized by the U.S. partner rather simply: What he need do is during the planning stages of the proposed joint venture ask the U.S. Justice Department—under the Business Review procedures, which they have recently instituted—to examine the proposed venture and comment whether it is challengable under anti-trust laws. This single step can go a long way in clearing out uncertainties.

Another reason for desiring total ownership has been cited as the conflict which arises when the local partner wants to pay dividends, from profits, while U.S. ownership would prefer to re-invest. Here again the problem is not as complex or insoluble as it can be and is often, described. The solution lies in issuing varying forms of equity ownership: some portion of which pay regular dividends, other classes which do not. Most U.S. businessmen are familiar with the concept of preferred stock. Use of a denominated, preferred stock to give the local investor some assurance of an effective return on his investment carries with it an added advantage: it circumvents the lack of the attest function (as performed by the accounting profession in our financial system) that so often hinders the development of effective equity markets in developing countries.

Incidentally, there are good and valid reasons for Latin American investors to want to see pay-outs of earnings. After all, risk exposure and the concomitant uncertainty is certainly reduced when the original investment has been recovered in its entirety. Experience has taught the Latin American investor-owner the value of operating while being home "scott free." There are more fundamental aspects to capital preservation than merely tax avoidance or reduction. Whether we openly recognize it or not makes little difference, the "Fidel" spectre lurks in the subconscious of most Latin American businessmen.

Although there have been good and sufficient reasons in the past, and may continue to be today, barring exceptional evidence to the contrary I will make the argument for seeking out reliable local partners and co-investors, owners, and managers of new investments in Latin America. Not merely "pantallas" or "prestanombres", designed to circumvent local pressures (or legal obligations) pushing for local participation, but honestly aware and involved local ownership. It is foolish to continue in the belief that "dummy partners" designed to give form, can substitute for the tangible and real substance of active day-to-day local partnership. A persistence on the part of the foreign investor to maintain what he views as "total control" is illusory at best, and outright dangerous as it leads to the kind of local resentment which, in fact, brings about the very instability which he is so diligently trying to avoid!

The times when foreign exclaves operated with impunity (oil operations in Venezuela, Mexico; banana empires in Honduras, Costa Rica, etc.) are a thing of the past. In point of fact, today we see not only the turning out of this neo-colonial ownership pattern, but a new ethic developing which is not permissive, much less desirous, of foreign capital holding substantial portions of local revenue generating investments.

As an example, El Salvador which is currently in the beginning stages of a push to develop its tourism potential (and I might add it certainly has it, for it is one of the most varied and beautiful countries in Central America, with a superbly friendly populace), is not looking for foreign investment in tourist facilities. They feel that their capital sources are sufficient to construct, own, and profit from the tourism "superstructure." It is not lost upon them that they keep the bulk of the tourism generated revenues if they own the facilities. What they do welcome are management service contracts that will assure the expertise necessary to service the exigent demands of the sophisticated international traveller. El Salvador capital is willing to pay, and well, for the services which can be provided by the experienced U.S. operator of "leisure industry" facilities, but I don't believe the U.S. investor will find the uncritical braze abierto (open arms) posture which might have prevailed in years past. The potential U.S. investor today finds himself, at least in this case, in the suitors classical dilemma: How do we win the fair hand of the somewhat reluctant partner?

Even when we are successful and enter the deal as partners, rather than merely hired management, the local interests want a "self-destruct" mechanism built in; that is, they want provision made—in fact insist upon it—for the training of local talent to eventually act as replacements for the expatriate personnel.

A key word has again crept in to my testimony, it is expatriate personnel. Just what does this mean? Well generally it refers to those key management personnel of foreign nationality who live in a given country, usually eleven months out of the year, but who obviously—by their actions, attitudes, etc. consider themselves to be "temporary" residents. (Although in many cases, the "temporary" residence stretches out to a decade or longer before they eventually go "home.") Frequently we find this kind of manager bothering to learn little more than "kitchen Spanish" or its job related equivalent, living in the confines of his secluded home and mingling freely only among his "peers" at the Country Club, the American Club, and the Cabana Swim and Tennis Club at the local luxury hotel. Well insulated and protected from the vigors of local life, cuisine and, sadly, enjoyment.

It is here that we might well learn a lesson from our British cousins, many of whom have for years been working the same territory we are discussing today. Our Anglo-Saxon blood kin will frequently move in, scout the territory, find a sociable and attractive companion and proceed to learn the language. Not infrequently nature takes its course and the next event we see is a "matrimonio." At this juncture in time the expatriate begins a subtle metamorphosis; it is only a matter of time before national origins begin, in the minds of the locals, to become fuzzy and somewhat blurred. After all he (or she) did have the good sense to recognize the obvious charm and inherent attractiveness of the local society. Its not quite as good as arranging to have your grandfather born in the country, but it certainly goes a long way. Who knows? Someday a king (or Queen's) carnival crown may be the just reward for such perspicacity. Certainly their children will be entitled to full and complete consideration when the rewards for faithful stewardship are debated. Yes, human beings in Latin America react very much like those right here in New Orleans. They appreciate these "outsiders" who want to be "insiders" and are willing to pay their dues for the privilege. And, believe me, the dues are not all that onerous.

Our younger "Gringos", particularly the Peace Corp volunteer types, more and more are willing to go into Latin America and "become." I'm continually and pleasantly surprised to find them out somewhere in the "boonies" in Honduras, or Guatemala, Salvador, Brazil, Venezuela, mixing and mingling with the local folks. And, in fact, largely being accepted and welcomed by the local "establishment." After all they are making the "esfuerzo", the effort and it is not lost on the locals. In addition, the young "Americano" is often a "prize catch." The work-ethic and idealism of the North American culture isn't deprecated by the local businessman with an eligible offspring.

From a business enterprise standpoint our problem is that, until recently, few of these kind of young idealists wanted to be associated with business. The reasons frequently cited for this are well known enough that we don't really need to go into detail analyzing them, suffice it to say that this group represents a potential for both the host country and for their native country—the United States.

Why do I say that these young people, and of course the older but young in spirit, who are willing to become a part of the local scene are important to the United States? After they will likely never make any substantial contribution to the balance of payments; quite likely they may even work (slightly) against a favorable balance of trade in that many of them wind up exploiting their knowledge of the mother country and exporting to us, both goods and services. This is as it should be, if they are going to help their new home country, and in the process themselves.

But in helping strengthen the local economy, as members of the enterprise system, these investor-businessmen are bringing home in the most graphic fashion an economic philosophy which is important to the United States' long-term welfare. Simply stated, a demonstration effect of the ability of the enterprise system to build productive resources, is at work. There is no more powerful argument for a market—enterprise system than allowing it to function, with an increasing number of productive units in it. Many a shoeshine boy in Latin America has the same drive to combine resources in a newly productive fashion that Carnegie had in this country. These aspirations are nurtured if he has the positive feedback that living examples give; the crucial element for those of us in the United States that believe in allowing the game of business to flourish is to see that the example is one which involves the private sector.

Unfortunately the bulk of, our United States Government-to-Government policy has ignored the private sector at the expense of public sector growth. The proliferation of state enterprises in Latin America, much with capital furnished by U.S. taxpayers and a great deal more by private sector banking transactions is an anomaly at best; at worst it is simply vindication of the view that we will sell the caskets to bury us in the day-after-tomorrow if there is a small profit today (which, hopefully, we can spend tomorrow before the deluge.)

We profess an undying belief in, and allegiance to, the entrepreneur, the risk-taking businessman, but we find it difficult to make the total commitment necessary to insure his (or her) survival. Somehow when the chips are down we can't bring ourselves to support enlightened greed in pursuit of its satisfaction. why?

Probably because we really haven't been able to come to grips with a philosophical cleavage in our society that makes it sinful for some people to be more equal than others. We recognize that "animals" differ in qualities, character, stamina, motivation, etc. And accept this: but, when it comes to the human animal (Homo sapiens sp.), we want all the laws of nature, inheritance, and in the like repealed.

Suddenly, it is repugnant to have differences and concomitantly for some to have more than others. Why?

Again, probably because in our inherent desire to be "good" we have equated the private pursuit of gain with immorality. The nexus is not a difficult one to see; our Judeo-Christian ethic really comes down hard on the rich man (although the definition of a "rich man" is never made clear). "It is more difficult for a camel to go through the eye of a needle. . ."

These religious-philosophical arguments are rarely heard in public testimony, so we must cloak our debate in shadow cover in order to make it acceptable. We used to speak of the "stewardship of gifts" and for our Victorian forefathers it assuaged the guilt pangs enough to allow them to function as pretty effective businessmen. But today we have the continuing debate and auto-flagellation; on the one hand we see the material outcome of a functioning enterprise system in the United States. We see the dignity that work gives to all those who embrace the system. On the other hand, we find ourselves questioning the rightness of man to organize others efforts, and profit from it. We hear of the immorality of "exploiting" each other.

Until we are able to make peace with our basic feelings about private entrepreneurship (risk-taking for private gain) in this country, it is going to be quite difficult for us to assist others in emulating our system. Those of us, however, that believe that Man is capable of good; that he is basically and instinctively a "builder", know without a crippling amount of self-doubt, that the enterprise system, as we know it and as it functions (of course with some blatant aberrations) in the United States is worthy of recommendation and exportation.

Latin America is today, without being melodramatic, truly at the crossroads of major choices concerning the fashion in which production and distribution systems will be organized for coming generations. There are many very intelligent, sophisticated, moral people who are convinced that "capitalism" cannot, and should not, survive in their countries. For these persons the notion of a productive role for U.S. businessmen-investors is a repugnant one. They see no possible contribution to welfare that can be made by foreign businessmen investing in their lands. They are committed to the goal of extirpation certainly of foreign private capital in the productive process; And even, if possible to the demise of local private business sector, other than merely as an adjunct to fill the nooks and crannies not deemed of sufficient importance to have the attention of the State.

Fortunately for those of us who aren't quite sure that the final story is in on the presumed negative role of men as private agents in the building of societal welfare, there still exists a vigorous body of opinion in Latin America that believes in the power evidenced by the U.S. system of economic organization. Even some of those thinkers who in the past were quite ready to admit that the North American experiment was passé, at least for their needs, today are in the process of re-evaluating their views in light of current failures of central planning.

What I believe we will see emerge in Latin America is an autochthonous economic philosophy geared to the needs of the local reality. However, I believe that we will see quite heavy reliance on the notion that individuals, pursuing their own welfare (but obviously checked by the collectivity in their rapacity) are worthy agents of "desarollo economico." The role of the entrepreneur is still a subject of wide debate in scholarly, governmental and private discussion in Latin America;

It is most difficult for me to imagine his being relegated to the "dust bin" of economic thought.

For my part, I believe we will see an upsurge in interest in Latin America in bringing in foreign small-medium size private investors. During the 1950's Venezuela made a conscious effort to encourage immigration of skilled human resources. Primarily they were successful in attracting Italians and some French. The Brazilians have in the past assisted Japanese (particularly farmers) who wanted to have a wider field of opportunity open to them. Although there has not really been much of a conscious effort to attract the small investor, the Central American nations have a surprising number of U.S. citizens working and building businesses in that region.

If we analyze the conditions of economic opportunity that exist in much of Latin America; and, at the same time, the relative stagnation of opportunity that has been evidenced in the maturing U.S. sconomy (at least during the past decade), it isn't too visionary to hazard an enlightened guess that we will see more U.S. investor interest in Latin American during the next 10–15 years. I believe we should encourage this interest, and the entrepreneurial mentality that goes with it.

The reason that I believe the U.S. entrepreneur-foreign investor (the risk taker in the classic sense of the word) should be encouraged is quite simple. Again, I borrow from our British cousins who rarely forget, no matter how long they live in a foreign country, or no matter how deep their new roots go, that "home" is England. Their actions in business and other dealings almost invariably reflect this. What Englishman worth his salt will order machinery from other than the U.K. if it is humanly possible? Whose goods does he push for importation? When new plants are built where does he go in search of technology? The answer is too obvious to require comment.

Likewise we find that the ties of the North American businessman operating in Latin America—irrespective of his size—tend in all but the most unusual circumstances to be back to the United States. He frequently, in fact usually, sends his children back to "the states" for college. He buys American when at all possible, and serves as a center of influence on many decisions to purchase U.S. goods in preference to those of competitive nations. Assuming he is the good citizen which is our ideal, he serves as a needed counterpoise to much of the bad press and ill-will which some of our more recent foreign ventures have brought to us.

In short, active support and encouragement of U.S. businessmen wishing to make commitments in Latin America should in my opinion, be the "order of the day." However, our enlightened self-interest needs to be backed by enlightened businessmen. Businessmen who understand that the essence of a good transaction is that both parties must feel that they are getting the best end of the deal. We can't afford the swashbuckling "pirata" of yore. We can't afford a benign neglect based on a mythical "mature" partnership.

Much more to the needs and realities of today is the businessman who is able to comprehend and make function the admonition given to us by a Jewish carpenter of some years back, "Thou shalt love they neighbor as theyself." It is this second part of the Decalogue that insures the good transaction which my Jewish "uncle" made reference to. It is this spirit which will prevail in the successful U.S. business relationships in Latin America in the future. Franklin Delano Roosevelt understood this in the past, and he is still well remembered in Latin America today.

Human nature is, after all, the same throughout the world. What each one of us desires is "a good deal." We want one for ourselves and one for our families and nation. What has been occurring in the Latin American nations, as they develop the potential which they certainly have, is simply that they have been asking themselves "How can we get a better deal?" The answers which they have sometimes come up with, appear appalling to the average U.S. businessman. Those solutions, when codified, all too frequently scare the living daylights out of potential investors. They need not.

Each of the restrictions on foreign investment, enumerated at the beginning of my presentation, have a set of strategies specifically designed to cope with the problem. "Smart" businessmen can find, or seek guidance in finding, skillful evasive tactics to blunt the impact of the "reglamento." There abound advice-givers (or should I say advice-sellers?) who can assist in maneuvering through the shoals of the emerging economic nationalism in Latin America.

However, I would like to reiterate that we must not be deafened by the rhetoric, nor blinded by the appearance. Businessmen (be they private sector, or politician) in Latin America are motivated by the same mainspring as U.S. entrepreneurs; they want to make money, take care of their businesses, feed their wives and children.

The U.S. businessman-investor who has a notion of enlightened self interest will not founder in Latin America. He must, though, be sensitive to the needs and aspirations of his new business colleagues.

What I would prescribe for the average U.S. investor in Latin America is quite a simple test of intentions, and merely a variation on the earlier stated theme of our Judeo-Christian heritage: "How can I help these people make productive use of their resources, in the process share the bounty, as I would want it shared if I were in their shoes, and have a satisfying and self-fulfilling life of my own." Answer that question honestly and you have the basis for a long-term, profitable, business relationship in Latin America.

Chairman LONG. The next witness is Louis T. Wells, who is a professor at the Harvard Business School.

Mr. Wells, we appreciate your coming down from Harvard to be with us, and hope you enjoy your stay, and we would be happy to hear your presentation.

STATEMENT OF LOUIS T. WELLS, JR., PROFESSOR, HARVARD BUSINESS COLLEGE

Mr. WELLS. Thank you very much.

Mr. Chairman, Mr. Congressman, I would like to thank you first on the courage of the organizers of this hearing, in inviting the academics to speak for 10 to 15 minutes each. We are used to 40- to 50-minute presentations since that fits our class schedule.

The usual response of an academic when faced with a time limit of 10 or 15 minutes is either to run overtime, or to speak four times as rapidly as you normally speak. I will try to avoid both of those, and attempt to summarize my prepared statement, and depend upon the prepared statement for the supporting logic.

My statement is basically a plea to the U.S. Government to understand what the attitudes are, and why those attitudes exist with the multinational enterprise in Latin America. These attitudes, I think, are terribly important when the United States forms its policy toward U.S. investment in Latin America.

The multinational enterprise has become a major issue in most Latin American countries. I think there are three economic reasons why the multinational enterprise has become an issue.

The first is that some foreign investments by multinational enterprise are good for the host economy, and some are bad. This is perfectly clear now, but it was not a few years ago. Tools have been developed to analyze the effects of foreign investment on a particular country.

I point out in my prepared statement that in one developing country in which I was working, but which was not a Latin American country, I looked at 11 project proposals by foreign investors. Four of those 11 had what economists call "negative value added". That means it would cost the country more in foreign exchange to manufacture the product locally than it would to import the finished item. It is very difficult in such a project to see the benefit for that country. Seven of the 11, of course, were good for that country.

The effect of this kind of understanding of what foreign investments does for or can do to a host country has led many Latin American countries to try to develop screening mechanisms to screen out the bad projects and accept only the good projects. Screening mechanisms inevitably cause conflicts. The investors who are turned down are disappointed.

There have been efforts to do this with general rules which approximate the economic analysis. Some countries try to do their screening on an ad hoc basis. The problem with this system is the tendency of being slow and of lending itself to corruption.

The second economic concern is that which a colleague of mine has labeled the "obscelesing bargain". That is, once an investment is made, the perceptions of the contributions of that investment to the host country can change over time, and the host country tends to reconsider the original terms it gave to that investor when it came into the country. At the outset, if the country takes or accepts the foreign investor, it thinks it is getting something it needs. It may be technology, it may be marketing skill, or some benefit.

Over time, the country learns to do those things that the foreign investment or foreign investor brought to the country. Then it looks like a very expensive deal to continue to pay the foreign investor the costs of having them present. Many governments under such conditions face great political pressure to renegotiate the arrangement. The result is "Mexicanizations" or other kinds of "Latin Americanizations".

Another thing makes the original deal often obsolete, and that is, as industries mature, the number of firms investing in Latin America increases. In the twenties or thirties, there were few automobile firms interested in Latin America. Ford and General Motors would probably be the only choice for a Latin American country. Today there are many choices. The Japanese are quite willing to come in, the Europeans are quite willing to come in. And they are willing to offer terms to the Latin American governments that the old investors, who were in a strong bargaining position, were unwilling to offer. As these new terms are offered, the old deals often get renegotiated. Renegotiations inevitably cause tensions.

Third, as my neighbor pointed out, there has developed what he labeled "ideal models," but I label imaginary standards of what foreign investments could do. And many investment projects are measured not against a real alternative, but against some imaginary alternative. There could be, for example, a more appropriate technology. It could be more labor intensive than what the American firm brings. It could be less product differential, less advertising, less foreign ownership. In other words, a better deal.

And many Latin American countries are now trying to pursue policies to make those imaginary alternatives into real alternatives. For example, the Andean group is an effort to stop the small countries from bidding against each other in hopes that with a larger market there can be better alternatives.

There are efforts to break the dependency on multinational firms and vertically integrated industries. For example, in an effort to increase their options, the Caribbean countries have proposed building their own aluminum smelter so they will not have to sell their bauxite to the multinationals. There is an effort to control incoming technology and to pick the technology that is in the greatest interest of the host country. There are efforts to reduce the number of foreign investors in some industries. For example, one Latin American country has, I believe, 14 automibile firms. And with a very small market, it is now instituting policies to try to reduce that number to a more manageable three.

And I urge also that one not forget the political side of foreign investment; that any government, I think, feels foreign investment is a threat to its ability to control its own destiny. Foreigners are always harder to punish than domestic investors. There is always the fear that the foreign firm can simply close the subsidiary in that country, regulations are too tough, and go elsewhere, whereas a domestic investor has little option but to stay there and respond to government pressures.

Second, foreigners automatically have an ability, whether they use that ability or not, to thwart monetary policy. If monetary policy is restrictive in a host country, then the foreign investor often has access to markets outside the country. He can bring in money. It makes tax policy very difficult, because the foreign investor has at his disposal ways of showing his profits in the United States or in some third country rather than in the host country.

Also there is always the fear that the foreign investor, especially when the foreigner comes from a major neighboring country, can use home government influence to thwart his cause at home. Latin Americans fear that the Americans will influence World Bank lending, will influence aid funds, and that the home Government will interfere with policies such as U.S. rules on trading with the enemy.

With these fears of loss of control, it is not surprising that governments feel they have to trade economic benefits against political costs when looking at foreign investments, and take those investments that have the largest economic benefits while turning down some investments which have positive economic benefits, but that challenge the political control in the host government.

Now with these concerns in Latin America, it is very usual for an American to think they are not welcome at all. The rhetoric sounds very bad.

In reality I think that it is very clear that a number of American investors have done quite well in Latin America, and will continue to do so.

In the case of U.S. multinational enterprises, I believe there are two types of investors that have a continuing opportunity in Latin America. The first of these is the firm with a very advanced technology. It is worthwhile noting, I believe, that IBM has not yet backed down with its policy of wholly owned subsidiaries, even in Latin America, where restrictions are very tight. The benefits to the Latin American countries of having that advanced technology have been so clear that it is the Latin American governments who have backed down and said, we will let you in. We need what you have to offer. That is the first type of firm.

The second type of firm, and one that I think is becoming increasingly important, is the firm that provides Latin American countries with access to foreign export markets. There have been studies that have shown that sophisticated products are very difficult to export without close ties to foreign markets.

Now if, for example, Mexico wants to export automobile parts that go into the assembly of Fords or General Motors products, they have no choice but to sell those to Ford and General Motors. And that usually involves some kind of close tie with Ford and General Motors. And not surprisingly, Ford and General Motors have both retained their wholly owned subsidiaries in Mexico as they discovered they can do if they will allow exports from Mexico of those parts back to the U.S. assembly plants.

As countries in Latin America develop, they move into increasingly sophisticated kinds of export products. And the more sophisticated products usually require some sort of foreign firm, if they are to be marketed successfully.

Now I would anticipate that exceptions would continue to be made by Latin American governments when they look at U.S. investment when the technology is high, or when the investment provides access to foreign export markets.

Skipping a lot of stages in the required logic, I would like to shift now to U.S. policy. I have not developed the logic here, nor is it completely developed in the prepared statement.

I think recent studies of the effect of U.S. investment outside the United States on the U.S. economy has demonstrated that some of those effects are positive, and that almost certainly some of the effects are negative, but that whichever they are, they are marginal to the United States. It is unclear whether they fall on the positive side, or on the negative side. But is is very clear that there is not a very significant effect on the U.S. economy.

On the other hand, I think it is very clear that the effects of investment by U.S. firms in Latin America can be very important to the host country. But there can be a very real contribution made to the development of some Latin American countries who carefully accept those investments that are beneficial to them. Therefore, I would urge that we not adopt policies that cut off the flow of that investment, or seriously reduce the flow of that investment, not increase the tax burden substantially on foreign investment, not implement some of the proposals that have been made for the screening of technology leaving the United States, and so on. It is not in the tradition of U.S. foreign economic policy to act—at least in the very short-term interest of the United States. Our assumption has been that if we can help other countries develop, that it is in the long-term economic and political interest of the United States.

The details of U.S. investment policies are many. I think we have adopted a fairly reasonable policy toward expropriation of Latin America, which I would describe as a policy of "benign neglect". We have essentially ignored much of the Hickenlooper amendment and the Gonzalez amendment. To anyone who understands the political pressures that are operating when bargains are obsolete, this kind of nationalization is almost inevitable. I think the political cost to the United States in trying to stop it is simply too great.

OPIC is marginal to the issue of foreign investment. It has been attacked for encouraging traditional equity investments, when what is politically safer involves national contracts and so on. OPIC is making a great deal of progress in dealing with this kind of issue and working out new ways of insuring what it has labeled "new modes" of investment, a very difficult problem, but one that OPIC recognizes.

The concern with raw materials is a very real concern for the United

States; that there is a possibility that if Latin American governments increase their restrictions on—and other developing nations increase their restrictions on—U.S. firms, that needed raw materials projects will not be developed.

The resource bank proposal was clearly an effort to get at this. Unfortunately I think it was drawn up in such a way that the developing countries will inevitably perceive it as being an attempt to extend the arrangements that existed in the past with multinational firms at a time when they are just being able to get out from under that kind of arrangement and look for a new kind or arrangement. This is going to take, I think, a much more carefully thought about proposal to provide the money for development of raw materials without the kind of involvement of American firms that Latin American governments are unable to accept today.

In conclusion, I would like to say that, first, the tensions underlying foreign investment are real. They are not imaginary. There are real economic issues and there are real political issues. Steps such as codes of conduct, creation of the U.N. Center on Transnational Corporations or small U.S. actions will not remove those tensions. They are with us to stay. However, when one finds situations that generate tensions, but tend to do good for both parties, the task is to manage those tensions, not to eliminate the tensions. And small steps can help a great deal in managing tensions.

The goal of U.S. policy should be to allow U.S. firms to contribute to the development of those Latin American countries that desire that kind of contribution, without interfering in the sovereign right of Latin American countries to form their own policies toward accepting or rejecting U.S. investment.

Chairman LONG. Thank you very much, Mr. Wells. We are appreciative of your coming down. Your prepared statement will be printed in the hearing record.

[The prepared statement of Mr. Wells follows:]

PREPARED STATEMENT OF LOUIS T. WELLS, JR.

CHANGING VIEWS OF U.S. INVESTMENT IN LATIN AMERICA

Latin American governments have, like governments in other developing countries, become increasingly concerned about the activities of multinational firms within their boundaries. More and more, the concern has been expressed in policies that restrict the activities of multinational firms based in the United States or in other industrialized countries.

In Latin America, the concerns are expressed eloquently in the works of academics and in the speeches of government officials. Although the issues that are raised range over a wide area. I believe that three kinds of economic concerns and the political implications of multinationals underlie much of the action taken in Latin America to control their activities.

Economic concerns

There has been a growing realization that not all foreign investment projects have beneficial effects for the developing country that is its host. Let me illustrate from my own experience as an advisor to a developing country government. Not long ago I examined for an Asian government eleven foreign investment proposals. Four of those eleven had what the economist calls "negative value added." That means it would cost the country more in foreign exchange to manufacture the product locally than it would to import the finished item. Only under very unusual circumstances would such a project benefit the host country. In a larger study, of 156 foreign manufacturing projects in six countries, Professors Streeten and Lall found almost 40 percent to have negative effects on host country income.[1]

The methods that can be employed to evaluate the effects of foreign investment, and were used in these studies, have been diffused rapidly among the developing countries. The technocrat level in many governments now contains many economists able to make an approximate calculation of the economic effects of a proposed foreign investment. As these skills spread and with a large number of bad projects still being proposed, it is hardly surprising that pressures mount in host countries for some kind of screening of incoming investments.

It is of little importance that the bad projects may be the result of policies followed by host governments. Of course, the projects that are bad from the countries' point of view are profitable to the private investor. Most are profitable to the private investor because the developing country maintains high protective tariffs or because it subsidizes some local resource, such as oil or short-term capital. It is under such conditions that the net social benefits are likely to differ signficantly from the net private benfits.[2] Whatever the cause, the investor is likely to come under attack.

There is a second source of tension. Once foreign investments are in place, most governments tend to view them differently from the way they did at the outset. In what Professor Raymond Vernon has labelled the "obscelesing bargain," projects that looked attractive under a given set of terms negotiated initially may look rather different in a few years. Once the capital is in place and the technology has been mastered by local workers or managers, the costs of the foreign investment may appear excessive. In the case of raw material industries, the risk that worried the investor and was recognized by the host government is soon forgotten. For manufacturing firms, the changing structure of the international industry is likely to accelerate the obsolescence of the original arrangements. Since the number of multinationals offering know-how tends to expand after an industry begins to mature, the kinds of deals being struck tend to move in favor of host countries over time, causing the earlier deals to look rather lopsided in favor of the country. Thus, U.S. automobile firms were able to insist on wholly-owned subsidiaries abroad in the 1930's, in fact well into the 1960's. But European and Japanese multinationals eventually began to offer arrangements with more appeal to their hosts, as those firms were eager to gain footholds in foreign markets. The old automobile arrangements look unattractive, in comparison to those being negotiated elsewhere. When typical terms in an industry change, the political pressures can be great enough to force a government to seek a renegotiation of the old arrangements. Under such circumstances, "Mexicanizations" or other "Latin Americanizations" have been common.

A third factor has been of significance recently. Critics of multinational firms have pointed out that the investments have not been as good for the host country as some alternative arrangement might be. The technology that was developed by the firm from an advanced country is not "appropriate" to the abundant labor of the developing country. Thus, it should be adapted to local needs. The foreigner tends to buy many of his imports from abroad. The multinational has an annoying tendency toward product differentiation which, governments feel, is not appropriate for poor, small markets. All these criticisms may not add up to an argument that the host country would be better off without foreign investment, but it has been easy to imagine better arrangements or some other source of the needed know-how. Government actions have begun to move toward trying to make those imaginary alternatives into real ones.

Potitical concerns

On the political side, there is one major issue. Foreign investment poses a threat to the control that can be exercised by a government.

The multinational firm has the ability to withdraw its activities from a particular country and still survive; a local firm does not. Thus, the multinational is a harder firm to discipline.

In addition, it engages in activities at the border that affect local fiscal and monetary policy. If local monetary policy is strict, it can borrow abroad. If local taxes or exchange controls are onerous, it can set the prices of transactions with

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[1] P. P. Streeten and S. Lall, "Evaluation of Methods and Main Findings of the UNCTAD Study of Private Overseas Investment in Selected Less-Developed Countries" (U.N. Document No. TD/B/C.3/111.

[2] For a nontechnical explanation of social cost-benefit analysis, see Louis T. Wells, Jr., "Social Cost-Benefit Analysis for the MNC," Harvard Business Review, March–April 1975.

affiliates such that its profits are recorded abroad. Such a threat to local control is ever present, even if the multinational's behavior is exemplary.

Finally, the multinational can be, in the view of the host, intricately tied with the interests of its home government. Actions against multinationals expose the host to threats by the home government. Aid funds may be cut; World Bank loans may not be forthcoming; and so on. Moreover, the subsidiary may be subject to home government orders (such as the frequently mentioned U.S. rules on trading with the enemy).

Reliance on the multinational entails the presence of such challenges to the local government's ability to control its environment. The government faces a difficult trade-off between the economic benefits brought by good projects and the inevitable sense of loss of control that accompanies the foreign presence.

Government policies

With the economic and political issues posed by multinational firms, it is hardly surprising that Latin American governments have established policies toward them that are designed to protect their national interests. But it is important not to confuse the rhetoric with actions. If rhetoric were the reality, one would not expect to find U.S. investment continuing in, say, Mexico. But Mexico and many other Latin American countries are still courting certain U.S. firms. Similarly, it is important to note that Latin American governments tend, as do other governments, to have swings in their attitudes. A phase of restriction on foreign investment may be followed by a period of more open doors. Remember, only recently Argentina and Chile were not considered friendly to foreign firms; now both are trying to attract more foreign investment.

There are trends, though. Throughout most developing countries there has been a fairly steady march in the direction of better screening of incoming investment. The approaches of host governments differ. In some cases, general rules are devised that are supposed to separate favorable projects from unattractive ones. For example, acquisition of existing companies may be prohibited, while formation of new ones may be allowed.

The underlying assumption is that acquisitions are less likely to be good for the host country than are newly formed enterprises. Other countries rely more on ad hoc evaluations of investors' proposals, avoiding the general rule and trying to screen out the bad projects on a case-by-case approach. The trend toward increased screening will, I suspect, be with us for a while. The basic reasons why social and private benefits diverge are unlikely to be resolved soon. Lower tariffs and more reliance on market prices are not likely to characterize Latin American economies in the near future. Not only is the ideological commitment absent, but it is not clear that moves in that direction would solve more problems than they would create. The tightened screening is not likely to please those investors who are rejected, often after long delays.

A second trend is likely to continue. Obsolescing bargains are likely to be renegotiated quickly. When foreign firms' contributions are perceived to be declining in importance or when better offers from other firms are seen, old deals will be renegotiated. Wholly-owned subsidiaries will be turned into joint ventures. Taxes will be tougher. Local content requirements will be pressed harder. Some governments will continue their efforts to build changes into the original agreement, through arrangements that call for the investor to agree to sell out some of his ownership over time, for example. The reluctance of foreign investors to recognize that their bargains will indeed be obsolete and the difficulty in predicting the life of the original terms severely limit the ability of such agreements to reduce the conflict as bargains age. Bitterness over changes in rules and over nationalizations are likely to continue as friction points between multinational firms and Latin American governments.

I suspect that another trend will continue: Latin American governments will continue to try to improve the options from which they can choose. One approach is to band together with neighbors to present a united front, and perhaps a larger market, in negotiations with multinationals. In Latin America, the Andean Group illustrates this kind of action. The member governments hope that their bargaining position will be better, enabling them to convince firms to offer better alternatives. Sometimes the efforts on the part of developing countries are more narrow in focus. The bauxite industry illustrates another approach. Dependent on the smelters owned by the major aluminum firms, bauxite producers have found they have little power against foreign investors. One proposal to increase their options has been that of a Caribbean smeltor, jointly owned by Guyana, Trinidad and Tobago, and Jamaica. Success would mean that local bauxite could be developed independently of the major international aluminum firms. Other efforts include moving toward the marketing end of vertically integrated industries to break the hold of concentrated private firms on downstream activities. Iran would like to have its own oil outlets. Columbia is already promoting its own coffee in the United States. I can imagine bananas, Venezuelan oil, and even some manufactured products with developing country brands in the future.

In a somewhat different vein, Latin American countries are eager for what they call "unbundling;" the ability to acquire know-how, management, and capital from different sources, rather than in the package that we know as direct investment. I am not optimistic that their efforts in this area will be terribly successful. First, I suspect that the components purchased separately may turn out to be more expensive than the package. Second, I expect firms with fairly advanced technology to resist unpackaging, for a complex set of reasons. Important among these is the high opportunity cost of assigning knowledgeable personnel to projects with limited returns. The results of the developing country efforts are likely to be agreements that look different from those of the past, but for which the economic realities are hardly changed.[3]

The strengths of U.S. firms

North American investments in Latin America are hardly likely to come to a grinding halt. In the past, technology and capital were the principal bases for the bargaining on the part of multinationals. Capital is now available to developing countries from alternative sources; the multinational can no longer depend on that as a major element of strength. But technology and management know-how are still needed, and the multinational is, in many cases, the only realistic source. When there are few firms competing, the terms that they can impose are likely to differ only marginally from those of the past. I.B.M., for example, is still successful in its insistence on conventional wholly-owned subsidiaries. Until smaller U.S. firms or Japanese or European firms are able to close the technological gap a bit more, I.B.M. can continue to dictate its terms. That gap will be closed, but new firms in new industries will be developed that will be in a strong position.

Technology is not the only source of strength for multinationals. For many maunfacturers, access to export markets in the advanced countries is important. As Latin American economies progress, they are increasingly able to produce manufactured goods at competitive prices. But the marketing of sophisticated goods is, in many cases, in the hands of private firms, as was the market for many raw materials in the past. The multinationals that are able to offer access to export markets that the local government or local firms cannot otherwise reach are likely to be in a good bargaining position.[4] Throughout Latin America, restrictions on foreign investors are usually extremely light for those who will export. The Andean rules, for example, explicitly restrict the exporters from the divestiture requirements. And, indeed, the U.S. automobile companies retain their wholly-owned subsidiaries in Mexico. The technology is available elsewhere; European and Japanese firms are willing to share ownership or simply license know-how. But without American investment, how could Mexico manage to export those parts for which the sole market is a Ford or General Motors assembly plant in the United States? Those firms without closely-held technology or access to closed export markets will bear the brunt of a changed investment climate in Latin America.

U.S. policy

My testimony has been too brief and too narrow in scope to develop fully the implications for U.S. policy to foreign investment by U.S. firms. Nevertheless, let me point out a few conclusions that are based on my reading of the research that has been done on U.S. foreign investment and on my judgment.

First, serious questions have been raised about the economic effects of outgoing investments on the U.S. economy. It is clear that some investments are good for the U.S. economy; also, almost certainly some are bad. What is un-

[3] See Chapter 2 of D. N. Smith and L. T. Wells, Jr., "Negotiating Third World Mineral Agreements" (Cambridge: Ballinger, 1976) for a discussion of form and substance in the "new modes" of investment.

[4] For a study of the role of foreign ties in marketing of manufactures, see Jose de la Torre, "Marketing Factors in Manufactured Exports from Developing Countries," in "The Product Life Cycle and International Trade," Louis T. Wells, Jr., ed., (Boston: Division of Research, Harvard Business School, 1972) pp. 227–59.

search is, I believe, that the economic effects of U.S. investment in developing countries are marginal for the U.S. economy as a whole. That is not to deny that some segments of the economy may actually suffer from foreign investment by U.S. firms. In fact, I do believe that some segments of U.S. labor now bear a disproportionate share of the cost of foreign investment, as they bar a disproportionate share of the costs of adjusting to foreign trade, from which the country as a whole almost certainly benefits. Indeed, they bear an unfair share of the costs of adjusting to technological changes of many kinds. It is society's task to see that such a segment of the population is compensated for the sacrifice that it has to make for the benefit of the whole country. There is a need for an extensive program of adjustment assistance for labor that is displaced by trade or by technological change. From trade and technology, the benefits for the economy are overwhelming. Some people would handle the problem of adjustment to foreign investment differently, by enacting measures that would seriously reduce the foreign investment flow, rather than developing ways of compensating those sectors of U.S. society that might be hurt. Indeed, some of the proposals for change in U.S. taxation of foreign income would probably reduce considerably the flow of foreign investment. This, I believe, is the wrong approach.

The case for containing foreign investment flows is different from that which argues for trade and technological development. Unlike trade and technology, there is probably not an overwhelming case to be made for the narrow, short-term benefits of U.S. foreign investment to the U.S. economy. It is entirely possible that the investment flows have a negative effect at home, even though that effect is only marginal. I suspect that the effects are positive, but that is a tenuous conclusion. On the other hand, the effects of that investment on the economies of many developing countries is not marginal at all. Carefully selected investments from abroad can make a real difference to the development efforts of the poorer countries. Although I do not think that the U.S. government should exert pressure on Latin American countries to accept U.S. investment, I do not believe that we should act to reduce the flow available to those countries that chose to use it for their development.

The foreign economic policy of the United States for at least the two and a half decades following World War II was not based on a narrow, short-term view of our economic interests. Rather, we have acted on the belief that the development of other countries was in our strategic interest and, perhaps, in our long-run economic interest. Thus, the Marshall Plan was developed for European recovery and we contributed aid to the poorer nations. This same set of principles should, I believe, guide our policies toward U.S. investment in developing countries. The potential benefits to those countries outweigh the marginal costs to the U.S. economy, if indeed there are costs at all.

Such a set of principles does not, of course, enable us to arrive at solutions to all the problems that confront us in the area of foreign investment. Issues such as the response of the United States to expropriation of U.S. investments, the role of O.P.I.C., and the development of sources of raw materials remain.

The apparent policy of "benign neglect" that has characterized our response to expropriation seems appropriate. As I have outlined, the internal pressures leading developing countries to change the terms of older foreign investments are virtually impossible for their governments to resist. The political cost to the United States of acting against those pressures overwhelm any possible gains for U.S. investors. One could argue that the effects of U.S. neglect mean that U.S. investors bear a high cost. However, I am certain that most of those investors whose properties are nationalized would have made their investments at the time they did even if they had known then that the properties would be taken sometime in the distant future. The profits were usually large enough for those early years when the host government recognized its need for the conrtibutions of the foreign investor.

The O.P.I.C. issue is, I suspect, only peripheral to the real problems of U.S. foreign investment. O.P.I.C. appears to be making progress in dealing with a principal criticism levied against it: that it encourages investors to stick with old-fashioned ownership arrangements when "new modes" would be politically safer in developing countries. The problems facing O.P.I.C. in dealing with the "new modes" are not easy: judging what "assets" to insure; determining when an expropriation has actually occurred, in a world of continuously "renegotiated" terms: and so on.

The task of assuring that raw materials are available in the future is important. However, the burden of ensuring that availability cannot be placed solely, or perhaps even principally, on private direct investment. In an embargo situation, as we found in oil, it makes little difference whether a well or mine is in the hands of a U.S. company or in the hands of a company of the country where the well or mine is located. If the host government forbids exports, the U.S. company has no alternative but to comply with that government's orders. The problem of assuring that sufficient sources of supplies are developed is a different one. More sources may make an embargo less effective, if some of the newly developed sources are in countries that will cooperate with the United States.

Also, more sources may mean lower prices or less scarcity. There is some risk that development of more sources will be delayed as host countries constrain multinational enterprises. Private firms may perceive the risks as being too high, and thus reduce their investments. Or they may actually be excluded by developing countries that are hostile to private foreign investment. To the extent that host countries' policies pose a threat to raw material sources, the U.S. government may have to act. The recently proposed Resource Bank was a scheme designed to deal with this possibility. However, it had the appearance to developing countries of being designed to prolong the life of the traditional kinds of foreign investment. Many developing countries perceive themselves as being on the edge of being able to break their dependency on the multinationals in the area of raw materials. Today, a proposal such as that of the Resource Bank has little chance of success, if it can be viewed as extending the role of private foreign investment in raw materials, or is restricting the "sovereignty" of developing countries over their natural resources. If the United States must act, it will probably have to make the money available for developing raw materials in the developing countries with a much less important role for the multinationals. In some industries, the technical assistance of foreign firms will certainly be required. But that assistance will have to be given on a short-term basis and, usually, without ownership ties, if the plan is to be acceptable. Such an arrangement would satisfy the U.S. objectives of making sure that sufficient supplies of raw materials are developed. A deeper involvement of multinationals will do no more to assure the United States that the minerals will be forthcoming in the case of an embargo than will simply the provision of money for the development of alternative sources.

Concluding remarks

Conflicts between Latin American governments and U.S. investors are not about to disappear. The economic problems are real. Private investors view the costs and benefits of their projects differently from the way governments view them. Host governments are eager to extract more benefits from foreign investors, some of which will reduce the profits to the firms. Moreover, while private investors hope that they can retain the tax and other arrangements that they negotiated at the outset, many host governments are eager to tighten the screws on the investor as soon as they can.

No government likes to take steps that will reduce its control. However, some governments perceive the benefits from accepting some foreign investment as being great enough that they are willing to allow their control to be eroded. That situation is one that is inevitably going to create tension.

U.S. policies or international actions, such as the O.E.C.D. code of conduct or steps taken by the U.N. Center on Transnational Corporations, will not eliminate the conflicts. But they may keep the situation manageable, such that U.S. firms can continue to contribute to the development efforts of those countries that want to use what they offer. And such that those countries maintain their sovereign right to develop their own policies toward foreign investment.

Chairman LONG. Our third panelist is a professor of economics at the University of Texas at Austin, and director of the Institute of Latin American Studies, which, as with our other two witnesses, gives him a very unusual combination of views toward the matter we are discussing here, and of course we are happy to have you here, Mr. Glade, and would you proceed?

STATEMENT OF WILLIAM P. GLADE, PROFESSOR OF ECONOMICS, AND DIRECTOR, INSTITUTE OF LATIN AMERICAN STUDIES, UNIVERSITY OF TEXAS AT AUSTIN

Mr. GLADE. Thank you, Mr. Chairman, and Congressman Fascell. Let me thank you for inviting me here to speak in these hearings, and also I should like to commend you on holding regional hearings. I think that this does a great deal to alert other sections of the country besides the eastern seaboard to the relevance of foreign policy issues. I hope that you will continue this series, perhaps holding this type of hearing in Florida, Texas, and other places as well.

Until recently, the decades since the end of the Second World War had witnessed a general liberalization in the treatment of both trade and investment flows, at least so far as concerns trade and investment flows among the industrial countries. To be sure, this more liberal trade and investment climate was not always replicated in the public policies of the less developed countries, but in Latin America at least, the restrictive measures applied to trade flows were not uncommonly accomplanied by added inducements for the investments the trade restrictions were intended to stimulate. Even so, in many instances, public policy regarding private foreign investment could more accurately be described as one of grudging acceptance than as positive encouragement.

By the late 1960's, though, the contributions of foreign investment were increasingly being called into question, as my colleagues have indicated.

It was feared, for example, that foreign concerns, with their multiple branches throughout Latin America, would be the chief beneficiaries of the regional integration effort. Moreover, the superior ability of foreign enterprises to weather local recessions, and even buy out financially troubled national firms, cost foreign investors support in the national business communities of the region.

The evident technological leadership of foreign firms lead to a pervasive fear that investment opportunities in the most promising growth fields would almost automatically be preempted by overseas interests. As national development programs began to display greater concern for the health of the external sector, restrictive policies imposed by home offices on their Latin American subsidiaries came to be viewed as detrimental to new efforts to expand and diversify exports. Meanwhile local consumers, local taxpayers, and tax collectors alike, latched onto some new research on intracorporate transfer pricing as evidence that large international firms could manipulate the accounting base on which local profits, prices, and taxes were computed at the level of their subsidiaries.

To top it all, the advantages held by multinationals were seen as cumulative, so that foreign enterprises appeared destined to perpetuate their control in the absence of national policies capable of domesticating them.

Ideological factors certainly have played a role in shaping the foregoing perceptions. But the growing strength of competing national business communities, the larger supply of nationals trained in technical and administrative fields, and the growing capability of Latin American governments in economic planning and macroeconomic management have also contributed in an important way to this new climate of opinion. For a variety of reasons, then, incoming investment is no longer so widely accepted as a self-evident good.

Although it is not the primary purpose of this report to dwell on the distinct forms of regulation that are being applied to foreign capital—and Professor Arellano did a very good job of reviewing many of the major kinds—a word or two may be in order about the general character of some of the regulatory expedients which have come into vogue in the recent years.

Without detailing the various and still evolving forms they take, let me simply observe three major trends that seem to be emerging. The first of these, which is, I think the basis of the other two, is to require official registration and explicit state authorization for new investments from abroad, with correspondingly greater scrutiny of the various contractual provisions associated with the entry of foreign capital.

In Argentina, for instance, foreign capital under the Peron government, was excluded from a number of fields, unless it could be demonstrated that such entry would confer special advantages, such as access to international markets that were otherwise closed, or the introduction of important new technology.

The second discernible new feature is an increasing interest in (a) preventing the entry of foreign capital to buy up existing nationally owned enterprises, and (b) provisions for the eventual transfer of foreign enterprise to domestic ownership. More and more, equity holdings are being viewed as quasi-debt like in character, that is, as setting up circumscribed obligations that are temporary, rather than providing a more ample scope of control that is of indefinite duration. Much of Latin American industrialization occurred under what is known as the import substitution industrialization policies or ISI, as it is sometimes abbreviated. I think that what we are seeing today is a movement from ISI to MSI or OSI, that is, management substitution industrialization, or ownership substitution industrialization, which means that previous foreign owners and managers are being displaced by nationals.

Colombian law, for instance, was last year enacted to prohibit new foreign investment in the financial and insurance sectors. Existing branches of foreign companies in these fields were given 3 years to reduce the foreign equity holding to 49 percent. Just last month the President of Costa Rica, indicated a very strong public policy preference there for all new foreign investments to enter in the form of joint ventures in association with either private Costa Rican or public Costa Rican investments.

The third element receiving heightened emphasis nowadays is public supervision and regulation of technology transfer, such as licensing agreements for the use of patents, royalty payments, access to the fruits of new research and development overseas, intracompany transfer pricing, and the like.

If there is any convenient and accurate way of summarizing all these policy developments, it might be as follows: Increasingly, foreign direct investment is recognized as a scarce good, one which may, under certain circumstances, yield significant social benefits, but which also commands what is, from a social point of view, a very high price. Thus, public policy is geared to economize on it use, employing it only when necessary, and where necessary.

It is, however, to yet another aspect of the current policy scene that I want to call particular attention today. This aspect has, I believe, singularly consequential implications for the future of U.S. investment relations with Latin America. The subject in question is the longstanding and growing importance of the so-called parastatal sector, that is, the sector of government-owned and government-operated enterprises of a financial, commercial, and industrial nature.

Granted that the roots of direct intervention go back to premodern times and that the phenomenon is, today, essentially culturally and historically determined rather than being a function of statist ideologies, the events of the past four decades or so have thrust the expanded public sector into the very forefront of concern.

In essence, the state has been widely employed as an instrument for achieving a rate and configuration of development different from that which would be automatically forthcoming from the free play of market forces. To a remarkable degree, this growth of the parastatal sector has occurred under both civilian and military regimes and under governments of the right, left, and center.

A comprehensive picture of the scope of state enterprises in the major countries of Latin America need not be included here; such a detailed profile is presented in an article that appeared a few years ago in the Economic Bulletin for Latin America, which is published by the U.N. Economic Commission for Latin America. Suffice it to remark that while the pattern varies somewhat from country to country, with some exceptions the parastatal sector tends to be relatively more consequential in the larger economies than in the smaller ones.

The aims of the State-owned firms range from the economic, to the social and political, most often being an admixture of all three. Incidentally, this multipurpose or multiobjective character should always be kept in mind, when deriving the appropriate performance criteria by which to judge the efficiency or efficacy of these public enterprises. I might note, however, that there seems to be a general trend among public enterprises to operate along more commercial lines, on a more profitmaking or at least self-financing basis. This is probably a function of the growing importance of the State sector, the increased recourse to external borrowing to finance public enterprises, the growing professionalization of management, and the increasing association with foreign firms in joint ventures. All these things tend to push them in the direction of a more commercial type of operational criteria.

While there is much that is not known in the sense of having been systematically studied about the operations of these State enterprises, it is patent that throughout Latin America there is a great deal of skepticism about the efficacy of Adam Smith's unseen hand. That the very visible hand of the State is taken to be more efficacious, seems to be a basic cultural assumption.

Some years ago, there was, perhaps, an implict expectation that save for some fields, the ownership and operation of business enterprises by government was catalytic and transitory; that is, a temporary assistance to get the development process rolling until such time as the domestic private sector should be capable of assuming responsibility for the task. Although in the incipient phases of industrialization only the State could mobilize capital on the scale required and bear the risk of entrepreneurship, there was some thought that this was merely to prepare the seed bed for local private initiative.

There are a number of reasons, however, to doubt that this is an accurate forecast of what will actually come to pass. For one thing, nationalism remains an assertive force, and policy commitments have already been preset, so to speak, to effect a transfer of properties from foreign to local ownership, as in the Andean Common Market's controversial fadeout provisions. Where large scale foreign-owned undertakings are the ones affected by such provisions, it is often the case that it is only the national public section that is capable—even if it is not fully prepared—of receiving them.

The progressive deepening of the Latin American industrial structure will also tend to push new investment into a range of scale and complexity where State enterprise holds the advantage owing to the Government's ability to mobilize substantial amounts of capital on cheaper terms than may be available to the local private entrepreneur. In this respect, regional integration is also likely to give an added impetus to strengthening the role of State in economic life, for the special advantages of an expanded regional market are presumably more consequential for large scale, capital intensive firms than for firms whose optimal size is more modest.

To some extent, too, the motive force for regional integration has tended, in Latin America, to come more from the national state than the entrepreneurial communities of the private sector, who have often been somewhat leery of the increased competition they might face in a regional integration scheme. There is even an evidently growing interest—and sometimes more than that—in forming multinational public enterprises to further the process of integration.

Another circumstance which may well serve to push the boundaries of the public sector further into the private sphere derives from the fact that a number of domestic private firms in Latin America are rather shakily financed and managed, and are, consequently, ill prepared to weather much in the way of recessions or to withstand much real competition. Some of these have received bail-out loans from the Government already. But even when the State, in this fashion, has been cast in the role of receiver for bankruptcies, the pressures on the State to maintain production and employment are so strong that it is politically difficult for public authorities to allow going concerns to cease operation if they are of any substantial size to begin with. As a result, many of the troubled firms are likely to pass into the public sector, as to some extent they have done in Mexico and Argentina already.

Many students of large scale bureaucratic organizations have further observed that these have an apparently inherent tendency toward self-perpetuation and organizational expansion, a tendency which seems as true of the public sector as it is of the private sector. Latin America offers little, if any evidence to contradict this observation. On the contrary, public enterprises have, when profitable, ordinarily reinvested their earnings in horizontal expansion, vertical integration, or even in some instances, diversification into other fields of production. To the extent that governments must seek to convert deficit ridden enterprises into profitable ones to relieve the burden on the treasury, a burden which tends otherwise to become unmanageable with the growth of the parastatal sector, it becomes increasingly likely that the State will find means of augmenting the reinvestable earnings of its enterprises, and hence their opportunities for expansion. For a variety of political reasons, though, there are more than a few examples also of public corporations which have expanded their operations even when they have been money losers, thanks to their ability to fall back on their resources of the State for subsidies.

Naturally, this more or less steady enlargement of State entrepreneurial action has not altogether escaped criticism, at least in some quarters of the private sector in such countries as Brazil, Mexico, Argentina, and Peru, not to mention the special case of Chile. Yet there is little reason to believe that over the longrun, effective opposition can be mounted by antistatists. That it cannot stems from the very extent and variety of parastatal operations and the consequent high degree of interpenetration of the public and private sectors.

The old Roman maxim of divide and conquer applies here. Thanks to the past growth of public enterprise, a great many private firms have an undeniable stake in their continued functioning, as suppliers of lower-cost credit to private borrowers, as suppliers of other critical goods and services to private sector purchasers, and as purchasers of private sector output. Of late there has been a growing interest among government policymakers in such countries as Argentina and Colombia in using the very considerable purchasing power of state enterprises and public agencies in a more concerted manner to foster the growth of domestic supplier firms. Such a policy would, of course, simply underscore the point just made. The fact that public sector investments are also, in many cases, expanding the array of private investment options, serves further to dampen competitive hostilities.

Finally, the increasing priority attached in public policy to cultivating more research and development activity in Latin America is sure to buttress all the other structural features that work toward maintaining and augmenting the parastatal sector. The average size of domestic private sector firms in Latin America tends to be smaller than the average size of public sector companies. For reasons of size and customary management practice, few Latin American private firms set much store either on in-house research and development efforts, or on contracted services in this area from the comparatively few local institutions able to supply such services. In large measure then, if local research and development is to be fostered, a great deal of the responsibility for doing so will almost unavoidably have to be shouldered by state production enterprises. It seems most unlikely that any significant reduction would be effected in the size of parastatal sector at just the time when there is more interest than ever before in realizing their potential for strengthening a local technological research capability.

Long ago Marx made the observation that merchant capitalism was able to work effectively in conjunction with noncapitalist or precapitalist modes of production. The point may be transposed, with the appropriate modifications, to the present. We have come to learn that there are not insurmountable obstacles to constructive collaboration between capitalistic financial, mercantile, and industrial enterprises on the one hand, and the entrepreneurial state on the other.

A random sampling of business news reports from the past 8 years or so indicates that the mixed-enterprise joint venture—companies combining local, public and foreign private capital—is a social invention appearing with increasing frequency in Latin America as well as elsewhere, an incidence which suggests its value as an adaptive mechanism of growing importance. By way of illustration, one may mention such joint ventures as the Dow Chemical investment in the Argentine, the Fiat-Lara plant in Colombia, a Venezuelan joint venture in ammonia production, the new Tractores Andinos factory in Peru, and the Dirona plant in Mexico.

On occasion, these ventures have become multinational indeed, an interesting illustration being afforded by the three-way participation in a new integrated steel mill at Tubarão, Brazil. In this, a private Japanese firm, the Kawasaki Steel Corp. has just joined forces with two state-owned steel companies of different nationalities, Finsider of Italy, and Siderurgia Brasileira of Brazil.

So dynamic has this relatively recent institutional development been, that already some Latin American businessman, for example in Brazil, have begun to feel pinched between the twin giants of large foreign private companies and large domestic public companies, while leftist critics have on occasion charged that the phenomenon merely shows how adept the foreign capitalist class is in subordinating the state to its interests.

Be this as it may, the mixed-enterprise joint venture seems here to stay, as an increasingly major factor to be reckoned with in the future organization of U.S. investment relationships with Latin America. Doubtless, indirect regulatory measures of the sort mentioned earlier will be employed as an accommodation stratagem to preserve a protected sphere of operations for local private capital. But to a degree only dimly perceived at present, the extension of the state's ownership and managerial roles will become a possibly dominant means of mediating the relationship between foreign enterprise and the larger national economies of Latin America. Such, at least, is the central proposition of this statement.

The rise of the mixed-enterprise joint venture will present different problems for resolution from those confronted by foreign investors in the past. Joint ventures between private partners, a more familiar sort of business undertaking, have had their difficulties. And while some of these may be obviated by substituting a public entity for the local private partner, still other problems will come up to take their place. The mixed-enterprise joint venture is no panacea for harmonizing divergent interests.

Just as current Italian conditions demonstrate that a very large parastatal sector is no guarantee of stability, even though public investment was thought to be a stabilization mechanism, the Chilean debacle reminds us that conditions can become so acute that not even mixed-enterprise joint ventures can provide a full guarantee of security for foreign investment.

Nevertheless, their proliferation in recent times makes them well worth watching as a means of dealing with economies in which the state sector is increasingly strong, or even central.

Thank you, very much.

Chairman LONG. Thank you very much, Mr. Glade.

Your prepared statement, which you have summarized, will be made a part of the hearing record.

[The prepared statement of Mr. Glade follows:]

PREPARED STATEMENT OF WILLIAM P. GLADE

INTRODUCTION

Until recently, the decades since the end of the second World War had witnessed a general liberalization in the treatment of both trade and investment flows, at least so far as concerns trade and investment flows among the industrial countries. To be sure, the drift of liberalizing policy was neither uniform among all the wealthier economies nor uninterrupted and unqualified in any of them. Yet, most developed nations appeared to feel that their interest in high growth was on the whole well served by lessening the encumbrances on movements of capital and enterprise. Even in some of the centrally planned economies of the socialist bloc, new policy expedients were cautiously devised to admit some of the benefits of Western technical and managerial know-how.

While this more liberal trade and investment climate was not always replicated in the public policies of the less developed countries, it was nevertheless the case that, in Latin America at least, restrictive measures applied to trade flows were not uncommonly accompanied by added inducements for the investments the trade restrictions were intended to stimulate. Even so, in many instances public policy regarding private foreign investment could more accurately be described as one of grudging acceptance than as positive encouragement.

By the late 1960's, though, the contributions of foreign investment were increasingly being called into question, not only by influential intellectuals who had long looked askance at foreign capitalists (or capitalism in general) but also by others in government and private-sector circles. It was feared, for example, that foreign concerns, with their multiple branches, and excellent marketing and information systems extending throughout Latin America, would be the chief beneficiaries of the regional integration effort. Moreover, the superior ability of foreign enterprises—with their diversified portfolios of overseas holdings and their access to capital and money markets in the advanced countries—to weather local recessions and even buy out financially troubled national firms cost foreign investors support in the national business communities of the region. The evident technological leadership of foreign firms lead to a pervasive fear that investment opportunities in the most promising growth fields would tend, almost automatically, to be preempted by overseas interests. As national development programs began to display greater concern for the health of the external sector, restrictive policies imposed by home offices on Latin American subsidiaries came to be viewed as detrimental to new efforts to expand and diversify exports. Meanwhile, local consumers, local taxpayers, and tax collectors alike latched onto some new research on transfer pricing as evidence that large international firms could manipulate the pecuniary accounting base on which local profits, prices, and taxes were computed at the level of their subsidiaries. To top it all, the advantages held by multinationals were seen as cumulative, so that foreign enterprises appeared destined to perpetuate their control in the absence of national policies capable of domesticating them.

From around the mid-1960's onwards, many of these reservations and anxieties, not to mention antipathies, were woven together into a comprehensive doctrine called dependencia theory—a significant intellectual challenge to the liberal presumption underlying open investment policies. Dependencia theorizing, in turn, was never conceived as a mere academic exercise; rather it was consciously developed, somewhat after the manner of Keynesian economics, as a guide to aspects of social policy. Ideological factors certainly have played a role in shaping the foregoing perceptions and dependencia doctrine which grew out of them. But the growing strength of competing national business communities, the larger supply of nationals trained in technical and administrative fields, and the growing capability of Latin American governments in economic planning and macroeconomic management have also contributed in an important way to this new climate of opinion.

The basic environment of regulation regarding foreign investment has no doubt been modified further by fear of the very size of the multinationals, as well as by the widely accepted claim that there is a fundamental contradiction between the maximizing framework of the multinationals and that of the host economies in which they operate. In short, for a variety of reasons, none of them transient in nature, incoming investment is no longer so widely accepted as a self-evident good. Rapidly vanishing is the belief that letting investment flow to where returns are greatest increases incomes all around. The old liberal regime for international direct investment has been increasingly displaced by a presumption that governments should selectively encourage and restrict the flows of capital investment, especially those crossing national frontiers.

Increasing regulation of international direct investment

Although it is not the primary purpose of this report to dwell on the distinct forms of regulation that are being applied to foreign capital, with perhaps increasing frequency these days, a word or two may be in order about their general character. Long ago, of course, many governments began to affirm their basic responsibility for harnessing incoming foreign investment to national purposes. Measures were introduced to encourage greater employment of nationals, and very often trade policies resulted in pressures on foreign companies to increase their local purchases of raw materials and intermediate goods. In some cases, most notably in Mexico, a few fields were reserved for national investment, or for companies in which domestic shareholders owned a significant amount of the outstanding stock. In the mining field, for instance, enterprises which sold a sizable amount of equity to Mexican nationals received benefits in taxation, length of concessions, and so on which were not available for wholly foreign owned subsidiaries. In Chile, the government has long had the authority to declare certain fields "saturated" and therefore closed to further foreign investment.

From time to time, regulation has also been applied, by a number of countries, to profit remittances and payments repatriating capital outlays, particularly in times of stress in the balance of payments. The difficulties which may well lie ahead for a number of countries in servicing their mounting external debts seem likely to require not only the stretching out of loan repayment schedules but also a recurrent imposition of such controls on international financial flows, as a temporary measure. Argentina and Chile appear the most vulnerable to regulatory pressures emanating from the burden of external debts, but Brazil, Peru, Mexico, and Uruguay could also, conceivably, be forced by circumstances to tighten up on the free flow of short and long-term capital movements although the danger is certainly not immediate in all of these—nor equally severe.

Beyond these more-or-less conventional (for Latin America) regulatory expedients, however, others have come into vogue more recently. Without detailing the various—and still evolving—forms they take, let me simply observe that three major trends seem to be emerging.

The first of these, which is to some extent the basis of the other two, is to require official registration and explicit state authorization for new investments from abroad—with correspondingly greater governmental scrutiny of the various contractual provisions associated with the entry of foreign capital. In Argentina, for instance, foreign capital was, under the Peron government, excluded from a number of fields (public services, banking, insurance, agriculture and stock-raising, forestry, mass communications, domestic marketing, etc.) unless it could be demonstrated that such entry would confer special advantages such as access to international markets that were otherwise closed, or the introduction of important new technology.

The second discernible new feature is an increasing interest in (a) preventing the entry of foreign capital to buy up existing nationally owned enterprises and (b) provisions for the eventual transfer of foreign enterprise to domestic ownership. More and more, equity holdings are being viewed as quasi debt-like in character: i.e., as setting up circumscribed obligations that are temporary rather than providing a more ample scope of control that is of indefinite duration.

The third element receiving heightened emphasis nowadays is public supervision and regulation of technology transfer: licensing agreements for the use of patents, royalty payments, access to the fruits of new R.&D. overseas, intra-company transfer pricing, and the like.

If there is any convenient and accurate way of summarizing all these policy developments, it might be as follows. Increasingly, foreign direct investment is recognized as a scarce good, one which may, under certain circumstances, yield significant social benefits but which also commands what is, from a social point of view, a very high price (including future streams of profits, repatriation of the original capital and of subsequently reinvested earnings, diminution of local control). Thus, public policy is geared to economizing on its use, employing it only where necessary and when necessary.

The role of the patrimonialist State

It is to yet another aspect of the current policy scene that I want to call particular attention today. This aspect has, I believe, singularly consequential implications for the future U.S. investment relations with Latin America. The subject in question is the long-standing and growing importance of the so-called parastatal sector, the sector of government-owned and government-operated enterprises of a financial, commercial, and industrial nature.

Throughout Latin America, recent years have brought increased attention to the problem of redefining the roles of the state and of private enterprise. Of course, the economically active state—the entrepreneurial state as well as the regulatory state—is not a new phenomenon in Latin America; indeed, as the U.N. Economic Commission has succinctly put it:

In most Latin American countries, reliance on the State to "solve problems" of whatever nature is more widely diffused throughout the population than in most other parts of the Third World, and is much more pronounced than it was at the earlier stages of development of the countries which are now industrialized. This leading role of the State derives from historical traditions going back to the colonial period[1]. . . .

Granted that the roots of direct intervention go back to pre-modern times and that the phenomenon is, today, essentially culturally and historically determined rather than being a function of statist ideologies, the events of the past four decades or so have thrust the expanded public sector into the very forefront of concern. In essence, the state has been widely employed as an instrument for achieving a rate and configuration of development different from that which would be automatically forthcoming from the free play of market forces.

In a few cases, especially Uruguay and Mexico, resort to government enterprise was a fairly conspicuous feature of public policy before the 1930's; and even in Argentina, it should be noted, the state petroleum company was set up in the early years of this century, well before economic nationalism became a by-word. Around the continent, railways were either built by the public sector or subsequently acquired thereby as they went into receivership. During the 1930's and 1940's, however, there was a veritable spate of institution-building, as we would call it today, and in many countries state enterprises were set up in such fields as banking, iron and steel, petroleum and its derivatives, electric power, shipping, telecommunications, and mining. Multi-purpose regional development schemes—somewhat like our TVA or Italy's Cassa per il Mezzogiorno—made their appearance on the scene as well, especially during the 1950's. From the early 1940's on, entities such as The Nacional Financiera of Mexico and the Corporación de Fomento of Chile promoted the establishment of new companies in a variety of fields and have long functioned somewhat as holding companies administering a diversified portfolio of investments. In some instances, state operated companies have been created to manage properties acquired through nationalization; other times they have been instituted altogether de novo.

To a remarkable degree, the growth of the parastatal sector has occurred under both civilian and military regimes and under governments of the right, left, and center. In this connection it is worth noting that the overthrow of a liberal-left regime in Brazil in 1964 did not lead to a dismantling of the state's extensive apparatus for economic action, despite the new government's presumably greater ideological affinity for private enterprise. If anything, the parastatal sector expanded considerably after 1964. The largest commercial bank in the country (with deposits nine times larger than the largest private commercial bank) is the government's Banco do Brasil. Through it and other banking enterprises belonging to the federal and state governments, government banking in 1972, held 55 percent of the deposits and made 58 percent of the loans. Between 1962 and 1971, government-held firms in the electric power industry grew from 36 percent to 80 percent of total generating capacity. In the latter year, the state also controlled 72 percent of the assets in the iron and steel industry, 81 percent of iron ore exports, and 81 percent of the assets in petroleum

[1] U.N. Economic Commission for Latin America, *Economic Survey of Latin America 1973*, N.Y.: United Nations, 1975, pp. 295–6.

exploration, refining, and distribution. Some 60 percent of total new fixed investment in 1969 came from the government and the state controlled enterprises.[2]

A comprehensive picture of the scope of state enterprises in the major countries of Latin America need not be included here; such a detailed profile is presented in "Public Enterprises: Their Present Significance and Their Potential in Development," Economic bulletin for Latin America, vol. XVI, no. 1 (1971). Suffice it to remark that while the pattern varies somewhat from country to country, with some exceptions the parastatal sector tends to be relatively more consequential in the larger economies than in the smaller ones.

The aims of the firms of the state range from the economic to the social and political, most often a mixture of all three. The new steel mills being built by the government on the Pacific coast of Mexico, to take a case in point, is viewed as a means of stimulating development in a lagging region as well as a way to meet the economy's growing demand for steel products. The giant CONASUPO mercantile enterprise, in the same country, is intended to function as a vehicle for ensuring a more abundant supply of low-cost goods for low-income consumers and is, hence, a part of the government's social welfare program as much as it is a effort to improve the functioning of the marketing system.

While there is much that is not known—in the sense of having been systematically studied—about the operations of these entities, it is patent that throughout Latin America there is a great deal of skepticism about the efficacy of Adam Smith's unseen hand. That the very visible hand of the state is taken to be more efficacious seems to be a basic cultural assumption.

Prospects for the parastatal sector

Some years ago there was, perhaps, an implicit expectation (held more by foreigners than by Latin American themselves) that, save for some fields in which the imposition and maintenance of national control was judged strategic, the ownership and operation of business enterprises by government was catalytic and transitory: i.e., a temporary assistance to get the development process rolling until such time as the domestic private sector should be capable of assuming responsibility for the task. Although in the incipient phases of industrialization only the state could mobilize capital on the scale required (given the very rudimentary development of private capital markets) and bear the risks of entrepreneurship, there was some thought that this was merely to prepare the seed bed for local private initiative. A fomento or promotional function was, in other words, seen as the crux of state economic action—a clear indication of the prevailing opinion that the stimulative effects of foreign business enterprise were insufficient to accomplish this successfully, from the standpoint of local ends.

There are a number of reasons, however, to doubt that this is an accurate forecast of what will actually come to pass. There is room for doubt on this score even though in most of the countries key export industries, banks, and utilities are now firmly under national control (so that there would seem to be, correspondingly, less need for further nationalizations to secure attention to national priorities) and local private sectors have been undeniably stimulated and have grown into adolescence if not into maturity.

For one thing, nationalism remains an assertive force and policy commitments have already been pre-set, so to speak, to effect a transfer of properties from foreign to local ownership—as in the Andean Common Market's controversial fade-out provisions. Where large-scale foreign-owned undertakings are the ones affected by such provisions, it is often the case that it is only the national public sector that is capable of receiving, if not prepared to receive, them. Passage from foreign to local ownership, in other words, has often implied also a passage from the private to the public sector, on account of the limited capacity of the nationl private sector to absorb the large capital-intensive and organization-intensive foreign operations.

The progressive deepening of the Latin American industrial structure will also tend to push new investment into a range of scale and complexity where state enterprise holds the advantage owing to government's ability to mobilize substantial amounts of capital on cheaper terms than may be available to the local

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[2] A convenient overview of the Brazilian case is found in "Brazil: Capitalismo do Estado," Visão, 26 May 1975, pp. 43–94. This news magazine account also reveals some of the terms of the policy debate concerning the role of the state, somewhat before this debate heated up to the degree it has in recent months. For some current soundings of opinion on this subject, see Visão, 19 April 1976, in which the entire issue bears directly and indirectly on the public/private issue.

private entrepreneur. In this respect, regional integration is also likely to give added impetus to strengthening the role of the state in economic life for the special advantages of an expanded regional market are presumably more consequential for large-scale, capital intensive firms than for firms whose optimal sizes are more modest.

To some extent, to, the motive force for regional integration has tended, in Latin America, to come more from the national state than from the entrepreneurial communities of the private sector, who have often been somewhat leery of the increased competition they might face in a regional integration scheme. There is even an evidently growing interest—and sometimes more than that—in forming multinational public enterprises to further the process of integration.[8]

Another circumstance which may well serve to push the boundaries of the public sector further into the private sphere derives from the fact that a fair number of domestic private firms in Latin America are rather shakily financed and managed and are, consequently, ill prepared to weather much in the way of recessions or to withstand much real competition. Some of them have received bail-out loans from the government banks, but even when the state has not, in this fashion, been cast in the role of receiver for bankruptcies, the pressures on the state to maintain production and employment are so strong that it is politically difficult for public authorities to allow going concerns to cease operation if they are of any substantial size to begin with.

Many students of large-scale bureaucratic organizations have observed their apparently inherent tendency toward self-perpetuation and organizational expansion, a tendency which seems as true of the public sector as it is of the private sector. Latin America offers little if any evidence to contradict this observation. On the contrary, public enterprises have, when profitable, ordinarily reinvested their earnings in horizontal expansion, vertical integration, or even in some instances, diversification into other fields of production. To the extent that governments must seek to convert deficit-ridden enterprises into profitable ones to relieve the burden on the treasury, a burden which tends otherwise to become unmanageable with the growth of the parastatal sector, it becomes increasingly likely that the state will find means of augmenting the reinvestable earnings of its enterprises and hence their opportunities for expansion.

Insofar as improving the profitability of state enterprises has entailed conceding them more autonomy to set salaries and working conditions as necessary to attract the requisite managerial and technical talent, they have sometimes been able to compete quite effectively against the local private sector firms in recruiting scarce high-level man-power skills. For a variety of political reasons, though, reasons as familiar here as abroad, there are more than a few examples also of public corporations which have expanded their operations even when they have been money-losers, thanks to their ability to fall back on the resources of the state for subsidies.

Naturally, the more-or-less steady enlargement of state entrepreneurial action has not altogether escaped criticism, at least from some quarters of the private sector in such countries as Brazil, Mexico, Argentina, and Peru—not to mention the special case of Chile. Yet, there is little reason to believe that, over the long run, effective opposition can be mounted by antistatists. That it cannot stems from the very extent and variety of parastatal operations and the consequent high degree of interpenetration of the public and private sectors. The old Roman maxim of divide et impera applies here. Thanks to the past growth of the public enterprises, a great many private firms have an undeniable stake in their continued functioning: as suppliers of lower-cost credit to private borrowers, as suppliers of other critical goods and services to private sector purchasers, and as purchasers of private sector output. Of late there has been a growing interest among government policy makers in such countries as Argentina and Columbia in using the very considerable purchasing power of state enterprises and public agencies in a more concerted manner to foster the growth of domestic supplier firms; such a policy would, of course, simply underscore the point just made. The fact that public sector investments are also, in many cases, expanding the array of private investment options serves further to dampen competitive hostilities.

Finally, the increasing priority attached in public policy to cultivating more research-and-development outlays in Latin America (to reduce the region's technical "dependence" on foreign firms) is sure to buttress all the other structural

[8] See Wm. Glade. "El papel de las empresas del sector público en la integración de la estructura industrial latinoamericana," Revista de Integración, No. 19/20, Mayo–Septiembre 1975.

features that work toward maintaining and augmenting the parastatal sector. The average size of domestic private sector firms tends to be smaller than the average size of public sector companies. For reasons of size and customary managerial practice, few Latin American private firms set much store either on in-house research-and-development efforts or on contracted services in this area from the comparatively few local institutions able to supply such services. In large measure, then, if local R&D is to be fostered, a great deal of the responsibility for doing so will almost unavoidably have to be shouldered by state production enterprises. It seem most unlikely that any significant reduction would be effected in the size of the parastatal sector—which occupies a strategic position in respect of the technologically more complex portions of the industrial structure—at just the time when there is more interest than ever before in realizing their potential for strengthening a local technological research capability.

With the State as partner

Long ago Marx made the observation that merchant capitalism was able to work effectively in conjunction with non-capitalist, or pre-capitalist, modes of production. (Thus, for example, capitalistic trading enterprises were able to market internationally the product of Brazilian sugar and U.S. cotton plantations at a time when each was internally organized on the basis of slave labor. Capitalistic external relations were combined with pre-capitalistic internal relations in these industries.) The point may be transposed, with appropriate modification, to the present. We have come to learn that there are not insurmountable obstacles to constructive collaboration between capitalistic financial, mercantile, and industrial enterprises on the one hand and the entrepreneurial state on the other.

A random sampling of business news reports from the past eight years or so indicates that the mixed-enterprise joint venture (a company combining local public and foreign private capital) is a social invention appearing with increasing frequency in Latin America as well as elsewhere, an incidence which suggests its value as an adaptive mechanism of growing importance. By way of illustration, one may mention such joint ventures as a Dow Chemical investment (with Fabricaciones Militares, the Banco Nacional de Desarrollo, and Gas del Estado—all state firms) in the Argentine, the FIAT-LARA plant in Colombia (combining private Italian and Colombian capital with capital from the official Instituto de Fomento Industrial), a Venezuelan joint venture in ammonia production (bring together the government's Instituto Venezolano de Petroquimica and several U.S. companies), the new Tractores Andinos factory in Peru (a joint venture of Massey Ferguson and COFIDE and Induperu, both of the latter being state enterprises), and the DIRONA plant in Mexico (a collaboration of Rockwell International with Diesel Nacional and Nacional Financiera, two government companies). On occasion, these ventures have become multinational indeed, an interesting illustration being afforded by the three-way participation in a new integrated steel mill at Tubarão, Brazil. In this, a private Japanese firm, the Kawasaki Steel Corporation, has joined forces with two state-owned steel companies of different nationalities: Finsider of Italy and Siderurgia Brasileira of Brazil.

So dynamic has this relatively recent institutional development been that already some Latin American businessmen (e.g., Brazil) have begun to feel pinched between the twin giants of large foreign private companies and large domestic public companies, while leftist critics have on occasion charged that the phenomenon merely shows how adept the foreign capitalist class is in subordinating the state to its interests. Be this as it may, the mixed-enterprise joint-venture seems here to stay as an increasingly major factor to be reckoned with in the future organization of U.S. investment relationships with Latin America. Doubtless indirect regulatory measures of the sort mentioned earlier will be employed, as an accommodation stratagem, to preserve a protected sphere of operations for local private capital. But to a degree only dimly perceived at present, the extension of the state's ownership and managerial roles will become a possibly dominant means of mediating the relationship between foreign enterprise and the larger national economies of Latin America. Such, at least, is the central proposition of this statement.

The rise of the mixed-enterprise joint-venture will present different problems for resolution from those confronted by foreign investors in the past. Joint ventures between private partners, a more familiar sort of business undertaking, have had their difficulties, and while some of these may be obviated by substituting a public entity for a local private partner, still others have come up to take their place. The mixed-enterprise joint-venture is no panacea for harmonizing divergent interests. Just as current Italian conditions demonstrate that a very large parastatal sector is no guarantee of stability (even though public investment is thought to be a stabilization instrument), the Chilean debacle reminds us that conditions can become so acute that not even mixed-enterprise joint-ventures can provide a full guarantee of security for foreign investment. Nevertheless, their proliferation in recent times makes them well worth watching as a means of dealing with economies in which the state sector is increasingly strong, or even central.

Chairman LONG. There is one question on which we might get the comments of all three of you which is related to the world in which we live today.

Last week in our hearings in Washington, Jose de Cubas recommended the elimination of the U.S. Government actions such as the Gonzalez amendment and the Hickenlooper amendment on expropriation. He argued, I guess, that such things as the Hickenlooper and Gonzalez amendments really only complicate issues and that they don't really help anything.

Do you gentlemen think that U.S. Government sanctions of that type are a deterrent to hasty nationalization of the U.S. property, or specifically maybe should the congressional amendments requiring the Executive to withhold aid, and now more recently trade advantages be repealed?

Mr. Glade.

Mr. GLADE. I personally would favor the repeal of both of these. I think that strictly on a cost-benefit basis there is hardly any justification for them. Their deterrent effect in a situation where a country is going to nationalize is very slight. They tend to complicate the issues and to throw into jeopardy the remaining investments which at the time are unnationalized in those countries. Whatever benefit they might bring is little when compared with the very great costs that they must involve.

Chairman LONG. Mr. Wells.

Mr. WELLS. I agree that these policies are no major or significant deterrent to nationalizations or expropriations in Latin America. I must say, I make that statement based on having worked with one developing country on the nationalization of a U.S. company. And in that case, the actions of the U.S. Government were very insignificant.

I think such nationalizations are usually not made in haste. In fact, they are usually fairly well thought out, in that they occur when the country has made a fairly careful calculation to see if it can actually run the enterprise.

Now, sometimes the country is wrong in its calculation, and there are some times when it takes it 2 or 3 years to learn, but usually it is a pretty careful calculation that determines if it can operate the enterprise without the U.S. investor. Now there are exceptions, and in the Cuba case this is clearly an exception, but it is also perfectly clear that the Hickenlooper type amendment would do little to save U.S. enterprise in Cuba.

Mr. LONG. Mr. Arellano.

Mr. ARELLANO. I am not sure that I can answer that question. I think there is a psychological value there. It forces people to think twice.

The United States has been a paper tiger, and has not moved with these amendments, but I am not sure that the bureaucrat that isn't thinking about it, that again, tucked way back in the back of his mind, he says, "Hey, they might the next time." So, I would like to leave that question alone. I really don't know the answer to that.

Chairman LONG. One of the recurrent themes in all of our discussions yesterday, was that American business was losing out in Latin America to our major trading partners, Japan, and some of other industrialized countries.

Are the European and Japanese companies, in your experience, more successful than American companies are, and is this true because they are more able to cope with the bureaucratic delays and the bureaucratic restrictions that are imposed, or is there some other reason for this? Why don't we start at the other end, Richard?

Mr. ARELLANO. Well, I think that the one example that Congressman Fascell gave us yesterday of Costa Rica is a good example. Central America, when I first began traveling down there, was a Chevrolet area, Chevrolet and Ford. Central America today is all kinds of things, names I have never heard of down there, or seen. The Japanese dominate that market. They dominate it because they have done a very good job of marketing. They have tailored the product in many cases to the area, or had a product that fits the area.

We just neglected them. We decided that they would buy American, and drive these big cruisers of ours, or they wouldn't drive.

And the answer is obvious: They don't drive American cars.

Chairman LONG. Mr. Wells.

Mr. WELLS. I think the latecomer in foreign investment is always in a somewhat different position than the early investor. First of all, the latecomer has to offer more attractive terms to even get in at all. Often he comes with a less well known name, with a technology, without the reputation of the original U.S investors. To come into such a situation he has has to offer better terms.

Second, the latecomer can offer better terms, because he doesn't have invesments elsewhere that get upset by breaking the pattern. For example, if a U.S firm has investments throughout the developing world, when he is under pressure in one country to share ownership, backing down in that one country means that he may have to back down in a lot of other countries. The latecomer doesn't have that problem because he usually doesn't have the backlog of other invesments.

Now, the latecomer is not always the European or the Japanese firm. Some relatively small U.S. firms have consciously followed such a strategy of coming in without the brand name, without the technology, but offering a little better deal than the first firms were willing to offer, not having to worry about what will happen to their other arrangements. There is a tire company, for example, that has done very well in Latin America by coming in and offering terms that had been terms that the major tire companies were unwilling to offer. So, it is not just the Japanese and the Europeans. It has been the smaller late coming U.S. firms that have followed this same kind of strategy, which I think is very sensible on the part of the U.S. firms and the foreign firms.

Second, I think it is an important point to note that often European firms and Japanese firms—not very often, but sometimes—have products almost suitable to a lower income market. Automobiles that are cheaper to operate, appliances that are simpler, less automated, fit into smaller spaces, may be more appropriate to a smaller country's market. This is an advantage that either European firms or Japanese firms or sometimes the European subsidiaries of American firms have. It may be a European subsidiary of an American automobile firm that can offer the kind of product that is needed.

Chairman LONG Mr. Glade.

Mr. GLADE. I believe that there are a few other aspects that tend to give the foreign firms advantages. They are less conspicuous on the scene; therefore they are less likely targets for political hostility, problems of labor agitation, and things of that sort. They very often tend to be in less critical fields, less strategic fields, and often are not in primary commodities exploitation or utilities, both of which are always prime targets for difficulty.

Then, too, they have sometimes been more flexible in their approach than some American firms, but I wouldn't want to generalize on either side here. I think, for example, of the recent instance in Bolivia, which country has been assigned quite a number of petrochemical industries under the provisions of the Andean Pact. In the nature of the case, petrochemical industries in Bolivia must be set up and operated in conjunction with the Bolivian State Petroleum Enterprise. There is some evidence that a number of U.S. petrochemical companies have been manifestly reluctant to become involved in joint ventures in these fields with the Bolivians, although they, the Bolivians, have opportunities to become associated with western European and even eastern European firms in this area. So, the greater willingness of other nationalities to associate themselves in joint ventures with state enterprises may be a certain advantage on occasion.

On the other hand, I don't think that we should exaggerate the success that other foreign firms have had in Latin America. They, too, have run into difficulties, as have ours. And on occasion, they have become objects for local criticism on a variety of counts. This is even true, I might add, of some foreign firms which originate in Latin America. The Mexicans, for instance, have invested in Central America, only to discover that they have become known as the colossus of the North for the Central American economies, attracting some of the animus the smaller countries have for the larger, more densely populated countries.

Chairman LONG. Congressman Fascell.

Representative FASCELL. Thank you, Mr. Chairman.

Gentlemen, is it a myth that the gringo is a marked man in Latin America for investment? No matter what? In other words, every Latino says, "Here comes another gringo. We will get him." I am talking about the business community and the Government.

Mr. ARELLANO. I think that is a myth.

Representative FASCELL. You think that is a myth?

Mr. ARELLANO. Absolutely.

I don't think you can make a generalization like that. Mr. Congressman, I think that is a leading question.

Representative FASCELL. I have in mind a case of a man who got kocked out of business He has tried for 25 years to get paid for his business, and you know, the Government says, "sue me." So he sues them in the local court, and never gets anything, and every other businessman says. "Why go to that country?"

Mr. ARELLANO. Every businessman that goes down, cuts his own deal. If he doesn't, it is because he is lazy, mentally or otherwise.

I want to comment about the point Mr. Glade made, if I might, which I think is a very substantive one.

Mr. Glade has been working for many years on this question of parastate intervention, and I think that we have overlooked the importance of this for some reasons that are unclear, but not amenable to analysis.

Mexico has led pretty well the example of the use of state enterprises. There are some very real reasons why Mexico is doing this. You know, the PRI would have a hard time staying in power without the patronage that is generated by these state enterprises. They are putting an awful lot of bright aggressive young people to work in them.

And we look at these enterprises, and Mr. Glade says, "Hey, we can do business with them." Yes, that is true. We can do business with them as long as they want us to, on the terms that they want us to.

But I would like to call your attention to, for example, the eventual expropriation and nationalization of the electrical industry in Mexico. It was done in a very skillful fashion. All they did was withhold rate increases for the Canadians and the gringos that owned these, and they withheld them long enough that when they finally went to them and said, we will buy you out, these people were literally kissing both ends. I mean they were so happy to get out of Mexico.

So, I don't think that we should lose sight of the fact that they are state enterprises—yes, we can do business with them, but we dance their tune eventually. And we had better keep that in the backs of our minds.

Representative FASCELL. Isn't that true in doing business in any country?

Mr. ARELLANO. Well, I think there is a better commonalty of interest in my world view among private sector types. In other words, I can sit down——

Representative FASCELL. You don't think that it is dog eat dog?

Mr. ARELLANO. No, I think we can scratch each others various backs in a little different fashion. I want to feed my wife and my family and myself, if possible, and I think that other private businessmen want to do the same thing, too, so I think we come to an accommodation.

But it is a little more difficult to accommodate——

Representative FASCELL. Right.

Mr. ARELLANO. Morganthau was very correct in his definition of the state. The state is that agency that has a monopoly on violence. The private sector doesn't have a monopoly on violence.

Representative FASCELL. Let me just ask one final question. What legislation, and what administrative action, and what policy should the U.S. Government take, particularly with reference to U.S. business investments in Central America, the Caribbean and Latin America besides repealing the Hickenlooper, the Gonzalez and Harkin amendment? Should the U.S. policy today, for example, be to encourage U.S. private investment in Latin America? I would like all of the panel to reflect on those.

Mr. Wells.

Mr. WELLS. Let me work it slightly differently.

I don't think it makes much difference whether we repeal the Hickenlooper amendment if we continue to ignore it. I think it would be much easier to continue to ignore it.

Also, let me reword the stance of what I think the policy ought to be. I think it should not be to discourage U.S. investment in Latin America, which is different from encouraging it. I think the important thing is not to discourage it. And there are proposals now that really would discourage U.S. investment in Latin America.

Representative FASCELL. Do you mean like Burke-Hartke?

Mr. WELLS. That is an extreme case; yes.

But those proposals to deal with tax deferrals and tax credits, for example. I would like to see the U.S. Government not take such steps.

Now, I reworded it intentionally, because there is a danger in saying "encouraging," because that can be determined to encourage Latin American governments to accept foreign investments. And from time to time we have had such things, which I think should not be done. I think this is done where we try to be more liberal in a sense. That was the reason I wanted to make that distinction.

Representative FASCELL. That is a very good distinction.

Mr. WELLS. One thing that I think is worth remembering is, I believe the date was 1901, a book that was published in Britain entitled "The American Invaders."

That book accused the Americans of dominating the forefront of technology in every British industry that was technically advanced, with the exception of the automobile. It was simply written a few years too early. And after that, the United States dominated the automobile industry.

The largest company is, I think, at the forefront of the sensitive industries. And for this reason, its investments are going to be looked at as posing this dilemma, that I mentioned earlier, in a very strong form. The political costs of accepting it are very high. The economic costs of not accepting it are very high. That is a very difficult situation, also.

I think it is too easy to conclude that without the Hickenlooper amendment the U.S. investor is at the mercy of the foreign governments. The answer is, "No." If he is badly needed and the calculation has been a rational one in Latin America by the government, he will be allowed to do business, to continue to exist.

Secondly, there is a thin shield to combat with; and that is, the governments are hesitant to expropriate and nationalize too many foreign businesses for fear of cutting off other investments they might need. So, there is some protection there.

Chairman LONG. Mr. Glade, do you want to reply to Congressman Fascell's question?

Mr. GLADE. In general, I would agree with very much of what Mr. Wells has said. The important thing here, perhaps, is for the U.S. Government, as such, to insure that there be adequate information available to private investors, to encourage the development and dissemination of information on investment policy and opportunities in Latin America, but I really think it all stops about there. We say we believe in private enterprise. Well here is a very good case where I think we ought to let private enterprise work things out on its own, cognizant of both risks and opportunities.

If business people see that there are opportunities, under the existing risks, for legitimate investment, then they should go ahead. But

I think that it would certainly be a mistake to do things to artificially stimulate the flow of private capital to Latin America. This is sure to compound the problems we have there over the long run.

Representative FASCELL. So, we should follow Senator Culver's suggestion, and abolish OPIC, or at least not expand it? After all, why give a guarantee to an American business going into Latin American country? If the country wants it and needs it, they don't need that guarantee.

So, why don't they go on their own? Why does the U.S. Government have to back an investment financially?

How about it, Mr. Arellano?

Mr. ARELLANO. Well, again, I think we come back to essentially a psychologically based question there. I rode from Guatemala City to El Salvador, next to a man that had OPIC coverage. And he was just delighted to have it. He may not think he needs it in El Salvador. He really doesn't. But he was sure happy he had it. And he spoke very highly of it.

I do feel that we should take positive steps in encouraging the U.S. entrepreneurial——

Representative FASCELL. Excuse me.

Did you say we should?

Mr. ARELLANO. Yes; in Latin America, for the very simple reason—and I don't want to appear as an ideologue here—I do think that Mr. Glade has put his finger on some trends over time in terms of public participation in the economy that are very real, and that we have got a deep stake in maintaining our concept of an enterprise system in Latin America.

One of the ways that you can do this is by having entrepreneurs, private entrepreneurs. Because you can have, and we do have, a lot of very successful public entrepreneurs.

Chairman LONG. I think that Mr. Glade would like to make a comment.

Mr. GLADE. Well, I would differentiate between other types of intervention and OPIC intervention to try to encourage and stimulate investment to go to Latin America. I think the general principle should probably be that we ought to let investment go if it seems reasonable for it to go, both to the receiving country and to the individual decisionmakers in the private sectors, and that we should not make a special case to promote it.

However, I think OPIC could be treated simply as an insurance mechanism, as indeed it basically is a pooling of risks. And if it is self-financing, this is not really a contravention of the market method.

Representative FASCELL. I know, but should it be expanded? That is the point. That is the discussion that is going on in Washington now.

Chairman LONG. Mr. Casas-Gonzalez, as I said a number of times, we have been most pleased with your contribution. We haven't availed ourselves of your experience and knowledge very much this morning, but if you have any comments you would like to make, we would be pleased to hear it.

STATEMENT OF ANTONIO CASAS-GONZALEZ, PRESIDENT, CENTRO DE ALMACENES GONGELADOS, C.A., CARACAS, VENEZUELA

Mr. CASAS-GONZALEZ. Yes, Mr. Chairman. Thank you very much.

First of all, I am very happy to have accepted your invitation to stay over today because this has been an extremely stimulating group of presentations, and I didn't expect it to be anything less than that, because of the people that are here today. All of them have very good practical and academic knowledge.

I think that each one of them has touched certain points that, to me, are a very positive sign. In other words, I have been able to prove today, by listening to them, that there are, people here in the United States, at least in the academic field, that are thinking in the right direction, that understand the problems that foreign investment presents at the moment, and that are very much aware of the dynamic process, in other words, the changes which are going on in Latin America.

One of my first comments would be on something Representative Fascell said. He was wondering whether there was really a certain attitude toward the American investor as such in Latin America.

I would say that there is. There is a special attitude. In other words, the American investor is not just a foreign investor. I would say that in most of Latin America, perhaps with some exceptions in some of the Caribbean countries and the northern part of South America, and Central America, there is an attitude which is a little different toward the American and toward the other foreign investors. And there are several reasons for it.

I would say that the attitude of the public sector in these countries is a little bit of a worry. They are concerned, and have a little bit of suspicion toward the American investor. Why? Because he was the first investor to come down, as Professor Wells said. And not only the first investor, but he came down on very particular aspects, such as Central America, United Fruit, Venezuela, Standard Oil, and so forth and so on—the type of really big operation, where you had control not only of the industry, but you started to control the community. All of a sudden, you put up roads, schools, movie houses, clubs, or golf courses. It was a completely different thing.

And that had an effect, and not a business effect, alone. It had a social effect also on the community. Now in some cases, these experiences were very positive; in other cases, they were not.

And many of the traditions that were set up then, you can still find in some U.S. companies in Venezuela. I know of a very major U.S. company—and I am not going to mention the name, but I know it from a friend of mine that worked there—that up to about 2 years ago had one key that was given to the U.S. executives for a bathroom to go to, and the Venezuelan executives in the company did not have that key. Now things of this type are really worrisome, but they exist still, as they did before.

Also, when these companies came in, we had the old type of dictatorship. And there were established ties between the dictator and the foreign company. Everybody knew that the dictator was being bought out by the foreign company. Or they established relationships with the aristocracy, as I said before yesterday.

Today, the people that are leading the countries, if they are dictators, are different types of dictators. Most of these technicans and advisers to these people are the new generation—as I called it in my statement—the uncommitted generation, with a tremendous sense of social obligation toward their country, and responsibility toward their people.

So, this has established for the public sector a certain attitude which I don't think is expressed in any particular type of legislation which says, "No, the United States has a different treatment." But it does have an expression in the sort of a personal side of some people, and also on some congresses, and some of the parliaments.

In the private sector, on the other hand, I think the attitude is completely contrary to what Representative Fascell's worry was about. I think that the Latin American private sector in general, with some exceptions perhaps in the more southern countries, prefers to go into joint investment with U.S. countries, rather than with the Japanese, or with Europeans, or with anybody else. They feel that the Americans are much easier to get along with. They feel that there are more common attitudes between the American investor and the Latin American investor than there are, for example, between the Japanese investor or the European investor and the Latin American investor.

I have heard many an entrepreneur in my own country say that there is a big difference dealing with other investors.

There is, of course, the geographic proximity, the fact that you can solve communication problems, come up to New York or Miami or to wherever, in a few hours, and there are no telephone problems at all, no transport problems. I mean all these conveniencies are incentives for Latin American investors to go into joint ventures.

Now what is happening? What is happening, to a certain extent, is that the American investor has also changed attitudes. He has become much more susceptible than many of the other investors. And he is not going after the business, as Mr. Arellano mentioned, I think.

You see it in these mixed enterprises, state and private sector enterprises that Bill Glade mentioned in his statement. It is very common there.

Why are the French or the Japanese or the Germans getting so much into this type of thing, and why are the Americans being left out? I really don't know the reason.

There seems to be an attitude of the American side. The way of thinking in the United States is, "I don't like to deal with a government." It is not the Latin American government. He wouldn't do it here in the United States Government either, or with the state government, because it's an attitude.

The Italian investor, or the German investor, or even the British investor is used to doing this, because in their own country they have these state enterprises, and they have had them for many years. So this could be, of course, a reason.

Then, another thing is the understanding and attitude toward certain types of measures that have been taken in Latin America. Four years ago when I was on the board of directors of the Andean Development Corp., I was assigned by the board, together with another colleague from Peru, to go around the world, and to introduce the corporation to the governments of capital-exporting of countries. And everywhere we went, and we went to about 14 or 15 different countries, everybody wanted to know about decision 24. That was the big thing. But it was very curious to see what the average attitudes were. They were completely different from one country to another.

In Germany, for example, we met with several private groups, and their attitude was always, "Tell us what we have to do to adopt to Decision 24."

In other countries, it was, "When are you going to change decision 24?" or "We won't get into this thing, if you don't change it."

And in other countries it was. "We just don't understand decision 24. We don't think we can invest this way."

Now, these were completely different attitudes. The most positive of all of those I talked with—not including the socialist countries that we visited—the most positive was the German attitude. They said, "How do we work it out? Give us some practical ways of adopting ourselves to this decision 24."

I think here in the United States, there has been a lot of criticism of decision 24, and that is it. But there hasn't really been an effort to understand it.

Decision 24 is not that bad. And it is going to change anyway, because there is an attitude in the Andean countries to change it. They have come to realize that it is not profitable in many aspects.

I think an understanding on the part of the United States in this time of change would be a very good sign. But in general, I do feel that in an investment, it's not so much a matter of the Government. I think that in that sense, Representative Fascell's worries are correct. I mean, how much can Congress and Government do to encourage investment? I really don't see so much. I think it is more than anything a matter of attitude, more than anything of the U.S. Government.

In other words, one of the things that we also are worried about in Latin America is that we never know when the company is talking as a company.

And the Government itself. you know, as I mentioned in my statement, when we would say, "Listen, we are getting very bad prices for our oil." They said, "Well, we are a free enterprise country." You have to deal with the oil companies. Talk to them about it. But as soon as the prices went up, now the U.S. Government can sit down with us and talk about it. You see? So you never really have a very clear—to know one way or the other.

So, I do feel that this type of thing, for example, is worrisome, but it is not a matter of policy so much. It is a matter at attitude.

Chairman LONG. Thank you, Mr. Casas-Gonzalez. You have, as you did yesterday, given a good overview of this situation, and we are again very grateful to you, as we are of you gentlemen for coming and being with us today.

I would like to, if I may, as we explore the record here for gaps in it and particularly in view of the fact that you didn't read your prepared statements in full, be afforded the opportunity to direct some written questions to all of you here in the next couple of weeks. And if you do have the opportunity to give responses to those, I would be most appreciative.

This concludes our round of hearings here in New Orleans. I think I can say, in summary, at least as far as I am concerned, that it has been a very rewarding visit. We have obtained a great deal of information that will be useful to the subcommittee.

Finally, a word of thanks to our host. The city of New Orleans has, in its own inimitable way, been most gracious, and the people at the International Trade Mart have been themselves extremely gracious, not only from a standpoint of the use of their very beautiful facilities here, but in the assistance of their very expert staff.

The subcommittee stands recessed.

[Whereupon, at 2 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, August 12, 1976.]

[The following letter was subsequently supplied for the record by Chairman Long:]

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 22, 1976.

Hon. GILLIS W. LONG,
Chairman, Subcommittee on Inter-American Economic Relationships, Joint Economic Committee, Congress of the United States

DEAR MR. CHAIRMAN: Your letter of July 19, 1976, asked us to address the issues set forth below relating to current operations and potential benefits of expanding Foreign Trade Zone Number 2. New Orleans, Louisiana. (See enclosure I for background information on this Trade Zone). Your expressed need for an early response did not allow sufficient time for a detailed examination of these issues. Therefore, we gathered and analyzed the data below through consulting with the Executive Secretary of the Foreign Trade Zones Board and interviewing officials of the Board of Commissioners of the Port of New Orleans; the Chamber of Commerce of New Orleans; U.S. Customs Service Headquarters and its New Orleans District; and selected users of the New Orleans zone.

Before addressing the issues, it may be helpful to observe that foreign merchandise can enter a foreign trade zone without the usual formal customs entry procedures and duty payments unless and until it is shipped from the zone for domestic consumption. Then the imported has the choice of paying duties either on the original foreign materials or on the finished product. Domestic merchandise that is moved into the zone is considered exported for the purpose of customs and internal revenue laws and regulation. Additionally, merchandise entering the zone can be sold, exhibited, broke up, repacked, assembled, stored, sorted, graded, cleaned, mixed with other foreign or domestic merchandise, and otherwise manipulated or manufactured.

USE OF NEW ORLEANS ZONE COMPARED WITH OTHER ZONES

We compared the use of the New Orleans zone with the other trade zones for fiscal years 1970–75 by number of businesses served, permanent users, full and part-time employees and by tonnage and value of merchandise received and shipped. The New Orleans zone generally ranked first or second in use as shown in the following table.

RELATIVE RANKING OF OPERATING FOREIGN TRADE ZONES, FISCAL YEARS 1970–75

Foreign-trade zone number and location	Relative ranking by fiscal year—					
	1970	1971	1972	1973	1974	1975
1—New York	1	2	2	6	5	7
2—New Orleans	1	1	1	2	2	2
3—San Francisco	5	5	4	5	4	5
5—Seattle	6	6	6	7	7	8
7—Mayaguez, P.R.	2	3	5	4	6	6
8—Toledo, Ohio	3	3	3	3	3	3
9—Honolulu	4	4	1	1	1	1
10—Bay City, Mich			[1] 7	9	11	10
12—McAllen, Tex				[1] 8	8	8
15—Kansas City, Mo					[1] 9	4
17—Kansas City, Kans					[1] 10	9

[1] 1st year of operation.

Note: See enclosure II for operating data of the New Orleans zone and method of computation of relative rankings.

USE OF NEW ORLEANS ZONE COMPARED WITH ITS POTENTIAL

The grantee for the New Orleans zone reports that, on an average, 87 percent of the space in the zone has been used to produce income. The grantee considers this acceptable because it provides both income to defray operational costs and ability to respond to short-term demand of users. The value of merchandise handled increased each year during fiscal years 1970–76, and the 1976 value was 210 percent higher than the 1970 value. In assessing this increase, two points must be borne in mind. In this time period, the U.S. wholesale price index increased 164 percent and the dollar was significantly realigned with leading foreign currencies. Thus a portion of the increase in value handled by the New Orleans zone was more apparent than real.

During the same 1970–76 period, merchandise, tonnage, number of firms served, types of commodities handled, and full-time employees decreased. These decreases, however, generally indicate changes in the type and mix of merchandise entering the zone rather than reduced zone use. For example, the value of imports entering the zone increased by about $4 million from fiscal years 1975 to 1976 although total import tonnage decreased by about 3,500 tons. High-value, lightweight items like television sets and radios accounted for most of this increased value.

CONSIDERATIONS IN EXPANDING NEW ORLEANS ZONE

Each expansion of the New Orleans zone since its creation has resulted from an application by a business that saw economic advantage in using the trade zone concept. Identification of such opportunities is probably the primary consideration in deciding whether to expand the use of the trade zone concept in New Orleans. However, our discussions with zone users and others familiar with the zone concept disclosed no apparent unexploited applications of the concept.

Although areas surrounding the primary zone are fully developed, new special-purpose zones could be created, additional noncontiguous general-purpose zones established, or the existing zone relocated should the need arise.

One special-purpose subzone was created at a shipyard and foreign steel was entered and used to produce barges. The steel was dutiable, but the completed barges were not. Therefore, the user of this special-purpose subzone avoided duty payments on the steel. The basis for the Foreign Trade Zone Board's approval of this special facility was that under zone procedures the firm was able to be competitive on such products which might otherwise have gone to an offshore facility.

A second subzone was created earlier at an existing petrochemical facility. However, because of a change in regulations for oil import quotas, the zone has never begun operation.

The grantee of the New Orleans zone has a pending application for two more special-purpose zones to permit the processing of imported beef outside the existing restraint or quota program. The application shows that an estimated 34 million pounds of beef would be processed annualy. This approval is opposed by the cattle industry and the Agriculture Department, and as a result a favorable decision is in considerable doubt.

In order to identify additional potential demand for the zone concept, in late 1974 promotional brochures explaining general economic advantages of zone use were mailed to approximately 5,000 domestic and 500 European prospective users. Some requests for additional information resulted, but no new zone business activity has been directly attributable to the campaign.

POTENTIAL ECONOMIC BENEFITS TO NEW ORLEANS FROM AN EXPANDED NEW ORLEANS ZONE

Beyond observing that any area will benefit from increased business activity in its midst, it is difficult to be specific on the potential benefits to New Orleans from expanded zone activity. Because our work identified no apparent unexploited uses of the zone concept, no specific determination of potential benefit was attempted. Such an analysis could be performed only on a case-by-case, product-by-product basis.

It is to be noted, however, that goods enter U.S. markets through foreign trade zones because of general economic advantages and not solely because of zone procedures. An expanded zone can encourage the processing of imported goods in the zone rather than in some other country prior to entry into the domestic market. Expansion of the zone can also permit export processing, which is especially beneficial if high-duty foreign components are needed to manufacture an article for export. If the processing is done in the zone, domestic labor, facilities, materials, and components can be used.

We trust this information will be of value in conjunction with your hearings.

Sincerely yours,

R. F. KELLER,
Acting Comptroller General of the United States.

Enclosures.

ENCLOSURE I

BACKGROUND ON FOREIGN TRADE ZONE NO. 2, NEW ORLEANS, LA.

The Board of Commissioners of the Port of New Orleans, an agency of the State of Louisiana, has operated and maintained Foreign Trade Zone Number 2 since 1946. This zone is a general-purpose facility operated as a public utility under a grant of authority from the Foreign Trade Zones Board, the Federal agency charged with administering the provisions of the Foreign Trade Zones Act, as amended (19 U.S.C. 81a–81u).

The New Orleans zone is located on an 18.6-acre enclosed tract of land adjacent to the Napoleon Avenue Wharf on the east bank of the Mississippi River. It has over 655,000 square feet of space (approximately half of it covered) available for light manufacturing, manipulation, storage, and exhibitions. It contains paved and unpaved open areas and warehouse, fumigation, and lumber drying and stacking facilities. For the most part, the zone is suited for and employed as a warehouse and storage complex, with limited facilities for light manipulation or production.

The Board of Commissioners of the Port of New Orleans, as grantee, is responsible for paying zone operational costs, including reimbursement to the U.S. Customs Service for the salaries and related costs of five Customs officers assigned to provide customs security supervision over the zone. No Federal funds are appropriated for operating the New Orleans or other foreign trade zones.

Income to defray operating expenses comes from storage and handling fees and space and facilities rentals. During fiscal year 1976, the zone's gross operating income was $257,910 and gross operating expense was $328,593, including $83,526 reimbursement to the U.S. Customs Service.

The zone's principal tenant is a major retail firm, which uses zone facilities for warehousing, inspecting, repairing, and assembling imported products prior to distribution to the domestic or Latin American market. Another firm imports case in which is cleaned, graded, mixed, ground, and bagged at the zone before being imported into the domestic market. Other firms use zone facilities for such tasks as cutting foreign galvanized chain into various lengths, manufacturing wire rope into bridles, and weighing, sampling and marking imported wiskey and wine.

The Foreign Trade Zones Act, as amended, also permits the creation of additional zone facilities at more advantageous locations than the existing zones. Such special-purpose zones require approval of the Foreign Trade Zones Board.

ENCLOSURE II

OPERATING DATA OF THE NEW ORLEANS TRADE ZONE, FISCAL YEARS 1970-76

	Businesses served		Employment			Number of—		Total commodities handled	
	Total	Continuous basis	Full-time	Part-time	Total	Commodities handled	Countries of origin	Value	Short tons
Fiscal year:									
1970	135	14	132	43	175	99	52	$56,092,230	98,172
1971	152	12	128	22	150	80	58	70,139,680	77,398
1972	164	12	130	28	158	91	48	80,330,429	74,101
1973	144	13	108	33	141	81	50	91,649,210	72,122
1974	123	13	106	40	146	69	46	97,312,286	69,177
1975	118	16	97	44	141	64	51	101,876,254	55,997
1976	115	15	94	43	137	48	49	118,024,975	49,378

RELATIVE RANKING OF THE NEW ORLEANS TRADE ZONE IN RELATION TO ALL TRADE ZONES

	Relative ranking by fiscal year—					
	1970	1971	1972	1973	1974	1975
Number of businesses served	2	2	2	1	3	3
Number of permanent users	4	5	5	4	5	4
Number of employees:						
Full time	2	2	2	3	3	3
Part time	1	1	1	1	2	3
Number of short tons:						
Received	2	3	2	3	3	3
Shipped	2	2	4	3	3	3
Value of merchandise:						
Received	2	1	1	1	2	2
Shipped	2	1	2	2	2	2

Note: Each zone was ranked numerically for each of the 8 usage indicators. Rankings were then totaled for each zone and used as the basis for ranking the zones. Zone with lowest total was given first place (the highest rank) with the other zones alined by their relative totals. This table presents the New Orleans ranking in relationship to all other zones.

U.S. ECONOMIC RELATIONS WITH LATIN AMERICA

THURSDAY, AUGUST 12, 1976

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

The subcommittee met, pursuant to recess, at 10 a.m., in room S-407, the Capitol, Hon. Gillis W. Long (chairman of the subcommittee) presiding.

Present: Representative Long.

Also present: L. Douglas Lee, John R. Karlik, Courtenay M. Slater, Lucy A. Falcone, Lou Krauthoff, and Katie McArthur, professional staff members; Michael J. Runde, administrative assistant; and Charles H. Bradford, minority professional staff member.

OPENING STATEMENT OF CHAIRMAN LONG

Chairman LONG. The meeting of the Subcommittee on Inter-American Economic Relationships will come to order. This is part of a series of meetings that started in June, examining the United States-Latin American economic relationships.

At the time we started, it was my hope and it remains so that the subcommittee can help in the forging of a new and better relationship between the United States and Latin America, hoping that it can be one that will recognize the need of the Latins, and the responsibility as far as the United States is concerned and the rest of the industrialized world, and the mutual rights and obligations of all the parties to it. It was my feeling in starting this that we needed, in view of the changing economic circumstances in the world, to look at this because it has not been looked at, particularly by the Congress, in any depth in a number of years.

Today, we are considering one aspect of it, which is the international commodity issues as they affect Latin America in particular.

This is a particularly timely topic in view of the integrated commodities program proposed by the developing nations at the May meeting of UNCTAD in Nairobi. Under the scheme that was discussed at that time, a common fund would be used to finance the accumulation of buffer stocks of some 10 different commodities. The buffer stocks would help stabilize the market prices of the commodities, and avoid large fluctuations in the export earnings of the countries that are producing them.

The U.S. reaction of Nairobi to the scheme can, on the whole, be described as negative. Our present policy seems to be that we are willing to consider only individual commodity agreements, and only on a case-by-case basis.

One objective of these hearings today is to learn a bit more about how commodity agreements would affect Latin America and our relationship to Latin America, and to the extent that we can, what might be Latin American views on these commodity issues. For example, do they favor an integrated approach, and are there any modifications in the UNCTAD proposal that the Latin American countries might favor.

Congress, on the other hand, has a number of policy questions that we are going to have to consider in the next few months, or certainly in the next few years. First, should Congress appropriate funds as the U.S. contribution to a common fund that will be used to purchase buffer stocks of the various commodities; or, alternatively, should Congress follow the lead of the executive branch's current policy and consider approving only individual commodity agreements, and then on a case-by-case basis?

Second, is the International Monetary Fund's compensatory financing facility a complement to, or is it really a substitute for, commodity agreements? Although the resources that are available under this facility were increased early this year, is additional funding desirable?

Third, in considering ratification of the individual commodity agreements, whether they are part of an integrated scheme or the outcome of case-by-case negotiations, what features should the Congress look for as being particularly desirable? Should the target price for a particular commodity be an approximation of the long-term trend, or should the price be set, as some people have suggested, above the present price trend in order to increase the amount of the resources that will be available to developing countries? How wide should the gap be between the upper and lower limits within which a buffer stock seeks to stablize the market for any particular given commodity? How frequently, and according to what procedures should the limits and target price be changed, and how often should it be reexamined?

Under the integrated scheme, the developing countries are requesting improved access to the markets of industrial nations for raw materials, and for semiprocessed materials. If the United States is willing to consider granting improved access—if they are—on what terms should it do so, and should it insist then upon a degree of reciprocity? For example, in return for improved access to our markets, should we ask for guarantees that supplies of those particular raw materials that we are in need of, will not be interrupted?

Fifth, should commodity agreements be concluded for those products such as lumber and grains that are exported primarily by industrialized countries? Should foreign access to U.S. farm products be linked with assured U.S. access to supplies of vital raw materials that are available only in these other countries?

To help us consider these questions and issues today we will hear from three eminently qualified witnesses. Bart S. Fisher, a Washington attorney, who is particularly familiar with the negotiations of commodity agreements for coffee and cocoa; Mr. Isaiah Frank, a professor of economics for the Johns Hopkins School of Advanced International Studies, and who formerly served as the Deputy Assistant Secretary of State for Economic Affairs, and a member of the UNCTAD Advisory Committee on Commodities; and Mr. Larry

Sjaastad, professor of economics with the University of Chicago, and teaches a course in the economic problems of Latin America.

Gentlemen, we welcome all of you. Why don't we go from left to right, and why don't you start, Mr. Fisher.

STATEMENT OF BART S. FISHER, ATTORNEY, LAW FIRM OF PATTON, BOGGS & BLOW, AND ADJUNCT PROFESSORIAL LECTURER IN INTERNATIONAL RELATIONS, GEORGETOWN UNIVERSITY SCHOOL OF FOREIGN SERVICE, WASHINGTON, D.C.

Mr. FISHER. Thank you.

My name is Bart Fisher, and I am an attorney with the law firm of Patton, Boggs, and Blow in Washington, D.C. and adjunct professorial lecturer in International Relations at the Georgetown University School of Foreign Service.

First I want to commend your subcommittee for holding these hearings on U.S. policies toward international arrangements for commodities, and I appreciate the opportunity to participate here.

It is particularly appropriate, I might add, for your subcommittee to consider these questions in view of the crucial role primary products play in the economic development of Latin America.

I must admit you have a broad agenda for us this morning, and I don't know where to begin; but I would like to focus on one aspect of commodities policy that vitally affects Latin American commodity markets, and that is the proposal of the UNCTAD secretariat that a common fund be established for the financing of international buffer stocks.

The common fund, as you stated, is part of a larger series of proposals put forward by the UNCTAD secretariat for an "integrated program in commodities." [1] The integrated program really has five aspects:

(*a*) Buffer stocks for a number of different commodities;

(*b*) This common fund, which I am going to discuss some more later;

(*c*) Improved systems of compensatory financing;

(*d*) Greater use of governmental purchase and supply agreements; and finally,

(*e*) Encouragement of greater processing of raw materials in producing countries, including liberalization of market access.

The status of this issue is as follows: Pursuant to a resolution passed at the last UNCTAD meeting, known as UNCTAD IV, a common fund will be negotiated in a formal negotiating conference held no later than March 1977. In the interim, there will be preparatory meetings on the fund, and UNCTAD member countries are invited to submit their proposals on the fund to the Secretary-General by September 1976. So, obviously this is a very timely issue for us to be discussing.

The United States has agreed to participate in the preparatory meetings on a common fund, and has stated that its willingness to participate in a negotiating conference will depend on the results of the earlier preparatory meetings.[2] So, to comment on your earlier remarks

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[1] See report of the UNCTAD secretariat, "Action on Commodities, Including Decisions on an Integrated Program, in the Light of the Need for Change in the World Commodity Economy." TD/184, Mar. 4, 1976.

[2] See the press statement of Deputy Secretary of State Charles Robinson, May 31, 1976.

that the U.S. posture appears negative, it is what I would call a qualified "negative".

Accordingly, it is important to focus immediately on the details of the common fund concept. So, my testimony is first going to look at the common fund proposal and its rationale, and will then consider the 10 key issues that have to be resolved in the common fund negotiations. And finally I will discuss the policies the United States should pursue vis-a-vis, the fund.

Now, the common fund proposal is the centerpiece of the "integrated program". The fund's primary function would be to lend financial resources to individual commodity organizations which operate in international buffer stocks.[1] The commodity agreement organizations would trade the individual commodities, and would own and dispose of the "physical" international stocks. As I understand it, you would still have a coffee agreement, a cocoa agreement, they would own the stocks, but you also in addition would have common funds which would give them money. The common fund would lend to the individual commodity organizations to buy stocks, and would be repaid as the organizations acquire funds from the disposal of stocks.

The cost of establishing the common fund is estimated at a maximum amount of $6 billion for the 10 "core" commodities for which buffer stocks are envisioned within the near future—coffee, cocoa, tea, sugar, cotton, rubber, jute, sisal, cooper, and tin.[2]

Now, the $6 billion would be established in two separate $3 billion tranches. The first tranche would consist of an aggregate capital fund of $3 billion. Of this total, $1 billion would be provided as paid-up risk capital and $2 billion as loans. The second tranche would consist of an additional $3 billion commitment to be on call, again, if needed—again with $1 billion in the form of paid-up capital and $2 billion as loans. So, the major portion of the capital for the common fund would be loans carrying interest charges, and the proposed operation is regarded by the UNCTAD secretariat as self-financing.[3]

The source of the capital for the common fund is unclear at this stage. Possible suppliers of capital have been mentioned by the UNCTAD secretariat and include importers or exporters of the commodities to be covered by the integrated program, and, possibly, certain petroleum exporters.

I think there are four separate but interrelated rationales for the fund.

First, the common fund is viewed by its proponents as a catalyst for the negotiation of additional buffer stock commodity agreements. The availability of a ready source of finance, it is argued, would reduce the current reliance on the producers of commodities as the sources of financing for buffer stocks. This reliance is a major constraint on the establishment of buffer stocks right now, as frequently the producers of the commodity involved do not have adequate resources to invest in a stocking arrangement.

Second, it is argued that by acting as a central source of finance for all the various commodity organizations, the common fund would

[1] The UNCTAD common fund concept is elaborated in the following UNCTAD documents: TD/184, Mar. 4, 1976; TD/B/C.1/193, Oct. 28, 1975; and TD/B/C.1/184, June 24, 1975.

[2] See app. A for a description of the proposed commodity coverage of the integrated program, p. 284.

[3] See app. B for a description of the estimated finance aneeded for the buffer stocking of the 10 "core" commodities, p. 284.

be able to obtain better terms of borrowing on capital markets than would the individual commodity organizations as it could pool and reduce its risks and its bargaining strength would be greater, initially. Theoretically, also, a system of common financing would require a smaller amount of liquid funds than a series of individual buffer stocks.

Third, it is argued that the establishment of a common fund would permit affected parties to act in the best overall interest of the world commodity markets. It is at least arguable that when you set up a lot of different commodity organizations, the overall view tends to become diffused, and disappear, whereas the argument for the fund is that if you have one overall organization you can get better coordination of actions.

Finally, the common fund is perceived by the developing countries as a mechanism that will permit them—at long last, in their view—to have a larger voice in the establishment of commodity policies.

Now, what position should the United States take toward the common fund? I believe that the United States should view the fund as a constructive approach to some of the current commodity problems of the developing countries, and negotiate in good faith to make the fund a workable mechanism. Whether or not the fund will be a worthwhile mechanism will depend on the resolution of the following 10 key issues:

The first question is that of the usage of the funds in the common fund. While the primary function of the common fund is to lend to international buffer stocks of individual commodity agreement organizations, the resources of the fund should be available for other important functions such as promotion of consumption and diversification. For example, a buffer stock is simply not feasible for a fruit as perishable as bananas. Nevertheless, a common fund could play a useful role in providing funds for promotion of consumption and diversification. Broadening of the fund, then, would make it more responsive to the real problems of many commodities, and should be accepted by the United States.

The second issue is coverage. Coverage of the fund should be limited to the commodities that are primarily of interest to the developing countries. The resources of the fund should not be made available when primary beneficiaries are the developed countries, even if the result is to help certain developing countries. While the "core' list of the 10 commodities noted earlier is a relatively clean list—except for cotton and copper—the question of including developed country beneficiaries would be a serious one with certain other products mentioned by UNCTAD as candidates for assistance from the common fund. This would include bauxite, iron ore, manganese, phosphates, and vegetable oils. Now, for the latter group of commodities you could have single-country measures on an ad hoc basis to provide assistance, when needed, to developing countries.

The third issue is that of relationship to existing agreements. Now, there are buffer stock agreements already in place for cocoa and for tin. With respect to finances, I would suggest that the new capital raised for the common fund should not be considered as a substitute for the funds presently being raised by the cocoa and tin buffer stocks. The primary burden for individual commodity agreement financing should be borne by the producers of the commodity involved. The common fund, on the other hand should be a project that is jointly financed by all interested parties, and should be viewed as financing that is supplementary to existing buffer stock funds.

The fourth question is that of national stocks. For products such as coffee and sugar, which are crucial to Latin America, the crucial need may be for financing to carry national stocks. In coffee, for example, Brazil and Colombia have traditionally carried extensive national stocks. In Brazil the coffee market has carried what is known as the "umbrella" over the world coffee market through its vast holdings of stocks. It seems to me the common fund should possess the flexibility to lend for national stocking purposes, as well as the authority to provide funds for international buffer stocking operations.

The fifth issue is the amounts of funds that will be needed. This is a subject of great controversy. One example will suffice to point out the complexity of the problem. The UNCTAD secretariat estimates that $1.1 billion would be needed for commitments and possible near-term disbursements for a copper buffer stock. This amount appears to be small, given the large amounts of copper that would be required for an effective stock. Other estimates for a copper buffer stock run between $3 and $5 billion. The United States should have a better idea than it does now, despite the voluminous UNCTAD studies, of funds needed across-the-board; this relates, in a broader sense, to the price objectives of the individual agreements.

This goes to the sixth point. The price objectives of the common fund is justified by the UNCTAD secretariat as needed to reduce price fluctuations in export markets, and improve the price levels of primary products. Now, this is obviously an ambiguity, and this ambiguity of pricing objectives could raise serious problems.[1] The correction of price fluctuations, I believe, is inherently desirable for producing and consuming countries; wholesale price-raising, on the other hand, primarily serves the interests of the producing countries. A cardinal principle of the negotiations, then, should be that the common fund's resources should be used to stabilize commodity prices around a long-term trend, and not to raise them.

The seventh question is that of the sources of finance; that is, who is going to put up the money for this idea. In buffer stock arrangements to date the producers have been the suppliers of funds; the developed countries have acted as the "honest cop" enforcing the export quotas of commodity agreements. The common fund would alter fundamentally the role of consumer countries by having them supply a portion of the capital for the fund. Now, in my opinion, the United States should be willing to bear a share of the financial burden of the common fund if we can get oil exporters to participate in the joint financing effort. The sharply increased price of fuel is a primary contributing source of the 1975 nonoil developing countries' deficit of $35 billion; the financing of the common fund should obviously reflect these financial facts of life.

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[1] On this point, see Frank, "Toward a New Framework for International Commodity Policy," Finance and Development, June 1976, at pp. 37, 38.

Eight, the voting question is also important. If the United States were to join the common fund, an adequate voting arrangement reflecting its share of commodity import trade and capital commitments would have to be established. The United States should guard against the one-country, one-vote rule of the GATT or other formulas giving disproportionate voting rights to exporter countries. The Congress is going to have to worry about this issue when the fund comes up as a concrete idea.

The ninth question is that of organization. An ad hoc UNCTAD intergovernmental committee has been established to coordinate the implementation of the measure under the "integrated program." The United States will have to consider whether the permanent establishment of a common fund under UNCTAD can serve its interests. My strong preference would be to place the common fund under the IBRD or IMF, rather than UNCTAD, which has become highly politicized. In any case, a new international economic organization should not be established to implement the common fund. The proliferation of international economic organizations has become a major impediment to rational economic policymaking in our time, and there is no point in adding to the problem.

The last but not least important consideration is the question of the timing of the implementation of the common fund. Rather than create a huge pool of money waiting to be used, it would make more sense to await the conclusion of several more major buffer stock arrangements before implementing the common fund. This should not be an insuperable problem, as negotiations on buffer stock arrangements for copper, rubber, jute, and sisal are likely before the end of 1976.

In summary, Mr. Chairman, I am recommending that the United States actively attempt to shape the UNCTAD integrated commodites program into a workable set of mechanisms to deal with the commodities problems that currently plague the developing countries of our hemisphere and other continents. I sense within the executive branch, however, a reluctance to discuss the details of the common fund and a propensity to simply have the United States stand aside from the project. This reluctance appears to be based on the complexity of the integrated program, the challenge it represents to our free market principles, and the fear that the Congress might reject the results of such negotiations.

On the other hand, I might also add, the developing countries have tended to make acceptance of the common fund an article of faith. It is important, I think, for producers and consumers to set ideology aside and negotiate in a practical manner on the many complexities in the common fund concept. I believe that we are equal to this challenge. I would like to submit appendixes A and B as a part of my testimony. Thank you, sir.

Chairman LONG. The material you referred to will be made a part of the record. Thank you very much, Mr. Fisher. I had an opportunity to read your statement last night and found it most interesting. I have a couple of questions that we will come back to later.

[The material referred to follows:]

APPENDIX A

PROPOSED COMMODITY COVERAGE OF THE INTEGRATED PROGRAMME

	Exports from developing countries						
	Rates of growth, 1953–72 (Percent per annum)			Indices of fluctuations, 1953–72 [1] (Percent)			Value in 1972 (billions of dollars)
	Market prices	Value	Deflated value [2]	Market prices	Value	Deflated value [2]	
"Core" commodities:							
Coffee	−1.6	1.0	−0.4	17.0	11.1	9.2	3.0
Cocoa	−1.3	1.7	.2	23.0	13.4	12.6	.7
Tea	−1.9	0	−1.5	6.2	3.5	6.0	.6
Sugar	.2	3.8	2.2	33.4	9.2	7.5	2.2
Cotton	−.7	1.1	−.4	8.2	9.1	7.9	1.8
Rubber	−3.2	−1.7	−3.1	13.2	14.7	14.4	.9
Jute	1.9	.7	−.8	11.9	12.2	14.1	[3] .7
Sisal	−1.2	−.3	−1.8	18.0	26.3	28.6	.1
Copper	4.0	7.8	6.2	21.5	17.1	17.5	2.4
Tin	4.0	5.2	3.6	7.9	18.8	18.4	.6
Other commodities:							
Wheat		−2.8	−4.2	4.7	28.6	31.1	.2
Rice	.5	.3	−1.2	11.3	12.9	14.8	.2
Bananas	−.9	3.9	2.4	4.3	7.7	7.2	.4
Beef and veal	6.9	12.0	10.3	20.8	15.4	15.1	[4] 1.6
Wool	−2.2	−3.6	−5.0	11.4	10.2	12.5	.5
Bauxite	2.6	8.1	6.5	4.7	8.8	10.8	[5] .0
Iron ore	−2.4	9.3	7.7	8.3	10.8	12.3	1.4
Total							17.3

[1] The fluctuation index is the average over the period of differences between annual observations and calculated trend values (irrespective of sign) expressed as percentages of the trend value.
[2] Export value deflated by U.N. unit value index for world exports of manufactured goods.
[3] Including jute manufactures.
[4] Including cattle.
[5] "Prices" are export unit values; value in 1972 includes alumina.

Sources: UNCTAD, Monthly Commodity Price Bulletin; FAO, Trade Yearbook; national statistics, cited in UNCTAD document TD/184, Mar. 4, 1976, at p. 8.

APPENDIX B

Estimated finance needed for stock acquisition: "Core" commodities

	Billions
A. Commitments and possible near-term disbursements:	
Coffee	1.10
Copper	1.10
Rubber	0.21
Tea	.09
Tin [1]	.27
Total	2.77
B. Commitments only:	
Sugar	1.20
Cotton	0.60
Cocoa [1]	.33
Jute and manufactures	.16
Hard fibres	2.35
Total	.06
Grand total commitments	5.12

[1] A part of these funds has already been paid by the producers under the existing commodity arrangements.

Source: Annex III (TD/B/C.1/184/Add. 1), cited in UNCTAD document TD/B/C.1/184, June 24, 1975, at p. 7.

Chairman LONG. Professor Frank, it is a pleasure to have you here. Please proceed as you wish.

STATEMENT OF ISAIAH FRANK, PROFESSOR OF INTERNATIONAL ECONOMICS, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY

Mr. FRANK. Mr. Chairman, I am delighted to be here, and I welcome this opportunity to present my views on international commodity policy to this subcommittee.

For the record, I will like to submit an article I wrote on this subject for the current issue of Finance and Development, a quarterly publication of the World Bank and the International Monetary Fund.

Chairman LONG. We will make that a part of the record now.

Mr. FRANK. Thank you, sir.

[The article referred to follows:]

[From Finance and Development, 1977]

TOWARD A NEW FRAMEWORK FOR INTERNATIONAL COMMODITY POLICY

(By Isaiah Frank)[1 2]

Inspired by the dazzling success of the Organization of Petroleum Exporting Countries (OPEC) in redistributing world income and wealth, the less developed countries have called for a new international economic order to be achieved through comprehensive negotiations on a wide variety of matters affecting their growth prospects. As expressed in many resolutions and declarations in the past couple of years, the developing countries want to bargain collectively with the rich countries for new rules and arrangements in trade, development assistance, the monetary system, the operations of transnational enterprises, and the conditions for the international transfer of technology.

Spokesmen for the Third World concede that over the long term successful development depends ultimately on *domestic* policies, including the capacity of countries to mobilize their own resources. Nonetheless, the prime focus of attention in international bodies has been not on the internal prerequisites for development but on the external environment. The tendency to look outward has been strengthened in the recent past by seriously adverse trends in the world economy. The developing countries have been assaulted simultaneously by rising prices for their imports, not only of fuel but also of manufactured products, by world markets that have sharply contracted in volume as the industrial countries go through the longest and deepest depression of the postwar period, and, more recently, by falling prices for their exports of raw materials. The combined balance of payments deficit on goods and services of the non-oil developing countries in 1975 has been estimated at the unprecedented sum of $35 billion.

Of all the elements included in the new international economic order, the commodity problem has attracted the greatest attention and been the subject of the most comprehensive and detailed preparatory work in international bodies. The United Nations Conference on Trade and Development (UNCTAD), in particular, has prepared an elaborate "integrated" program for commodity agreements including buffer stocks and a common fund for financing them.

THE PROBLEMS

The dependence of developing countries on exports of primary products, while diminishing, is still large. Excluding the major oil exporters, the export of primary products still accounts for about 50 per cent of their total export earnings.

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[1] Dr. Isaiah Frank is a citizen of the United States, has been a consultant to the World Bank since 1964. Professor Frank holds a Ph. D. in economics from Columbia University and since 1963 has been the William L. Clayton Professor of International Economics at the Johns Hopkins University School of Advanced International Studies. Professor Frank has held various senior economic posts in the U.S. Department of State, including that of Deputy Assistant Secretary for Economic Affairs. Among his many special assignments, he served as Executive Director of the President's Commission on International Trade and Investment Policy in 1970–71, and since 1970 has been a member of the UNCTAD Advisory Committee on Commodities.

[2] In this article the author outlines what he considers are the principal problems involved in commodity trade from the perspective of developing countries, and presents solutions.

But the proportion of exports of primary products is falling rapidly for developing countries with per capita incomes over $200, reflecting the rapid growth of their exports of manufactured products.

From the perspective of the developing countries, the commodity problem (excluding petroleum) has traditionally been viewed as consisting of two aspects: the short-term instability of markets for primary products as reflected in wide year-to-year fluctuations in prices and export earnings; and the adverse longer-term trends in commodity markets as reflected in deteriorating terms of trade and sluggish growth in export earnings.

More recently, however, a new set of interrelated issues has emerged. In the aftermath of the commodity shortages associated with the boom of 1972–73 and the oil embargo combined with the quadrupling of oil prices in 1973–74, importing countries have become increasingly concerned with the long-run adequacy of supplies of primary materials and with the uncertainties of their access to such supplies. At the same time, some developing countries saw the possibility of capitalizing on this concern through the establishment of producer associations designed not only to raise the prices of individual commodities but also to exert collective bargaining power vis-a-vis, the industrial countries for broader objectives in the world economic arena. With the collapse of the commodity boom and more sober projections of the medium-term outlook for commodity markets, the practicability of the latter objective has become questionable.

With respect to the more traditional issues of short-term instability and adverse long-term trends, a good deal of confusion results from a failure to differentiate between the two. In part, the confusion arises from a casual link between the two problems and in part from the identity of the prescriptive measures for dealing with them. Long-term demand for a primary product may be adversely affected by short-term price instability when purchasers have the option of switching to a more stable synthetic substitute. Long-run supply may also be adversely affected by instability to the extent that, for example, it discourages farmers from moving from subsistence cultivation to cash crops. On the prescriptive side, international commodity agreements have often been proposed to deal with both the short-term and long-term problems—as a means of stabilizing prices and improving the long-term trend. Despite these links, it is necessary to separate the two problems in terms of both analysis and policy.

LONG-TERM TRENDS

Of the two problems, the adverse long-term trends in commodity markets is the more fundamental. In a major study of this subject in 1970–71, the World Bank found a strong correlation between rates of growth in GNP in developing countries and the growth of their export earnings, but only a weak relationship between GNP growth and export stability. Put another way, instability of export receipts can be a critical problem when superimposed on an unfavorable trend in export earnings, but it is a much less serious disability where the overall export trend is sharply upward.

Sluggish long-term growth in primary commodity exports is often accompanied by a decline in the price of such exports relative to the price of other commodities. It is the alleged *general tendency* toward such adverse movement in the terms of trade of primary commodities that underlies much of the drive in the Third World for a new international economic order that would correct the "inequities" of the present system.

The classical view of the terms of trade is rather different. This view, which was shared by Keynes, held that relative price trends would move in *favor* of raw materials and *against* manufacturing, on the grounds that the former were characterized by diminishing returns and the latter by increasing returns to scale. Underlying this prognosis was the belief that manufacturing technology would eventually be diffused rather evenly throughout the world, whereas the geographical distribution of natural resources is inherently unbalanced. Thus, continuing economic development would tend to turn the terms of trade in favor of the owners of scarce gifts of nature. A new lease on life was given to this classical view with the release of the Club of Rome of its first report in 1972 which called attention to the imminent danger of resource shortages as constraints on growth.

Nevertheless, it is the doctrine of declining terms of trade for the producers of primary materials that holds sway in most of the developing world. The existence of such an inexorable tendency was popularized in the 1950s and

1960s by Raul Prebisch against a background of a decade of sliding raw material prices following the Korean War boom. In summary, Prebisch's reasons were as follows: the elasticity of demand for most primary materials, with respect to both income and price, low; most raw materials are produced in worldwide competitive markets (tending to drive prices down as outputs increases) whereas the manufactured products imported by developing countries are produced in oligopolistic markets (where output is controlled and prices maintained); because workers in the advanced countries are organized, productivity gains in manufacturing take the form of higher incomes rather than lower prices, whereas the gains from technical progress in primary material production are passed on by the developing countries to the rich countries in the form of lower prices.

According to this view, the rich countries have it both ways: they are the principal beneficiaries of economic progress abroad through lower import prices, and at home through higher incomes. At the same time the inequitable system trapped the developing countries in their poverty. Hence the case is overwhelming for some sort of offsetting arrangement, whether through producer cartels or through broader international "indexing" arrangements, for raising the prices of primary products over the long run.

PRICE RAISING

However appealing, this line of argument fails to take account of the wide divergencies in market structures and earning trends for individual commodities. All primary commodities do not show sluggish trends in export earnings. In the period 1960–62 to 1970–72 commodity export earnings from developing countries increased at an annual rate of only 4.3 per cent. But exports of six commodities—copper, sugar, iron ore, timber, beef, and bananas—accounting for almost 40 percent of their total export earnings, grew at a rate of 7.8 per cent. Similarly, the prices of primary commodities show highly divergent trends over the same period. Because of the pressure of substitutes, agricultural raw material prices declined substantially in terms of the prices of exports of manufactures from developed countries. But in those terms the prices of food (other than beverages) and metals more than held their own.

The commodity problem is widely presented as a confrontation between rich and poor countries. Yet the source of most exports of raw materials (other than oil) is not the developing countries but rather the resource-rich developed countries including the United States, Canada, Australia, South Africa, and increasingly the Soviet Union. In 1970–72 the developing countries accounted for only 47 percent of world exports of primary products other than oil. Whatever validity there is, therefore, to the doctrine of declining relative prices for primary products, it cannot be regarded as automatically descriptive of the terms of trade between rich and poor countries.

To the extent that individual commodities principally exported by developing countries show unfavorable long-term price and earnings trends, should not an international effort be made to alter the trend by setting their prices at higher levels than would otherwise prevail? Theoretically, this might be done through producer cartels (such as OPEC), or through commodity agreements in which producers and consumers participate. In the latter case, consuming countries would presumably cooperate as a means of transferring resources to the developing countries through trade as a supplement to the traditional government-to-government aid-giving process.

Both the possibility and desirability of such arrangements are open to serious question. Although importing countries have shown an increasing willingness to cooperate in commodity arrangements designed to stabilize prices, there is no evidence of any comparable willingness to join in schemes to raise prices above the long-term market trend. While the possibility of joint action by producers alone to raise prices by controlling the volume of exports cannot be ruled out, the scope for such action appears to be quite limited despite the dramatic success of OPEC. For most other commodities the possibility of joint control over the volume of exports is much less, and the availability of substitutes over the short and long term much greater. The prospects of concerted action also depends on such other factors as the relative income needs of the producers and the extent to which they share common economic and political goals. Most past attempts at producer cartels have either failed or been extremely short-lived.

As to the desirability of transfers of resources to developing countries through price-setting schemes, some lessons can be gleaned from the OPEC experience.

True, no other commodity is a close analogue of oil either in the size of potential price increases or the impact on importing countries. But the OPEC experience does point up how blunt a resource-transfer instrument such schemes can be. The distribution of benefits is unlikely to conform to a rational system of aid allocation; and the distribution of costs is unlikely to correspond to a fair sharing of the burden. In the case of oil, some already very rich countries became richer while most of the very poor countries have suffered severely from higher oil import bills. Broad-scale attempts to raise primary commodity prices over the long run would likewise prove inequitable. For example, it is most unlikely that the South Asian subcontinent, comprising a population greater than that of Africa and Latin America combined, would derive any net benefit thereby.

One form in which price-raising proposals have been put forward is "indexation"—that is, tying the price of primary products to some measure of world prices of manufactured goods. Indexation cannot be brought about by decree, however. It could only be accomplished through the negotiation of concerted action by producers, either alone or in cooperation with consumers, to control the volume of exports of the commodities in question. It is therefore subject to the practical as well as the equity limitations of such schemes that have already been noted. In economic terms, moreover, indexation is highly objectionable as a long-run policy. The dynamics of growth require that relative prices change over time as demand shifts, as conditions of supply change, and as productivity increases at different rates in different sectors. By making price relationships rigid, indexation would lead to a misallocation of scarce resources including those of the developing countries themselves.

Diversification

The more fundamental answer for those developing countries facing adverse long-run market prospects for their primary commodity exports (e.g., tea, bananas, jute, hard fibers) must lie in other directions. They require financial, technical, and other forms of assistance to diversify their economies into lines of production with more favorable market prospects, including manufacturing and service industries. In the last analysis, diversification is but another way of looking at development. It implies a process of restructuring output in order to increase a country's returns on its land, labor, and capital. As with development generally, the constraints are numerous, and it is the task of external finance to help developing countries overcome them.

Among the diversification options that should be considered is the domestic processing of their own raw materials, where such activity can be economically carried out. A larger part of the final price would then accrue to the producing country. Increased processing and fabricating at home would also contribute to higher employment and export earnings.

But the scope for successful diversification along these lines depends very heavily on changes in the trade policy of the industrial countries. At present, primary materials are generally imported by them free of restriction whereas successive stages of processed products tend to be subject to increasing levies. The result of this tariff escalation is that the effective protection of processing activity in the industrial countries is a good deal higher than indicated by the nominal duties. The liberalization of developing countries' access to the markets for processed products in the developed countries should be a high priority of the present multilateral trade negotiations.

In order to increase their earnings from exports of primary products, developing countries need assistance not only to diversify out of commodities in long-term surplus but also to increase the production of those with more favorable long-run prospects. Despite the depressed state of the world mineral market today, rising future demand combined with the depletion of existing mines means that major new mining projects need to be undertaken.

Where the new supplies will be produced in years to come will be determined by investment decisions made today. But the massive capital requirements for the production of minerals in the developing countries are unlikely to be met from the customary sources of funds. Host governments are less ready today to enter into concession agreements on tradtiional terms, and most foreign investors are less ready to risk their capital under conditions of great uncertainty regarding host government policies. During the period 1970–73 about 75 percent of the world's mineral exploration expenditures (outside the centrally planned economies) appear to have been made in the United States, Canada, Australia, and South Africa despite attractive geological possibilities in the developing world.

If the low-income countries are to take full advantage of opportunities in expanding markets for minerals, new sources of finance and new types of co-financing arrangements will have to be developed in which the international financial institutions play a much larger role than in the past.

STABILIZATION

Unlike commodity arrangements designed to transfer resources to exporting countries by altering their long-run terms of trade, arrangements to moderate the short-run fluctuations in commodity export earnings command a wide degree of international support. The main reason is that stabilization is perceived by both exporters and importers as being in their mutual interest, whereas changing the terms of trade is viewed as benefitting the one at the expense of the other.

Fluctuations in export prices and earnings adversely affect the ability of developing countries to plan and carry out rational investment programs through their impact on domestic incomes, savings, tax revenues, and, above all, their capacity to import. At the same time serious problems are created for the industrial countries in the form of shortages of basic materials and inflationary pressures. Sharply fluctuating food and raw materials prices have a ratchet effect on their wage rates and manufactured product prices which respond to an upward movement in basic commodity prices without a corresponding correction when the boom collapses. These inflationary consequences reverberate onto the developing countries through the higher prices they must pay for imports of manufactured goods.

Instability in commodity prices and earnings is due mainly to variations in weather and business cycles which have a sharp impact on price-inelastic markets. Agricultural commodities are most vulnerable to changes in supply due to natural causes such as weather and pests, while minerals are more vulnerable to changes in demand due to business fluctuations in the industrial countries. Where changes in supply predominate, the prices and volume of exports tend to move in opposite directions, thereby moderating the fluctuations in earnings; where changes in demand predominate, prices and volume tend to move in the same direction, intensifying the swings in earnings.

Two basic approaches have been followed in dealing with the instability of primary commodity markets—price stabilization agreements and compensatory financing arrangements. These two types of arrangements are the international counterparts of the more familiar domestic agricultural stabilization programs through the devices of price supports, on the one hand, and deficiency payments, on the other.

International commodity agreements have sought to stabilize prices within a prescribed range through export quotas (for example on coffee) or through a combination of export quotas and buffer stocks (such as tin). In the past, three main problems have inhibited the successful negotiation of commodity agreements: the difficulties of reaching agreement between exporters and importers on an appropriate price range; differences among exporters as to the proper basis for sharing export quotas; and the provision of the necessary finance for stock acquisition.

THE UNCTAD PROGRAM

A highly imaginative and carefully prepared "integrated program" for commodity stabilization has recently been put forward by the Secretariat of UNCTAD. Its central feature is the establishment of a system of international buffer stocks for the main export commodities of developing countries and a common fund for financing the stocks. The "core" commodities that would be included are coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibers, copper, and tin.

Although UNCTAD recognizes that separate agreements would have to be negotiated for each commodity, it sees two advantages to financing stock acquisitions through a common fund. First, the size of the common fund would be smaller than the sum of separate funds for each commodity because of the different pattern and timing of fluctuations in the various commodity markets. And second, as risks would be pooled, the safety of lenders would be greater and borrowing costs correspondingly smaller. The UNCTAD Secretariat has estimated the total size of the required fund at about $6 billion, half of it to be made available currently in the form of capital and loans and the other half to be on call when needed. Contributions to the fund would come in varying proportions from exporting countries, importing and OPEC countries, multilateral financing agencies, and borrowing in the private capital markets.

The UNCTAD program recognizes that commodity arrangements based on buffer stocks as the primary stabilizing mechanism must make provision for frequent re-examination of price ranges in the light of the level of purchase and of sales by the stock. Moreover, if prices remain depressed and large stocks are accumulated, export quotas may be necessary. It should be recognized, however, that whereas the combination of stocking and quotas can in principle effectively defend an agreed floor price, the situation is asymmetrical with respect to the ceiling. Once quotas have been lifted and stocks have been exhausted, there is no way of defending the ceiling. The difficulty of reaching agreement on price changes and quota shares has proved historically to be the Achilles' heel of commodity agreements. It is to be hoped, therefore, that some objective standards or automatic formulas can be agreed to which would minimize the need for extended negotiations on these matters.

Although the UNCTAD program has been criticized as overambitious, it lays out a set of constructive ideas and a pattern of arrangements that can be initially pursued on a more limited basis. The major obstacle in practice is likely to be not the problem of financing the buffer stock fund, on which so much attention has been devoted by UNCTAD, but rather the ambiguity of the pricing principles for commodity agreements that the program sets forth. While reduction in fluctuations is given as the primary goal, the difficult-to-define and correspondingly controversial objective of "equitable" and "remunerative" prices over the long run is also included. Any effort to achieve both of these goals through a single instrument is bound to complicate the negotiations enormously.

Regardless of the degree of success achieved in negotiating individual commodity price stabilization agreements, a need will exist for more general arrangements to stabilize export earnings. For some commodities (such as bananas) buffer stocks are simply not practical. More stable prices, moreover, will not always mean more stable earnings as, for example, when a drought has reduced the supply of an export crop. Nor is it likely that a comprehensive series of price stabilization agreements can be quickly concluded or that all commodities of export interest to developing countries will be covered.

On the other hand, it would be a mistake to view even the recently liberalized IMF compensatory financing arrangement as a full substitute for price stabilization agreements. The distinctive contribution of the latter is their moderation of the distortions in resource allocation that result from uneconomic price signals during boom-and-bust commodity cycle. Nor is compensatory financing directly responsive to the importing countries' interest in avoiding the inflationary shock to their economies of shortages and soaring prices for primary products. Earnings stabilization, therefore, should be regarded as a valuable complement rather than as an alternative to individual commodity price stabilization agreements.

One final point bears emphasis. The export markets for the primary products of the developing world are overwhelmingly in the developed countries. As the experience of the last several years dramatically demonstrates, sharp cyclical fluctuations in the industrial countries have even more profoundly destablizing effects on the exports of primary producers. The business cycle may never be completely conquered by the industrial countries, but more effective measures to tame it would make a major contribution to stability in the Third World.

Mr. Frank. First and foremost, I believe it is essential to place the problem in perspective. Despite the prominence, indeed the central role, accorded international commodity policy at the recent UNCTAD conference in Nairobi. I believe the subject would hardly rate top priority if one were to rank the basic development problems of the Third World in order of importance. Whether satisfactory economic growth and social transformation take place in poor countries depends more on what is done at home about such problems as rural development, population growth, and income distribution than on what is done internationally about commodities.

Second, a related point has to do with the role of primary commodities in the total trade of developing countries. If we exclude the major oil exporters—for whom foreign exchange earnings are not a problem—primary products are a steadily diminishing proportion of total exports. They continue to be critically important in the foreign trade of most countries that are both small and poor. But for middle and higher income developing countries comprising the bulk of the population of Latin America, the proportion of exports of primary products is falling rapidly. For Brazil and Mexico, for example, the problem of access to developed country markets for manufactured products overshadows issues of international commodity policy.

Third, the division of the nations of the world into exporters and importers of primary products does not coincide with a categorization into poor and rich countries. India, the largest and one of the poorest of the developing countries in the non-Communist world has a relatively small interest as an exporter of primary commodities, whereas the United States, the largest and one of the richest of the developed countries, has a major export interest in primary products. Except for oil, moreover, the predominance of developing country exporters is limited to tropical food products and a few raw materials. What this implies is that commodity policy cannot be dealt with primarily as a North-South confrontation, and that any new international arrangements must command the support of the industrial as well as the developing countries.

Having made these general points, I would like to say a word about policy. I believe, as my good friend Bart Fisher does, that the United States should support new arrangements, including buffer stocks, to moderate the wide swings in the prices of primary commodity products. We have had the most dramatic example in recent years of that phenomenon in the recent boom and collapse of the commodity cycle.

The objective of stabilization is one in which there is a clear mutuality of interest between exporters and importers. At the micro level, more stable prices reduce costs of production by inducing more rational investment decisions. At the more general, the macro level, more stable prices may facilitate more effective planning because of more stable export earnings, although the latter, more stable earnings, does not necessarily follow from greater price stability. From the standpoint of importing countries, greater stability in primary product prices would reduce the kind of pressures that played such a large role in our recent experience with double-digit inflation. I think this mutuality of interest is often lost sight of. I notice that even Mr. Fisher refers to the developing countries as the beneficiaries of these arrangements. I view the beneficiaries as both sides, not simply the developing countries.

Chairman LONG. The political note aside, I agree with you completely, Mr. Frank; I think that is going to have to be expressed very vividly and succinctly to the Congress to be able to get it as a salable political item in the United States.

Mr. FRANK. Exactly, this is not another case of foreign aid. Unfortunately, however, U.S. policy on commodity stabilization appears ambivalent despite the administration's public professions of support for international commodity agreements on a case-by-case basis. An example is the international tin agreement which has been in existence for 20 years, and which the United States finally got around to signing some months ago. I understand hearings have just taken place in the Senate Foreign Relations Committee. But thus far the United States has refused to contribute to the tin buffer stock despite the fact that a

U.S. contribution would enhance the effectiveness of the agreement and could be accomplished by simply transferring 2½ percent of our strategic stockpile of tin to the international buffer stock.

This, it seems to me, is a big mistake, Mr. Chairman because if we did this—at such little cost to ourselves—it would be an indication of our sincere interest in commodity stabilization, in establishing buffer stocks on a case-by-case basis. I entirely agree with Mr. Fisher that the obligation to contribute to buffer stocks ought to fall on both producers and consumers; on both exporters and importers.

Chairman LONG. Mr. Frank, are you saying here that a transfer of only 2½ percent of the tin held in our strategic stockpile at the present time would substantially enhance the effectiveness of the tin agreement?

Mr. FRANK. Yes, sir; that is what I am saying. We have approximately 26 to 30 percent of the importing countries' quota under the fifth tin agreement; on a pro rata basis that would amount to something like 5,000 or 6,000 tons of tin, out of the 20,000 tons total that could be contributed by the importing countries. As the U.S. strategic stockpile amounts to more than 200,000 tons, our potential contribution would be only about 2.5 percent of our stockpile.

Well, this brings me to the question of UNCTAD's proposed common fund for an "integrated" program of commodity price stabilization on which the developing countries, as Mr. Fisher said so accurately, lay so much stress. I believe there is a good case in favor of this proposal as a means of pooling risks and economizing on resources where a number of commodity stabilization agreements involving international buffer stocks have been negotiated.

The developing countries would like to set up the common fund in advance as a means of facilitating the negotiation of individual buffer stock agreements. On the other hand, the United States and certain other industrial countries are loath to do so for a variety of reasons. The most important reason, I believe, is one that is not included in Mr. Fisher's final listing of the reasons for the U.S. reluctance. It is a different one. It is that they are suspicious of UNCTAD's objectives, which include those very ambiguous words "equitable" and "remunerative" prices over the long run. I believe the United States regards UNCTAD's real purpose as not simply to stabilize the prices of individual commodities around a long-run market trend, but to use the common fund to attempt to raise the long-term trend itself as a means of transferring resources to the commodity exporting countries.

Frankly, Mr. Chairman, it is hard for me to conceive of a common fund being set up with the United States as part of it unless there is a clear meeting of the minds as to the purposes of the international commodity arrangements that a common fund would be intended to finance.

Now, this idea that international commodity arrangements should be used as a resource-transfer mechanism has a firm hold on the thinking of much of the developing world. It derives from the thesis that there is an underlying adverse trend in the terms of trade of developing countries: that this results in an economic loss to poor countries; and that the developed countries have a moral responsibility to offset that loss through international arrangements including commodity agreements.

While the industrial countries are far from united in their views, the United States and several other major countries reject this fundamental thesis. They question the facts, pointing to the wide diversity in real price trends among commodities exported by developing countries. For example, while the prices of jute, tea, and rubber have not kept pace with the increase in prices of manufactured imports—that is the developing countries' imports in recent years—such commodities as sugar, phosphate rock, palm oil, and cocoa have done better—some substantially better—than the prices of imports of manufactured products by the developing countries.

The industrial countries also question the exclusive reliance on a concept of the terms of trade that focuses entirely on relative price trends without taking account of quantities exported or changes in productivity in the export sector. And finally, they question the equity of resource transfers through price-raising schemes, citing OPEC as a case where the distribution of neither the costs nor the benefits of the transfers have conformed to reasonable criteria of equity.

A more acceptable, and indeed more fundamental, alternative for developing countries whose commodity exports face adverse or uncertain long-term trends is diversification into sectors with more favorable market prospects. Guatemala is a good example of a country that has pursued such a policy. In 1960 coffee constituted two-thirds of that country's exports. By 1973 the proportion had dropped to one-third. Among the new export lines developed by Guatemala are cotton, meat, sugar, as well as a wide variety of industrial goods for export to the entire Central American Common Market.

This type of restructuring of production is the essence of the development process, and it should be assisted by the industrial countries through financial aid as well as changes in trade policy. Among the most important of such changes in trade policy that I hope would emerge from the current negotiations in Geneva is the lowering of barriers to the importation of primary products in more processed forms. Nominal tariffs on processed products are today far more restrictive than meets the eye once they are expressed as "effective protection" on value added, as they properly should be.

Chairman LONG. Excuse me, professor Frank, what do you mean by that sentence? I don't fully understand that.

Mr. FRANK. Well, let me give you an illustration, Mr. Chairman. Suppose the processing involved transforming green coffee into powdered coffee; and suppose we have a tariff, let's say on powdered coffee of 10 percent on the value of powdered coffee imported. Now, if the cost of processing green coffee into powdered coffee is only about 10 percent of the final price of the powdered coffee, 90 percent being the cost of the green coffee itself, then that 10-percent tariff on the total value is 100 percent of the value added. So, that means that the processing of coffee in the United States can incur a cost in excess of the processing in Brazil of 100 percent.

So, what we say is that the effective protection is 100 percent of the value added, even though the nominal protection on the gross value of the product is only 10 percent. The 10 percent is not the meaningful figure, it is 100 percent, which is the protection to that industry, the processing of coffee.

Chairman LONG. I understand, thank you.

Mr. FRANK. Thus far I commented on two quite separable aspects of the commodity problem—the short-term instability in prices and earnings, and adverse long-term trends in these variables. Despite certain casual links between the two, I believe much of the confusion and frustration surrounding efforts to deal with the commodity problem stems from a failure to separate the two in terms of both analysis and policy; and as between the two, an adverse long-term trend in a country's commodity markets is apt to be much more serious than short-term instability. And the trend problem also requires a more fundamental solution within the framework of a county's general development policy.

I would like to say a final word about the second problem, that of short-term instability in international commodity markets. Two basic approaches have been followed in dealing with this problem; commodity agreements to stabilize prices, and compensatory financing arrangements to offset fluctuations in earnings. These two approaches should not, in my view, be regarded as alternatives, but rather as mutually complementary ways of dealing with instability; for the following reasons:

Price stabilization will not always mean more stable earnings, as for example, when a drought has cut the supply of an export crop. Under those circumstances instability, the rise in prices, partly offsets the fall in supply, so you would not want to stabilize that smaller quantity at a fixed price. Nor can price stabilization agreements be quickly concluded for all commodities of export interest to developing countries.

On the other hand, compensatory financing cannot be a full substitute for price stabilization agreements. The distinctive contribution of price stabilization is its moderation of the distortions in resource allocation resulting from uneconomic price signals during the boom-and-bust commodity cycles. What happens in peaks is that you got enormous investments. Given the gestation periods of many of these commodities—7 years for some tree crops—the result of that increased investment comes to fruition 7 years later when the market might be quite different and you get depressed prices. We have seen that in hog cycles, coffee cycles, cocoa cycles, and so on; the wrong signals are transmitted. So, price stabilization serves a purpose. Nor is compensatory financing directly responsive to the importing countries' interest in avoiding the inflationary shock to their economies of shortages and soaring prices for primary products.

In short, both approaches, price and earning stabilization, have their roles to play. The recent changes in the IMF compensatory financing facility constituted a major step forward in responding to the needs of the developing countries. Some further liberalization of this facility, particularly for the poorest countries, is in order. At the same time I would like to see the United States adopt a more forthcoming approach to the negotiation of price stabilization agreements, including buffer stocks, for individual commodities. As I said before, a good place to begin with is the tin agreement.

Thank you very much, Mr. Chairman.

Chairman LONG. Thank you very much, professor, we appreciate your efforts in preparing your very enlightening statement.

Mr. Sjaastad, would you proceed in your own way? We are happy to have you here, sir.

STATEMENT OF LARRY A. SJAASTAD, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO

Mr. SJAASTAD. Thank you, Mr. Chairman. I teach economics at the University of Chicago, and I spent a good part of the past 15 years at various times running around Latin America; I feel pleased to be here to comment on this.

I think it is not surprising that it has been 40 years since we had the last major consideration of commodity agreements on a global scale. It was back in the 1930's that the University of Oxford was the center of most of that discussion in England. The discussion of commodity agreements always comes along when prices are low. It is curious that there was no discussion of commodity agreements in 1973 and 1974, when prices got historic highs.

The idea, it seems to me, that comes through fairly quickly, and one which I will return to later, is that the driving force behind commodity agreements is not so much to stabilize prices, but to increase them.

Turning for a moment to the particular case of Latin America, I would like to underscore what Professor Frank said, that commodities are of diminishing importance. If we exclude coffee, which has its own agreement—the new agreement became effective on October 1, 1976—and if we exclude petroleum for which we have the most famous of all international commodity agreements in effect—only about 25 percent of Latin American exports consist of commodities. The range of that percentage from country to country, however, is enormous. In the case of Chile it is nearly 80 percent and it is nearly all copper. At the other extreme is a country like Panama. Everyone thinks of Panama as a great exporter of bananas, while these exports of Panama are really becoming relatively unimportant; Panama's main exports now are services and in commodities it is only a relatively small fraction. So, there are tremendous ranges.

Even in Brazil, if we exclude coffee, commodities are not terribly important. In Venezuela, obviously if you exclude petroleum, commodities are unimportant. This is a very good reason for proceeding on a case-by-case basis.

A second reason for proceeding on a case-by-case basis is that the nature of the price fluctuations of commodities is very different. Obviously price fluctuations have to come either from shifts in demand—in this case we are talking about the response of oil demand for commodities to the business cycle in developed countries—or they are going to come from shifts in supply.

The demand shifts strike the nonagricultural commodities most strongly. Consider the case of Chile where because of the collapse of world demand during the Great Depression of 1929–30 export revenues fell 87 percent in 2 years. This is because of a decline in demand, not unwillingness of the Chileans to produce copper.

We originate these changes in demand, and inflict considerable problems and costs on the countries. So, to a certain extent one can argue that on the demand side we are inflicting pain and costs on the exporting countries.

In anyone's list of commodities, however, you will find that agricultural commodities figure very heavily. The demand for agricultural commodities is—the oil business cycle notwithstanding—quite stable; there the shocks come from the production side, from the supply side.

Now, when you have shocks coming from the supply side, you can have a lot of variability in price, but relatively little variability in earnings because price and quantity are moving in opposite directions. When you have a glut the price goes down, the quantity is up; when you have a shortage and you get a frost in Brazil, such as happened a year ago last month, the price immediately goes up and earnings fall very little, they may even rise.

Indeed, if you were to stabilize the price in the case of agricultural commodities, you would be de-stabilizing earnings. So, it is now obvious that price stability, stabilization of the price, is in anyone's interest, certainly it is not going to be interest, obviously in the interest of the exporting countries.

Chairman LONG. You say in your statement that real benefits of such a scheme could accrue to the consumer, not the producer.

Mr. SJAASTAD. Most of the price stabilization schemes that we can imagine involving buffer stocks will involve commodities which have characteristics such that the price stabilization will reduce the average income, and in many cases will increase the variability of those earnings.

Chairman LONG. Do you think that is particularly true with respect to agricultural products. Is that the point you are making?

Mr. SJAASTAD. Yes.

Chairman LONG. Thank you.

Mr. SJAASTAD. Well, I think the real issue, the gut issue in any discussion of commodities is not so much one of whether you stabilize the price or not, whether you stabilize quantities, but at what price. This is what we are talking about, and this is what the UNCTAD proposal is really all about. They talk about equitable prices for consumers; they talk about remunerative prices for producers.

The Iranians, who are currently the main apologists for the pricing policies of OPEC do indeed—and I talked to many of them—feel that $11 a barrel of oil is equitable because if you can get the oil from somebody else cheaper, go get it. So, obviously $11 is equitable from their point of view. Well, it sure as hell is remunerative, too.

Now, the question here is how to define "equitable" and how to define "remunerative." Are remunerative prices sufficiently high to cover the costs of the highest cost producers? Are equitable prices different for countries of different incomes; do we charge higher prices to high-income countries? This opens a Pandora's box.

There are other problems. In many of the cases I would agree with Mr. Frank, we are not talking about a north-south problem; in many of the other cases we are talking about a situation in which the producer tends to be a low-income country or countries in which the consumer countries are the developed countries, the high-income countries. A formal sweeping agreement obviously involves prices—you can no longer talk about prices without talking about income. You are putting yourself in a situation very similar to that of England currently in which wages and incomes are one and the same thing. Wages are politicized, and you create continuous confrontation.

A second problem is that raising prices obviously attracts inefficient producers. Here it is interesting to look at what is happening around the world in the case of oil. The $11 price of oil is creating lots of new producers of oil, and there are many potential sources of oil at that price which have not been explored. Also around the world you have many state oil monopolies which are beginning to develop that $8, $9, $10, $11 oil. In the case of England, for example, the North Sea oil is going to come in at between $9 and $10 a barrel. England is currently one of the strongest supporters of OPEC even though it is an importing country because of the enormous losses she would suffer on the investment made if the price of oil dropped.

The price then, essentially, becomes institutionalized; once raised, it never goes down. There is also the problem of stock management. When the shock comes from the supply side, the stabilization of prices is going to destabilize quotas because prices won't fall when the supply rises because of random factors, such as weather, and, hence, curtails production. There will be no incentive to increase quantities when you have adverse weather so that the amount of the stocks and the variability of the stocks over time is certainly going to be larger than I would guess has been contemplated by UNCTAD.

Let's talk about stabilization. If we are going to raise the price, then we are back facing many of the some problems which for many years confronted the U.S. agricultural program of supply management.

Now, coming to the end here, I see two major fallacies in the entire discussion. The first is that price stability is inherently bad. The first question is, if it is bad, how much should we be willing to pay to reduce it? Obviously, if it is something that is bad, we ought to be able to put a price on it. I have not heard anyone talk about quantification of the benefits of price stabilization.

Second, as I pointed out, from the viewpoint of the export earnings of the commodity-exporting countries, in more cases than not price instability is desirable because of the shocks that come from the supply side, and the price instability tends to stabilize, not destabilize, earnings. When you have a bumper wheat crop the price goes down, earnings don't rise as much as the quantity did; earnings might even slightly fall. When you have a world shortage of wheat, the price rises so that even though the competing exporting countries export less, they get earnings of a similar order of magnitude. So, pricing stability is not inherently bad in all cases.

Chairman LONG. Have you done any study trying to quantify, relate one to the other, the good against the bad? I am using the term loosely in that regard.

Mr. SJAASTAD. No, I have not, but it is not very difficult to do. I am not an expert, it probably has been done. It strikes me as elementary to the entire discussion to attempt to quantify the benefits and costs.

The second fallacy is that agreements on an international scale are necessary to achieve the objective. Any country that wants to stabilize its capacity to import can clearly do so. Any exporting country can carry buffer stocks of foreign assets. When the price of copper is very high, there is nothing to prevent Chile from taxing exports and using the proceeds to buy U.S. Treasury bills, or what have you, to maintain its internal price when the world price is low, and to sell off those assets to finance a more or less stable stream of imports.

There is nothing to prevent any importing country from stabilizing the internal price in order to achieve the benefits of price stability.

Now, it is a curious thing that in country after country people have made these proposals. I and other people made this proposal to the government of Chile more than 10 years ago, they have never thought it worthwhile to do so. It is not clear and convincing that it is not worthwhile to do so, but it certainly raises a question. If the Chileans have not felt it worthwhile to stabilize the price of copper, why should we? Thank you.

Chairman LONG. Thank you very much, Mr. Sjaastad. Without objection, your prepared statement will be included in our hearing record.

[The prepared statement of Mr. Sjaastad follows:]

PREPARED STATEMENT OF LARRY A. SJAASTAD

Commodities figure very heavily into Latin American export trade; during the 1970–74 period 52 percent of the value of total Latin American exports were accounted for by twelve commodities and that percentage is even greater for the portion of those exports destined for the developed countries. The twelve commodities are, in order of importance, crude petroleum, coffee, sugar, copper, beef, cotton, iron ore, soybeans, maize, bananas, cocoa and fishmeal; each of these accounted for at least one percent of total export receipts during the five-year period, 1970–74. As it is assumed that existing arrangements place crude petroleum exports outside the interest of this Subcommittee in the immediate context, what follows will be concerned with the remaining eleven commodities, with special emphasis on coffee, sugar, and copper as those three taken together are substantially more important in terms of value than are the remaining eight combined. It is to be noted, however, that a new International Coffee Agreement is to become effective later this year and hence that commodity is also of limited interest. Other agreements exist for certain commodities—copper, bananas, cocoa, iron ore—but these have been of little significance in the past.

The well-known and distinguishing characteristic of commodities is that their relative prices exhibit much more variation over time than do, say, the prices of manufactured goods or services. The reasons for this price instability differ from commodity to commodity but obviously the price fluctuations arise from either the demand side or from supply (or both). As the supply of mineral products (copper, iron ore, petroleum) has been and can be expected to remain stable, the observed price movements clearly originate in demand shifts associated with fluctuations in world economic activity. On those rare occasions when virtually all of the developed countries simultaneously experience an economic boom, as was the case during 1972–74, commodity prices in general rise very sharply because of demand pressure only a portion of which is relieved by the very small short-run response of supply to the rising prices. World recessions (or depressions) have the opposite effect, but again truly global declines in economic activity such as occurred in 1974 are sufficiently rare that it is not obvious that it is worth while to guard against their effects.

Supply disturbances are generally thought to be the more important source of price fluctuations in the case of agricultural commodities, the production of which cannot be controlled in the same manner as can that of minerals. The production of certain of these commodities, such as coffee, is highly concentrated geographically with the result that a severe frost in Brazil, such as occurred a little over a year ago, can very substantially affect the world price of the commodity in question. Roughly speaking, however, the production of agricultural commodities is more dispersed than is that of mineral and hence supply shocks on a truly global scale are also relatively infrequent. Enough price instabliity does exist, however, to be viewed as a problem in at least some quarters (such as UNCTAD).

The basic issue concerning any commodity market intervention scheme is what is to be stabilized and at what level. Most discussions, at least at the popular level, focus on price stabilization, but implicit in the supporting arguments is the unstated assumption that price stability will also result in stability of export earnings (and hence import costs). This is, of course, sheer nonsense for most agricultural commodities where the main source of instability is in production itself. As any farmer knows, shifts in supply cause price and quantity to move in opposite directions so that the income of those producers responsible for the supply shift is much less affected than is the price itself. As nine of the twelve main commodity exports of Latin America are of agricultural origin, it makes little sense to talk about price stabilization as a means of reducing the instability in the foreign exchange earnings from those sources. Indeed, if a way were found to stabilize those prices, the variability in exports earnings would be increased rather than reduced, as a fall in production would not be matched with an increase in the world price. The real benefits of such a scheme would accrue to the consumers, not the producers.

But one must be extremely naive to believe that the advocates of price stabilization schemes intend that prices be stabilized at average levels (or at a level consistent with production of the average quantity) ; rather, the schemes commonly proposed are replete with plans for export quotas and production limitations. The only purpose that these quotas and limitations can have is to raise the price above the average level it would be otherwise, and the only purpose that such a scheme can really serve is to transfer income from consumer to producer countries. In short, what is usually proposed is really an international cartel in disguise. We have had a great deal of experience with producer cartels, and the most important lesson we have to learn from that experience is that they tend to break down because, as is well known, each cartel member has a clear incentive to cheat on his partners by making "illegal" sales above his assigned quota, requiring a degree of discipline and coercive power not commonly encountered in the private sector short of the Mafia. Government-sanctioned or sponsored producer cartel are another matter, however; witness the success of OPEC and the International Air Transport Association (IATA) in maintaining prices above the competitive level. The power of legally-sanctioned coercion is perhaps why some of the more clever proposals for commodity agreements seek to provide that the (implicit) cartel be not only sanctioned by government but be favored with the full exercise of the law. But even with these powers, government-sponsored cartels do not eliminate the incentive to cheat by three or four-cornered trade. I recall a number of years ago, when the first International Coffee Agreement was in effect, that a Colombian friend of mine claimed to have some data revealing Norway to be a net exporter of coffee! It is for this reason that the most clever of all cartelizers have sought to have the cartel administered and enforced by the importing rather than the exporting countries. Paradoxically, importing countries (particularly the United Kingdom) have on several occasions readily agreed to enforce these schemes despite the fact that they are apparently contrary to the economic interests of their consumers.

The distinction between price-stabilizing and price-elevating schemes is, then, of first-order importance. Any proposal involving quotas or production controls are clearly intended to raise prices, not merely stabilize them. Price-elevation schemes have been and continue to be justified on the grounds that social justice requires a price higher than the free market would bear in view of the impoverished nature of much of the populace of the exporting countries—i.e., that a commodity price support program is really foreign aid to low-income producers. Objections to this form of foreign aid might be reduced if the aid aspect were explicitly recognized as such and the costs incorporated into the existing accounting concepts of foreign assistance.

Nevertheless, problems remain; because "fair" prices to be charged by poor sellers to rich clients usually exceed market-clearing prices, some sort of rationing is required to avoid surplus production. The inability to devise and enforce viable rationing schemes has been the Achilles heel of most commodity market experiments in the past and it can be anticipated with virtual certainty that uncontrolled accumulation of surplus production will be the main difficulty encountered if the current UNCTAD proposal for an integrated commodity policy is adopted.

A further point in this context is that the benefits of commodity price supports are typically not enjoyed by the producers but rather the governments of the exporting countries. In Colombia, for example, the internal price of coffee is stabilized by a variable export duty that rises and falls with the world price and which would presumably prevent producers from realizing the benefits of a price increase. In Argentina the internal price of what rarely exceeds $20 a ton (a fraction of the world price) because all grains must be sold to a government marketing monopoly that sets prices at its own discretion (currently the implicit export tax on Argentine wheat is at the rate of 70 percent). In view of the proliferation of marketing monopolies and export duties on commodities in Latin American countries, it is not unfair to characterize price-elevating commodity agreements as a device that subjects U.S. consumers to indirect taxation by foreign governments. Again, one might view these transfers as foreign aid taking the form of financial support for the budget of the recipient countries, but any connection between this form of foreign aid and the acceleration of economic development in the poor countries is at best obscure.

The current UNCTAD proposal for an integrated commodity program is apparently a combination of price stabilization and price elevation. That proposal calls for prices that are "equitable to consumers and remunerative to producers" as well as a stock management to even out fluctuations in world prices of commodities. "Equitable" and "remunerative" prices cannot be defined in any operational sense; one need not be a cynic to entertain the idea that current prices are somewhat below the "remunerative" level that the framers of the UNCTAD proposal have in mind. (It should be noted in passing that the Iranians, currently the main apologists for OPEC pricing policies, argue that $11.00 a barrel crude oil is a bargain for consumers when compared with the cost of other forms of energy; in any case, that price is certainly remunerative). The use of such language certainly conveys the idea that prices of commodities should not be left to market forces, however, but rather that those prices be determined by normative criteria that so far have not been specified. For example is a remunerative price one which permits reasonable profits for the highest-cost producer? Is an equitable price to be defined relative to the income level of the consumer?

One of the most serious problems associated with the UNCTAD plan lies in the inherent politicization of commodity prices that the proposal entails. Once the principle is accepted that prices of internationally-traded items are properly determined by international bureaucrats, the door is open to continual use of those prices as instruments in the underlying conflict between the rich and the poor nations. As the poor countries are net commodity exporters, every price negotiation will in fact be transformed unto a confrontation between the rich and the poor, with the predictable result that commodity prices be continually biased in the upward direction because of income disparities between the seller and the buyer. Any effort to reduce prices towards an equilibrium level can and will be characterized as another case of the rich exploiting the poor.

A second problem arises from the fact that artificially-high prices attract inefficient producers whose vested interest in the high price becomes converted into political pressure to avoid price reductions. I see this development as the most serious obstacle to any future reduction in the world price of crude petroleum; the longer that price remains at its current level, the greater are the investments in high-cost oil production and hence the more difficult it becomes politically to lower the price. The development of the North Sea oil field, for example, would never have been feasible financially without the oil price rise brought off by OPEC in late 1973; once the North Sea field is developed, of course, an entire new set of forces are created to prevent the price from falling. As more and more high-cost oil fields are brought into production, particularly in countries with state oil monopolies, it will become increasingly difficult for the world price of oil to fall. In the final stages of this process not even OPEC will be able to reduce the price because any effort to do so would trigger tariff protection for the high-cost production. Cartelization on an international scale is virtually certain to produce similar scenarios with respect to other commodities as well.

A third set of problems with the UNCTAD proposal arises from the plans for stock management. "Remunerative" prices will presumably lead to surplus production, the control of which will come only with a lag, much as was the case with the now-infamous price support system enjoyed for so many years by U.S. agriculture. One can envisage ever-growing stocks of commodities the financing of which will come at the expense of the developed countries. As a colleague of mine has put it, "Taken as a whole, the (UNCTAD) action program can without blatant unfairness be described as a demand for a massive investment of funds by the developed countries to underwrite experiments with and promotion of individual commodity-by-commodity agreements, experiments to the pursuit of which UNCTAD Secretariat and its developing-nation clientele are commodity agreements—aside from the difficulty of devising and operating them—are an exceedingly doubtful instrument for promoting economic development."[1] Even without surplus production the UNCTAD program will encounter difficulties owing to the fact that price stabilization will intensify transient surpluses and deficits associated with shocks on the supply side because the price mechanism will no longer

[1] Harry G. Johnson, "Commodities: Less Developed Countries' Demands and Developed Countries' Responses," Mimeographed, May 1976.

be permitted to encourage production when output is low and impede it when it is high. For this reason alone one can predict that the costs of the program have been underestimated by UNCTAD.

There are two major fallacies surrounding most discussions of the new world commodity "problem." The first is that price instability is somehow inherently bad, and the second is that only through international commodity agreements can instability in prices and export earnings be alleviated. In connection with the issue of price instability, it has already been argued that in the case of supply shocks, price movements reduce rather than accentuate instability of export earnings with the implication that price fixing would worsen the situation by not only preventing price variations from at least partially offsetting movements in quantities but also by exacerbating the quantity movements themselves. In addition, it is readily demonstrated that stabilizing prices at their average level will reduce the average earnings of exporters, as the gains they make when prices are high more than offset their losses when prices are below their average level. In the case of agricultural commodities, then, price stabilization schemes will be detrimental to the economic interests of the exports if the price is stabilized so as to clear the market on the average because both the instability and the level of earnings will be worsened. This is perhaps the only way in which the self interest of importing countries would be served by price stabilization, but the benefits so gained would be at the expense of the exporting countries.

It is also untrue that international cooperation is an essential ingredient for attaining the stated objectives of international commodity programs. If a country wishes to stabilize prices received by domestic producers, there is nothing to prevent her from doing so by imposing an export duty when the world price is high and a subsidy when it is low. It is important to note that this is feasible regardless of the source of the instability in the world price. Chile, for example, faces extreme instability of her export earnings because of fluctuations in the world price of copper; the recent price decline cost Chile nearly 8 percent of her national income. But nothing prevents Chile from accumulating foreign interest-bearing assets during high-price periods to be run down when those prices are low; indeed, specific proposals for such a stabilization fund had been made repeatedly to no avail. Such a fund would not only permit elimination of all but the worst price fluctuations (as seen by Chilean copper producers) but also permit a stable capacity to import; nevertheless the Chilean government has never found it to be worthwhile to establish a stabilization fund on a systematic basis. In my view this can be taken as evidence that the benefits of such a fund, as perceived by Chileans, must be quite small because the costs are all but negligible. One can readily generalize the Chilean example to other Latin American countries.

I think that it is no accident that commodity proposals nearly always come from exporting countries when commodity prices are low, and are virtually never put forth with any vigor when those prices are high. I doubt very much that there is any sincere interest on the part of exporters in price stabilization per se; if such an interest existed, they have their own means of bringing it about. Rather, the appeal of commodity management schemes lies in the implicit assumption that the average price will be increased rather than merely stabilized, and it would be naive to anticipate that any of the current proposals will fail to result in a significant rise in commodity prices.

Chairman LONG. Mr. Frank, what is your view on this whole thing of quantifying price stability as against the instability?

Mr. FRANK. Sir, it is very difficult, really, to do. Some efforts have been made to quantify the benefits of stability for the developing countries, taking into account the costs incurred in wrong investment decisions caused by wide fluctuations in prices. They show substantial costs to the developing countries. But those who did these studies—done by an international institution—don't have great faith in the result because of the assumptions and judgments that had to be made. And I certainly think it would be very difficult to quantify the cost of instability to the importing countries. All the studies that I have seen of the recent double-digit inflation in the United States ascribe some portion of that inflation to the external shocks from the high price of oil and other commodities. Now, how do you quantify that? Not just the contribution to inflation, but also the cost of that inflation in terms of social as well as economic problems in the United States. It is a very difficult thing to quantify.

My own feeling is that the benefits of some degree of price stabilization would far outweigh the costs.

Now, the second point that Professor Sjaastad makes is quite true. Individual countries have attempted to stabilize producer earnings through marketing boards. Whatever the world market price, the individual producer would get what are regarded as stable earnings over time. If the prices were high the government "creamed off" the excess through taxes; and when the prices on the world market were low, the government would use those tax revenues to subsidize the producers.

Of course, that implies a degree of discipline, Mr. Chairman, on the part of the authorities in managing the surpluses that is sometimes very difficult to achieve. I remember, for example, that shortly after the price of oil was increased to about $10 or $11, a man whom I happened to know in one of the oil-producing countries who is in charge of investing the excess revenues from oil told me that this was one of the toughest problems. They have all this surplus revenue from oil, but domestic interest groups are lined up outside the door for that money. He was interested in investing it abroad in forms where they could not get at it, but it was very difficult to resist the pressure.

Chairman Long. Let me get at that problem at a very low level. I was once talking to a man who had been the collector of Internal Revenue for the State of Oklahoma, and for about 10 years he had been the commissioner of welfare. He came up with the conclusion that it's a hell of a lot easier to collect it than it is to give it away.

What is your feeling on this, Mr. Fisher?

Mr. Frank, I didn't mean to interrupt you, did you finish your thought?

Mr. Frank. Yes, sir.

Chairman Long. Fine.

Mr. Fisher. Well, I think it would be hard to convince the developing countries, the producer countries of commodities, that price instability is very desirable for them.

So, it really does seem to me that the three of us are focusing pretty much on the same issue of the ambiguity and objectives here, the question of stabilization versus trend. I agree with Mr. Frank that net benefits could be gained by trying to move on the problem of price instability——

Chairman Long. I have always shared the same view that have been expressed by you and Mr. Frank, that the advantages of stability far outweigh the disadvantages of it—though I had not really given it serious consideration—it seems self-evident that the advantages outweigh the disadvantages.

That is why when Professor Sjaastad raised the question as to whether or not it was an advantage, I thought it might be worth exploring whether or not we were taking something that was commonly accepted as being good, pursuing it as being good, without ever looking at the question.

I gather that is your point, Professor Sjaastad?

Mr. SJAASTAD. Yes. I find it curious, if I may say so, how one can be so convinced as you are that the benefits exceed the costs, if it is so difficult if not impossible to measure the benefits. The fact that it is difficult to measure should not prevent us from trying, and I don't think it is reasonable to proceed on the assumption that since everyone feels the benefits are substantial, even though no one has ever measured them, that therefore they are there.

On the other question of why countries have failed to pursue their own stabilization programs, I don't think it is quite so simple as saying, "Well, they lack discipline".

We could have stabilized the price of copper, the internal price of copper even though the Chileans did not choose to stabilize the internal price of copper. Is it a lack of discipline that the United States permits internal price fluctuations of imported goods?

I rather suspect that it reflects the consensus that the benefits may be really quite small.

This brings me back to my central issue, I don't think that the gut issue is stabilization of a price at some average level, but rather getting that price even with fluctuations well above the free market price.

Chairman LONG. The costs of stabilizing the American agricultural products here for awhile were awfully high, during the period that we were attempting to do that; even though there were other factors involved at that time, as we know. The question of quantifying other factors related to it, as Mr. Frank said, like the inflationary aspect of the reverse side of it, gets to be extremely difficult. I share his view that it is not an easy thing to do because of its many ramifications, more than anything else.

Mr. FRANK. If I may, Mr. Chairman, comment on that. I think in our own agricultural policy, while we call it a stabilization policy, it was inherently—I agree with Professor Sjaastad—a parity price concept that was essentially what the LDC's have been asking for. They call it "indexation."

Chairman LONG. That is correct.

Mr. FRANK. We had that parity price concept, and the objective was less stabilization than to maintain a trend of prices for agricultural commodities which conformed to the trend of manufactured products. It was because of that that we accumulated the surpluses which burst out of the warehouses, as you recall.

Now, if we had pursued a pure stabilization policy, to roll with the punch and see the long-run price of agricultural commodities conform with a free market trend that may have been downward relative to other prices, given the enormous increases in productivity in agriculture—I am not advocating that—but I say if that were our objective, we would not have had the same problems.

Chairman LONG. And all of the costs that were attendant thereto.

Mr. FRANK. And all of the costs attendant thereto. I completely agree with Professor Sjaastad that the danger of not having a clear meeting of minds on the purposes of this thing could be disastrous. The common fund could be misused, could be quickly squandered, excess stocks could be built up and a clamor for more financing—the kind of thing we went through in our own agricultural policy. It is precisely for that reason that in recent years we have been disengaging from that policy.

Chairman LONG. I agree. All three of you in your presentation made the point, that it is necessary that we must clearly define the purposes of any such type of an arrangement, or otherwise, I gather you fear we might get into operations that are not consistent with what on the face appears to be the purpose, and consequently drag in all of these attendant problems.

Mr. FRANK. Yes.

Chairman LONG. Mr. Fisher, in his statement, suggests that the common fund resources should be used to stabilize commodity prices around a long-term trend and, to quote him, not raise them. I wanted to ask you, Mr. Fisher, first, if you would comment on that.

Mr. FISHER. Sure.

Chairman LONG. The long-term trend, Mr. Frank was discussing in agriculture, might well have been down because of increased productivity, at one particular time. If the long-term trend is down, is that something that you believe should be followed?

And then I would like Mr. Frank and Mr. Sjaastad to comment.

Mr. FISHER. Well, I agree with the point that Mr. Frank made in his argument and his testimony, that the focus has been unduly on international commodity markets; and that if we do have a problem of a down trend, this indicates that they have a fundamental economic problem. They should attempt to diversify and get out of the product.

In the trade area we have always made that argument that within the United States, if you were in an inefficient product line, you should try and get out of that product line. I think this is the functional equivalent on the LDC side, they should get out of commodities where they are inefficient and where the chronic trend line is down.

But this leads to a broader point, and one that was mentioned earlier about indexation. What we are talking about here from the LDC side is frequently called demand for indexation of prices. Indexation is a concept that is meaningless. I think one has to realize that all indexation means is reference to an external referent, and the issue is always, "What is the external referent, what are you indexing to?"

The LDC's could say, "Well, we want an index to index the price to our imports. There has been inflation in the developed countries and we want the primary products to be indexed to that."

So, all I am saying is, we ought to take the emotion out of that term of indexation. Indexation can mean a lot of things. From the standpoint of the LDC's it could mean direct indexation in the terms I just said, relating to inflation in the developed countries on the manufactured products.

I prefer the term, "internalized indexation." I believe in internalized indexation. What I mean when I say that, I believe in indexation keyed to the fundamentals of supply and demand for each product that we are talking about. In other words, I would follow the fundamentals of each commodity up or down and try to stabilize around that trend. I call that internalized indexation. Coffee, cocoa, and tea, they are all different, and you cannot generalize about it. You have to go commodity by commodity and look at the fundamentals for each commodity, determine what the fundamentals are, and try to have an internalized indexation for those fundamentals. It is not easy, even on a single commodity basis.

So, I think the question of "trend" has gotten to be a very emotional one, and it has gotten tied in with the problem of this word "indexation", which has a lot of emotional overtones. I thing we ought to worry less about the word, just try to put more content in it and try to think what we want to have it indexed to, what the external reference should be. So, I would prefer to look at each commodity's fundamentals. I have been through the exercise, primarily in tropical products, and it is not easy to project because there are so many countries producing these products. I would still try to keep within that framework, for analysis.

Chairman LONG. Professor Frank, do you have any comments?

Mr. FRANK. Well, if the question is how you determine what the long-term trend is around which you want to stabilize, in a way, you know, that problem is not very much different from the problem of intervention in foreign exchange markets. We now have a flexible exchange rate system, but we recognize that governments intervene in the exchange market for stabilization purposes. But the accepted rule is that they should not try to alter the long-term trend. If the domestic currency is clearly overvalued, for example, then a country should not intervene to support it at the present rate.

In the early discussions of international monetary reform, there were various suggestions made for how one could develop some quasi-automatic formula, or presumptive indicators, as to when one should enter the exchange market. Similar rules could help in running a buffer stock. When, for example, in a 2-month period the price drops by more than a certain percentage, regardless of what the price was, you might move in and start buying at that point. You would gear your intervention to the change in prices, rather than necessarily fix a price range at the start which has been common practice in some commodity agreements. That is essentially what Mr. Fisher was getting at. The fundamental forces of supply and demand determine the direction in which you go, while you are trying to smooth out fluctuations.

Chairman LONG. My experience with that has been more in the field of corporate finance and that is basically the function that is performed by a specialist on a stock exchange floor in a particular group of stocks.

Mr. FRANK. Yes.

Chairman LONG. He does not try to change the long-range trend of that stock, all he tries to do is to ease out and smooth out the acute peaks and valleys that occur on a daily or maybe a weekly basis—they are not much more than that.

Mr. FRANK. An excellent analogy.

Chairman LONG. Professor Sjaastad.

Mr. SJAASTAD. Well, the problem of trends, the end-point problem—give me 20 years of observations in the price of coffee, and I can select the beginning and end of my trend point. I can give you any kind of result you want in terms of the trend of coffee is up or down.

Ronald Previch who, as you may know, invented UNCTAD in 1964 is a master at that. Ronald Previch generated the thesis, in the late 1940's, that the trade world is largely going against developing countries, particularly Latin America, and they had to get into import substitution, and so on.

I would argue that he was completely wrong—and I think it is quite the general consensus now that he is completely wrong, he is playing the end-point game. For many countries that followed that prediction it has been an economic disaster. It has only been in the late sixties and the past 5 years that this policy has been turned around. We have to be very careful in talking about trend.

In this connection, we should also be aware of the fact that in the 1970's, so far as commodities are concerned, it has been most unusual. You have to go back to the 1930's to find something like it. In 1971, 1972, and 1973 there was a world economic expansion that was virtually unprecedented. The OECD countries grew at a rate of nearly 6 percent in 1973, as a group—it was phenomenal. This was, of course, because of their expansionary monetary fiscal policies around the globe. It created a boom, resulted in inflation. But the boom, with that expansion coming uniformly around the globe, really blew up the price of commodities. And then, of course, the world recession came, again a coincidence of the cycle in all of the important countries, all the large countries. That, again, is very unusual, to have a coincidence of these movements. That is probably something we may never see again in this century, in which all the developed countries move up and down together.

So, we have seen an extreme volatility in the past 4 years, but that is not something we should project into the future.

Chairman LONG. Mr. Sjaastad, the attitude you expressed with respect to the desirability of stabilizing prices. Look at where we stand today in the very real world here in the United States, vis-a-vis our relationship with UNCTAD and its proposal. Mr. Fisher and Mr. Frank have pretty well set forth their views as to what the position of the United States ought to be and what attitude the United States ought to take. You seem to have reservations about this whole thing. What do you think the United States' position at this stage ought to be?

Mr. SJAASTAD. Highly suspicious.

Chairman LONG. That sounds like an answer I might give as a candidate for office. Some of my friends are for it, and some of my friends are against it, and I'm with my friends. [Laughter.]

Mr. SJAASTAD. I think that the motivation of UNCTAD is very clearly one of wanting to bring about income transfers to the developing countries via commodity prices.

Now, I am not at all opposed to these income transfers. In fact, I spent a good part of my time working with organizations whose objective has been to make these transfers. I was a chief party to the first AID project that existed in Latin America under the Alliance for Progress back in 1962. But I think they should be recognized as such.

If we are going to put a couple of billion dollars a year into something that is going to involve subsidies to producers, let's recognize it as such. I am not opposed to making the transfers. What I am opposed to is to disguising them as a stabilizing program which is going to bring a lot of other problems.

Chairman LONG. It does not take much of a jaundiced eye for it to appear as a means by which we would help them finance an increase in their prices.

Mr. SJAASTAD. There is a point I wanted to make earlier and didn't. That is what I really think we are doing, what the objective here is—if you will pardon the expression—it is cartelization.

Now, we know that cartels are inherently unstable. People are motivated by self-interest. Cartels always result in prices higher than the cost of production, hence everyone has an incentive; every member of the cartel has an incentive to cheat by producing more than he is supposed to and selling outside the cartel.

So, how do you make a producer cartel work? One of the most beautiful ways to make a producer cartel work is to con the consumer countries into enforcing it. That is a rather cynical view.

Chairman LONG. That is the position Great Britain finds itself in with respect to the production of oil, and the oil prices today; isn't that your view?

Mr. SJAASTAD. Yes.

Chairman LONG. I thoroughly enjoyed going into some of the philosophical concepts of this with you learned gentlemen—you are more experienced than I—but I really need to use your time more valuably than I have in these last few minutes.

I would like to ask you a few specific, pragmatic questions about the situation in which we find ourselves.

Mr. Frank, what do you feel about the cost of the integrated scheme which has been set forth by the UNCTAD Secretariat, is it realistic? Mr. Fisher raised some question that it was not a realistic figure, and that we are really talking about perhaps substantially larger moneys than the UNCTAD Secretariat has outlined in their proposal.

Mr. FRANK. Yes. I have seen estimates ranging far higher than the $6 billion that is mentioned in the UNCTAD's proposal. But I would have thought that one could start on a more modest scale, that one could set up a modest common fund, provided you had complete agreement as to what the purposes of the common fund were, and operate on a pragmatic basis in relation to one or two commodities on which you might be able to negotiate agreements.

You see, a common fund cannot do anything, it is just a facility in being, which becomes usable after you have negotiated individual commodity agreements.

Frankly, Mr. Chairman, I have long had the view—which I know is very much different from the conventional wisdom on this—my view has been that the principal impediment to international commodity agreements and buffer stocks has not been the absence of financing. That seems to be the assumption underlying this whole integrated program. For example, for years a cocoa agreement was discussed in UNCTAD. I used to attend meetings about this in Geneva. The problem there was that agreement could not be reached on the price range. It was not that there wasn't a pool of "dough" you could dip into.

Once you negotiate a commodity stabilization agreement that is mutually beneficial and therefore acceptable, then I am not at all sure that there wouldn't be all kinds of sources of financing. Both producers and consumers might kick in; you might be able to borrow from private banks because of the very nature of the operation, to buy cheap and sell dear, which is what a buffer stock does.

Now, it is true, there are costs involved in holding, interest costs as well as storage costs, but it could be a paying proposition, and private parties might be willing to invest in it, at least lend money to it. There could be guarantees. There are all kinds of ways of doing that.

The problem is to negotiate the agreement. I could easily conceive of one saying: "Well let's go ahead and negotiate a few agreements, and if we've got them, with buffer stocks, let's then try to pool the resources involved and finance the buffer stocks from a common pool."

But I cannot help but feel that, in a way, you put the cart before the horse by first setting up an institution and a fund, and then starting to negotiate to see whether you have something to finance. That does not make an awful lot of sense. I think the LDC's want it because they view it as a symbol of the willingness of the industrial countries to take affirmative action toward individual commodity agreements.

That is one of the reasons I would have liked to see the United States contribute to an international tin stock. It would demonstrate our willingness to help finance a buffer stock. If we have several of them, maybe at that time a common fund should be established.

But I do think the main problem is not the financing, the main problem is to see in the negotiation of individual commodity agreements, whether there is a meeting of minds on this fundamental point that we have all agreed on, that these are stabilization devices, not devices intended over the long run to shove up prices.

Chairman LONG. I think your point is extremely well taken.

Mr. Fisher, do you have any comments on it?

Mr. FISHER. I would like to make a brief comment. First of all, I think the cost point or problem can be overcome through several techniques. For one, you could permit the common fund to buy on margin, put down 10 percent of the money that is required, partial payment of stocks. There are various techniques you could employ if you were troubled.

Second, the question could relate to the range that you are willing to have the stock move in, the top for the range; and if you want to have the stock move less frequently you have a wider price range. You can meet this problem of the cost of the stock that way.

Finally, you have to face the question of how much of each commodity do you need to have a viable stock in each commodity. Say in copper, do you need as much as could conceivably happen. I mean, they have in real estate law something like the 100-year flood plan. Every 100 years you might have a flood, so you have to take account of that in developing plans.

It seems to me with copper you should perhaps have a smaller than the top estimate, and that might be adequate. If speculators knew that there was some copper in the buffer stock, it would not have to be the maximum that you could conceivably imagine. So, the cost issue could be a "bogey man" in a way, as Mr. Frank has suggested, and that is really not the basic problem. I think we can get round that, it is a technical problem that we could leave to the technicians.

I think the question is the objectives, as we stated before, what do we want to do here. It really seems to me—and I know you want to get away from the philosophical points—but I think it is crucial to emphasize. The United States has become isolated in recent commodity negotiations. It ended up being isolated, in effect, at the last UNCTAD meeting in Nairobi. I guess that is really what prompted these hearings. It is my guess that is why you are having these hearings.

Now, what is going on, in fundamental political terms and economic terms, is that there has been a change in international political power relationships. I think the problem from the U.S. side is its policy. The problem is not that the EEC couldn't get together at the last UNCTAD meeting; the problem was, from our standpoint, our policy.

Our policy was based on really not talking about the problem, as the LDC's saw the problem. I would like to conceptualize for 1 minute. Really, there are two problems. One is the management of the markets, and the other is the management of supplies. The LDC's went into UNCTAD in Nairobi talking about the problem of management of markets, and they said: "We want to talk about this problem."

In effect, this idea about a common fund has been in gestation with UNCTAD for 2 years; everybody in the UNCTAD has been talking about a common fund since early 1974.

So, the United States then went to Nairobi to the UNCTAD meeting and said: "Well, we don't want to talk about management of markets, you see, we want to talk about production, the management of supplies." So, we floated this idea of the international resources bank, the result of which was that we came up with a very sort of sophomoric looking performance. It was sophomoric on several levels.

First of all, I am a private attorney and I represent people in this area in the private sector. There was no consultation, serious consultation, on IRB, with U.S. industry before we went to UNCTAD in Nairobi. That was a big mistake.

Chairman Long. Well, maybe the question should be raised as to whether there was any consultation at all with the Congress.

Mr. Fisher. No, sir, there was no consultation, to my knowledge, with the Congress; although they said they talked to several finance committee people in the Senate. But you know more about that than I do.

I am just suggesting that we have now come to the position where we are isolated in international commodities discussions, and that is a very unfortunate position to be in. I was in the cocoa conference, in a private basis, again, last October in Geneva; we were isolated in the cocoa conference.

It seems to me that the problem was that we were misperceiving the problem as seen by the developing countries, or unwilling to address it. To the developing countries in UNCTAD it seemed that we went there in bad faith. It seemed to them that they wanted to talk about (a), which was the management and markets, and we wanted to talk about (b), which was the management of supplies. So, we looked like we were whistling in the wind and were unrealistic, and largely because we had not consulted with everybody, and touched every base we could have before we went in there.

And the question you might ask is, "Well, how could the U.S. Government possibly come to such a pass?" We had the State Department saying one thing, the Treasury Department saying another thing. We are still unable to get our act together before we go to UNCTAD meetings; we were unable at Nairobi to do it, and we ended up issuing a press statement at the conclusion of the conference which said that we are concerned that developing countries are acting on the policies of the great powers, such as the United States, through the process of accidental majorities. That was Secretary Kissinger.

That to me is the essence of our colonial approach to this whole question of commodities. There have been several good articles saying that you could see the problems as perceived by the developing countries, as a residue. They are still looking at themselves as of anti-colonial sentiments. And enter this from the standpoint of the United States, we had Secretary Kissinger coming to this problem, seemingly giving us a good initiative at the U.N.—at his U.N. speech —and then coming to Nairobi with a proposal that does not address what the whole subject was about. It seems as if a person with a broken leg is being given medicine—not realistic to what the problem was.

So, we walked out, unfortunately, in a very unfortunate position. We were put in this position through very bungling bureaucratic management within the bureaucracy, unable to consult with the Congress before we go there, with the private sector here, and with our allies.

This indicates that Secretary Kissinger has taken this international economic question here as not very important. That is the issue, how important is it from our political foreign policy interest?

Chairman LONG. I don't think there is any question but that the Department of State tried to make it appear that the United States had been completely surprised by this thing, that they really had no idea it was going to be discussed in any detail at all, it was thrown up at the UNCTAD conference.

Mr. FISHER. The common fund and the others.

Chairman LONG. Yes.

Mr. FISHER. I know. Believe me, it is in the UNCTAD literature for 2 years. It is a proposal of long standing, it is not a new idea. And for us to walk in there as if we were supposedly addressing a new idea, which from their standpoint was an idea whose time had come, is just an indication of how unrealistic our foreign policy has been.

And what is going on, there have been waves of how U.S. foreign policy had to respond to the real world; and after World War II, although we helped set up Japan, and the EEC—Europe—through the Marshall Plan to help them recover, we had to adjust to these countries being great powers in economic agreements; that was a tough adjustment for us. Nixon in 1971 indicated we really still had not made that adjustment.

Finally we have adjusted to that, and now you have the OPEC countries coming along with the oil embargo in 1973, and we had to adjust to the OPEC countries. That has been a major traumatic adjustment to U.S. foreign policy. Now along come all the other Third World countries and say, "Support our other commodities, give us 18 commodity agreements." This is going to be a major foreign policy problem, and it is an adjustment we are going to have to make. We have simply not made that adjustment yet.

It may be that Secretary Kissinger is in what he perceives are the declining days of his stewardship of U.S. foreign policy, and only has so much political capital that he wishes to expend, he does not wish to expend very much on this issue—I hope that is not the case.

But my reading of the administration gives a passive standaside, negative attitude, which can isolate us again and put us further in the corner. I think that is the last thing we need. I think we have to turn the whole thing around.

So, I would take a very aggressive stance toward the negotiations and say, "Look, sure, we are willing to talk about it. These are the 10 key issues. We cannot support it unless you resolve these issues the way we want them resolved." We are willing to go in there and talk about these issues. It is very complicated, it is not easy. To suggest that it is easy would be, you know, painting a false picture for you.

Chairman LONG. Professor Frank and Professor Sjaastad, you all heard Mr. Fisher outline the 10 points that he considered needed to be given serious consideration in any negotiations. Do you have any comments about what he has included there, what might be added to it, or what might be deleted; or on any of his positions vis-a-vis any of the 10 points——

Mr. FRANK. May I make a general point?

Chairman LONG. Surely, I appreciate your points. By the way, I think Mr. Fisher's comments were very well taken. I have suffered through, as I moved into this field, the same attitude on the part of the Department of State with respect to their relationship with Latin America in general. The policy has been, as we described it here, a "policy of benign neglect," failure to face up to the fact that things have changed since Mr. Sjaastad was down there with the Alliance for Progress 15 years ago.

Excuse me, go ahead, Mr. Frank.

Mr. FRANK. Well, I think there is one fundamental difference between me and Mr. Fisher. Mr. Fisher has been a private lawyer who has been on the edges of this, and I was in the administration, in the executive branch of the Government. As you mentioned, I was Deputy Assistant Secretary of State for Economic Affairs.

I think this kind of "snafu" that happened at Nairobi is not as much of a surprise to me, or as incomprehensible as it is to Mr. Fisher, having been in the trenches. [Laughter.]

Mr. FRANK. We clearly have a situation, Mr. Chairman, where if the State Department could decide U.S. foreign policy, we would have a much more forthcoming view of this whole set of issues than we have had. Unfortunately that is not the way it works. There are interdepartmental committees, and Treasury has gotten increased strength of late. Mr. Simon is a very able and aggressive person with strong ideological views on the noninterference in free markets.

Now, given his proclivities, and given the State Department view, the only way the differences could be resolved would be through strong White House action. I don't think we have seen that kind of vigor, that kind of strength, that expression of leadership from the White House on the issues we've been dicussing. Without that, you will find that different agencies with different constituencies and different perspectives on the issues, particularly when they are led by strong men, as both Secretary Kissinger and Secretary Simon are, will lead to the kind of thing that happened. There is no clear definition of policy, we are straddling as much as we can, not being able to really go in and take the lead in a constructive way. I agree that is tragic, but I can understand how it came about.

Now, you asked me to comment, Mr. Chairman, on the 10 points. I think you could list not 10, but 50 points, questions that will arise once you get to the point of setting up a common fund—voting, organization, who should administer it, and so on. The basic point is the one we referred to here, the point of purpose; I think the others are subsidiary.

On the first point, usage, a primary function of the common fund is to lend resources for diversification. I frankly don't think so.

Diversification is really another term for economic development, that is what diversification is. The essence of development is the shifting of resources within a country, labor, land, capital, from one line of activity in which the returns are low to another activity in which the returns are higher—that is what we mean by progress and development.

Now, helping countries to do that is the function of the World Bank, AID, all the financial agencies, the technical assistance agencies; I do not see that as the function of the common fund. I think when one looks at it in that sense one distorts it. The diversification that takes place may not be into another commodity, it may be into services, the hotel business; it may be into manufacturing.

So, I do not see that as an appropriate use of the common fund, Mr. Chairman.

Chairman LONG. I felt that way, Mr. Frank. I also felt that way about the product promotion. I don't feel, really, that those ought to be included in this type of an arrangement. I am more convinced of that now than I was when I started here. You all, as a result of your experience, have outlined what the real problem of defining the purpose of the integrated scheme is, and getting it to stick to its target, and to resist adding anything superfluous to it. Is this a valid view?

Mr. FRANK. I completely agree with that view. In fact, I have talked to my friends in UNCTAD who were the architects of this integrated program. I thought from their own point of view they have encumbered the common fund in this program with a lot of extraneous things which make it difficult for a country such as ours to accept it.

For example, Mr. Fisher quite properly lists earlier on in his memo the various features of the integrated program, one of which is, for example, long-term purchase and sales agreements. Now, how do we enter into a long-term agreement? The Government doesn't do the buying in these things, it is in the private sector. We cannot make commitments along these lines, and I suggested to them they get this stuff out. They have their own problems in UNCTAD, trying to satisfy a lot of different interests on the developing countries' side. So, when they cannot resolve differences, they throw everything in.

The result of that is that the common fund serves a lot of purposes, some of them extraneous; some of them very difficult; some of them in conflict with each other. So, I think we are not yet at the point where we really have to face up to some of the detailed points which Mr. Fisher has listed here until we get a meeting of minds, really, on the fundamental purpose of this operation, Mr. Chairman.

Chairman LONG. Thank you very much, Professor Frank. Professor Sjaastad, please.

Mr. SJAASTAD. I agree very much with what Professor Frank said. The 10 points which Mr. Fisher made are based on the assumption, I think, if I read it correctly, that the common fund is a desirable thing.

I can see the common fund as a desirable thing from the viewpoint of UNCTAD, and from the viewpoint of the potential beneficiaries—you get a once and for all capital commitment. That money gets laid down. Now, if that money gets squandered, well, the show may be over, but the capital commitment has been made.

From a viewpoint of operating a system of commodity stabilization programs, I know of no evidence that a common fund is necessary, or even desirable. There have been some studies of the contribution the common fund could make as opposed to individual funds; and the correlations and price movements over time of commodities are not such that a common fund would appear to be necessary. I think the motivation of the common fund is rather different.

So, the danger of the common fund is that it can all be easily blown on one or two commodities. If we were to go this route. I think it would make a lot more sense to set up a number of smaller funds—when they are gone, they are gone; and if it is misused, at least we are not making all of the apples in the barrel available for one disastrous operation.

Chairman Long. Going a little afield from the common fund, which is one aspect of the problem, Professor Frank set forth persuasively. I believe, his argument that commodity agreements on the one hand and compensatory financing arrangements are really complementary sorts of things, and that both are essentially stabilizers of prices and foreign exchange earnings, and that we should not rely upon just one. What are your views on that, Professor Sjaastad?

I correctly stated your position, didn't I, Professor Frank?

Mr. Frank. Yes, sir.

Mr. Sjaastad. The fund presumably is to finance buffer stocks which are used to stabilize prices. Well, in many cases that will not stabilize anything.

Chairman Long. Right.

Mr. Sjaastad. It seems to me there are two important sets of issues here. One, is the objective of the operation to raise the average price, or to make income transfers; that is one whole set of issues.

The other is, if we want to stabilize something, rather than raise it, what do we want to stabilize? Do we want to stabilize export earnings? In many cases the common fund cannot do that, it can only stabilize consumption of the developed countries; stabilize the price and even out production fluctuations. But these production fluctuations will involve income fluctuations for the producers, you see.

So, that is another reason to do it case by case. In certain situations we would not want to do that if the objective is to stabilize earnings.

Chairman Long. Professor Frank.

Mr. Frank. Just one comment. I think if we take, for example, the nonagricultural commodities. The impulse to instability comes from the demand side. I believe Professor Sjaastad would agree there that price stabilization will tend to stabilize earnings as well. So, at least he would agree that there are commodities in which the two are mutually consistent. I think we can establish that point.

Mr. Sjaastad. Right.

Chairman Long. I agree with that point. Mr. Fisher, what is your view on that?

Mr. Fisher. I don't really have much to add to what Mr. Frank has said in his statement about the relationships; but I do have some comments about what Mr. Sjaastad said about my presumptions on these 10 points.

First of all, I do not necessarily presume that the common fund is desirable. My attitude is, basically, wait and see what we come up with, and let's have a good idea, going into the negotiations, what we want. Gertrude Stein once described Oakland by saying "There is no 'there' there". Right now there is no "there" there about this common fund concept. What I tried to do is put a "there" there by giving us those 10 points to focus on.

And if I may say, even since I have written them I have changed some of my own perspectives in the question of usage. For example, I would say that I was trying to write for the longer term, ideally, what direction we ought to be going in. Ideally we ought to go in that direction. But if we do this in stages, I think in the first stage of setting up a common fund, that is a little bit ambitious; and looking down the road, if such a fund works, look at this question of additional structural changes.

I might point out in this context that one of the more successful features of the coffee agreement was its diversification fund; also we had waivers in the coffee agreement based on the condition that diversification take place. There has been a world coffee promotion committee now for many years—since 1962.

So, the question of structural reform is built into many commodity situations. Essentially, I think, the real criticism of my usage point is the duplication one that was mentioned before—the idea that some commodity agreements already do it. But we may have situations where it is not being done. In that kind of a situation I would want to see the flexibility there for the common fund to do it. But I agree that in the first stage that might be a bit ambitious.

As to the philosophy of the whole thing, I think there is a difference between Mr. Sjaastad and myself. My philosophy is that I look at this as a foreign policy problem; and Mr. Sjaastad looks at this as an economist—he is horrified by a lot of the economics of this. But I think that foreign policy is based on both political and economic considerations. If we are going to ignore the political considerations here, we are going to really do more harm for the national interest in the long run.

I am very frank about recognizing why I say what I say. I don't necessarily disagree with some of the economic propositions that have been put forward, but I think it is a problem of philosophy how you go about the commodities problem. I approach this as a foreign policy problem, one that has as many diplomatic as economic ramifications.

Chairman LONG. Let me say, Mr. Fisher, I appreciate your courage in setting these forth. The fact that you did do it has really given us something which we can center around in a discussion of this, and it has been most helpful to us.

It was for that reason that I asked you to lead off here, I thought that would set the stage in definable terms for further discussion, and it has, in that regard.

I think also that our more or less philosophical discussion with respect to it is perhaps more justified than I had originally thought it was going to be because of the inherent differences of opinion as to the justification for it, or the direction in which it ought to go in a broad sense, as distinguished from the specific points that ought to be included, or ought not to be included in any discussion or negotiation with respect to the establishment of such a common fund.

It has been most helpful to get all of your comments in that regard. I think we pretty well covered everything I wanted to cover at this stage. I was going to ask if any of you did have anything, Mr. Frank?

Mr. FRANK. I just wanted to react to Mr. Fisher's last point, that he is looking at it from the foreign policy point of view, and Professor Sjaastad from the economic point of view.

Well, having worked on economic matters in a foreign policy agency, the State Department, I have always been confronted with this so-called dichotomy. I think the conclusion, after having struggled with it for many years, that I come to, is that any foreign policy gains you make from something which in economic terms doesn't make sense, is going to be very short lived. It has to be sound economically, otherwise you will not gain on the foreign policy side.

True, we for example went into the Marshall plan for foreign policy reasons, but we felt that fundamentally the economic terms were sound, as they proved to be.

So, I do not draw this distinction that you can ignore the one and favor the other, they have to coincide.

Chairman LONG. The relationship that we had with Latin America, it seems to me—and as we have gone back and studied it these last few months it certainly bears that out—if you do it on one without due consideration of the other, it ends up leading nowhere.

Do you have any further comments on this, Mr. Fisher?

Mr. FISHER. Yes; I do.

Chairman LONG. Being courageous enough to set it forth in the first instance, you are entitled to the last word.

Mr. FISHER. Well, I just want to go on to say that I think the importance of this whole question of commodities is very crucial to comprehend for people in the Government and people in the private sector—I hope these hearings do that.

The importance of the UNCTAD Nairobi Declaration, or Resolution, is that it is a functional equivalent in the commodities area to what the Tokyo Declaration of 1973 was for the multi-lateral trade negotiations. The Tokyo Declaration signaled the beginning of an extensive set of negotiations that probably won't end before 1980. The Nairobi Resolution signals the beginning of an extensive set of negotiations in the commodities sector; indeed, they are talking about 18 different commodity agreement discussions before the end of 1978. That is a phenomenal agenda to even comprehend.

I think the challenge is there for the U.S. Government to respond positively, not just to the common fund concept, but to the 18 commodity agreement proposals. We cannot just have an ostrichlike foreign policy that says, we want the whole thing to go away. A lot of people, including Treasury Secretary Simon, wish that our free market principles could prevail. I have great sympathy with that point of view. The problem is that the question will not go away. And, from the real political realities, if we act as if we want it to go away, I think that will dog us longer and hurt everybody.

Chairman LONG. Well, gentlemen, I am most appreciative of your coming and the efforts you went into in preparing the testimony that you gave to the subcommittee.

Mr. Sjaastad, do you have any further comments?

Mr. SJAASTAD. No. I just want to underscore that I am very much worried about the long-term consequences of standardization of commodity prices—if we jump on the bandwagon, we are going to be married to it for a long time. Thank you.

Chairman LONG. Thank you again, gentlemen, we are most appreciative.

The hearing stands adjourned.

[Whereupon, at 11:55 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

ASARCO, INC.,
July 27, 1976.

Hon. GILLIS W. LONG,
Chairman, Subcommittee on Inter-American Economic Relationships, Joint Economic Committee, U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: I, too, am disappointed that due to a prior commitment it will not be possible for me to appear before the subcommittee on Inter-American Economic Relationships on August 12, 1976, when you will be holding hearings on commodity problems as they relate particularly to Latin America.

I am enclosing herewith two statements which deal with the questions raised by your letter. One is a speech which I presented before the Association of Mexican Mining Engineers, Metallurgists and Geologists in Mexico last October. The second is the statement I made just last month before the Joint Defense Committee at its hearing on the desirablity of economic stockpiles.

The desire to stabilize commodity prices is understandable since wide fluctuations cause problems both for producers and consumers of these commodities. The problem, however, is an extremely difficult one—particularly in the case of those commodities that are traded on commodity exchanges. This applies, for example, to such Latin American products as coffee, cocoa, copper, sugar and tin.

So long as public speculation in these commodities is possible through the commodity exchanges, stability of price is extremely difficult to achieve because very large buffer stocks would be needed to counteract the effects of speculation in these commodities.

In the case of metals, demand is highly cyclical and is closely related to general economic conditions. In the case of agricultural products, demand is more stable but supplies are affected by unpredictable circumstances such as weather. Note, for example, the influence of the frost in Brazil on the price of coffee.

The Tin Agreement is the one effort made on an international basis over a protracted period of time through international agreement. It involves both export quotations and a buffer stock arrangement. It has not been a conspicuous success in stabilizing the price of tin. In fact as I write this letter the price of tin is above the ceiling price set forth in the most recent agreement.

Compensatory financing arrangements would be helpful to the developing countries. The extent to which the developed countries will be willing to provide the money for such compensatory financing is unpredictable.

In my judgement price indexation can only lead to permanent inflation and since I do not believe that this is a good thing, I am opposed to any form of price indexation.

The proposal made by the Secretary of State for an International Resources Bank strikes me as having been a gesture of good will but one wonders why one of the existing financial institutions could not be used to accomplish the same purpose. There seem to be too many organizations and agencies already and I believe that it would be more practical to use the World Bank, the International Finance Corporation or the various existing national banks, such as our own Import-Export Bank, to accomplish the same purpose.

I trust that this brief summary together with the two attached documents will give you an adequate cross-section of my views on these highly interesting problems. I would be happy to answer any specific questions your staff people may have.

Sincerely yours,

SIMON D. STRAUSS,
Executive Vice President.

Enclosures.

STATEMENT OF SIMON D. STRAUSS, EXECUTIVE VICE PRESIDENT, ASARCO. INC. BEFORE THE XI CONVENCION NACIONAL, ASOCIACION DE INGENIEROS DE MINAS, METALURGISTAS Y GEOLOGOS DE MEXICO, A.C., ACAPULCO, MEXICO, OCTOBER 15, 1975

FUTURE TENDENCIES IN PRICES, CONSUMPTION AND DEMAND FOR SILVER, LEAD, ZINC AND COPPER

Your Committee's invitation to speak at this convention is most welcome. Over a span of almost 30 years I have made frequent visits to Mexico primarily concerned with business matters. This is actually the first occasion on which I have had the good fortune to visit your world-famous resort center of Acapulco. Moreover, one who normally speaks English, this opportunity to employ the Spanish language, which I learned as a child in Peru and Chile, adds to my pleasure. I hope you will forgive any deficiencies in my diction resulting from the infrequent occasions I have to speak English.

Interest in non-ferrous metals as commodities is more acute and widespread today than at any time in the more than 40 years I have followed this industry. No doubt this is due to the world-wide impact of the four-fold increase in prices for crude oil announced in early 1974 by the Organization of Petroleum Exporting Countries.

As a consequence, commodity problems are now widely discussed in government circles, in private industry, and by professional economists. The question is frequently asked whether exporters of other basic commodities will be able to follow the example of the oil exporters.

This has been extensively debated by official representatives of many developing countries at sessions of the United Nations. Mexican delegates have, among others, expressed the view that the terms of trade in recent years have been adverse to raw material exporters as compared with the industrialized countries.

Your committee has asked me to speak about silver, lead, zinc and copper.

How good are the prospects that the countries producing these four metals can unite to establish and maintain uniform and stable prices for these commodities comparable with the success enjoyed thus far by the oil exporters? Mexico is a major producer of all four metals and many Mexicans no doubt would like to see the oil pattern repeated in the metal markets.

I hope it will not disappoint you too greatly if I tell you that in my judgment the chances for success are limited. Let me explain my reasons:

The oil exporting countries have certain advantages which the non-ferrous metal producers do not have.

First of all, once an oil deposit has been located and brought into production. its rate of production can be controlled with relative ease. More importantly, changes in the rate of production do not have major consequences in terms of local employment because oil is not a labor-intensive industry.

A second major advantage for the oil exporter is that he does not have to compete with recycled oil. Almost all oil is completely consumed—there is no subsequent secondary recovery. A small quantity of lubricating oil is perhaps the major exception.

Third, the demand for oil is so closely linked to the expanding use of energy and to the increase in world population that it is relatively—although not completely—immune to cyclical business influences. Oil consumption over the last 30 years has risen at a relatively steady rate.

Fourth, even though there are possibilities of using other sources of energy and heat than oil, such substitution at this time would be both difficult and expensive in most applications where oil is now used. The oil exporters have recognized this in their pricing decisions. They have been able to calculate a point at which the average user finds it more advantageous to switch to substitutes, such as coal, nuclear energy, etc. The time and the investment required to make substitutions are of course major factors in this calculation.

Fifth, many major oil exporting countries enjoyed a strong financial position even before they imposed their sharp increase in price. They could afford to risk losing foreign exchange earnings for a considerable time.

Finally, at least in the case of the Arab members of OPEC, they had an ideological motive which provided a strong source of unity.

In the non-ferrous metals industry, the major exporting countries face vastly different and more difficult problems.

For example, metal production is far more labor-intensive than oil production. Curtailment of production at times of declining demand leads to unemployment. The developing countries find this difficult. Thus last year the four CIPEC countries—Zambia, Chile, Zaire and Peru—agreed to restrict exports but in fact did not significantly reduce mine production of copper following a decline in sales and a pronounced slump in copper prices. Mexican labor laws require substantial severance payments when workers are laid off. This deters reduction in production by your mining industry in times of lessened demand. As inventories build, prices inevitably come under heavy pressure.

Unlike oil exports, exporters of metals must reckon with large scale availability of recycled scrap supplies in the industrialized countries. Of the four metals under consideration, recycled supplies of copper, lead and silver are equivalent to half or more of the primary copper, lead and silver consumed in the United States. The zinc proportion, though less, is still substantial. This secondary supply reaches the market through the hands of literally thousands of scrap dealers as well as large numbers of processors of scrap. The resultant metal is bound to have a significant influence on price trends. It is outside the control of the exporting countries.

While demand for non-ferrous metals over any extended period of time has risen significantly, the gains are irregular. Demand is tied to the business cycle. In times of economic recession demand for metals can show a substantial decline, as has happened in late 1974 and early 1975. Because production is relatively difficult to adjust, when the business cycle cuts into demand, producers of metals run into mounting stocks and serious financial problems.

In good times, if consumers feel that prices of certain metals are excessive, they may turn to other materials. Such substitutions cannot be quickly achieved in most cases because of the investment that must be made in new tools and new designs. However, the threat of loss of markets is something which metal exporters must always bear in mind.

Just recently the French government stated that it intends to foster the substitution of aluminum for copper in additional applications. Why? Because copper is almost entirely an imported commodity for France, whereas France has substantial domestic bauxite resources and a large industry engaged in the reduction to aluminum. At times in the past the Indian government has indicated its interest in adopting similar measures for similar reasons. If copper exporters were to attempt concerted price actions of a magnitude comparable with the actions taken by OPEC, they would risk long-term loss of substantial markets for copper.

Moreover, the financial position of developing countries exporting non-ferrous metals is in most cases not nearly so strong as the position of oil exporters. Chile, Zambia, Zaire and Peru cannot afford to forego foreign exchange earnings from copper exports through imposition of embargoes for any protracted period.

Finally, in few instances is there likely to be a political or ideological motive as strong for exporters of other commodities as the political motives which have united the Arab members of OPEC. For most other major commodities there are wide differences of view among exporting countries.

In one metal there actually has been a long-term effort to stabilize prices through international agreement. In my judgment the experience in this undertaking is more relevant than the experience in oil so far as other metals are concerned. I am referring to the International Tin Agreement.

Prior to World War II, six of the leading tin exporting countries banded together to attempt to stabilize tin prices by controlling the rate of exports. Quarterly exports quotas were established by these six countries, which then accounted for about 90 percent of world tin production. Due to the effects of the great depression of the '30s, demand for tin was at extremely low levels. During much of the pre-war period the export quotas were set at rates of 40 to 50 percent of normal. Yet prices could not be maintained at levels satisfactory to the exporters during much of the time.

During the war years the tin market was disrupted. A large part of world tin production fell under the control of Japan, thus cutting off access of two large consuming countries—the United States and Great Britain—to their normal sources of supply. Following the end of the war the six tin exporters decided to seek support from the leading tin consuming countries in an international agreement, in the belief that both consumers and producers had an interest in stable markets. No one can disagree with this motive, but bringing it to reality can be a difficult process.

After prolonged discussions an international tin agreement was established in the nineteen-fifties. Currently seven major producing countries and 22 consuming countries participate in this agreement as members of the International Tin Council. Tin is unusual in that the seven producing countries consume little or no tin; while the 22 consuming countries have virtually no mine production of tin. Well over 90 percent of the world's tin production must cross an international boarder on its way to market. No major new sources of tin production have been developed in the post-war period. Thus there has been no problem of establishing quotas for a new major tin-exporting country.

Under the tin agreement the Council has established a floor price and a ceiling price. A buffer stock has been operated. Up to now this has been financed primarily by the seven producer members who raised sufficient funds to buy up to 20,000 metric tons of tin—an amount roughly equal to 10 percent of a year's production.

The arrangements for the buffer stock have been that when the price is at or close to the established floor level, the buffer stock must buy so long as it has funds. When the price rises close to the ceiling price, the buffer stock must sell. When the price is in a defined intermediate zone the managers of the buffer stock have discretion as to whether they should buy or sell. In addition to the buffer stock, export quotas are set when there is excess supply.

The floor and ceiling prices are established by the members of the Council after full discussion. They are reviewed periodically and have been changed from time to time. In one instance, despite the support of the buffer stock, the price dropped below the floor level. All available funds having been committed, there was no opportunity for further support. In several instances the price has exceeded the ceiling level, the buffer stock having in effect been liquidated without being able to satisfy all of the demand.

The United States has not been a member of the International Tin Council—the only major consumer outside the Socialist countries not participating. However, as is well known, the United States holds a large strategic stockpile of tin. In recent years a portion of this stockpile, considered by the U.S. Administration to be in excess of its strategic needs, has been available for sale. Although there has been no formal understanding with the members of the International Tin Council, the U.S. Government has endeavored to assist in the objective of stabilizing the tin price by refraining from sales when the price has been weak and by accelerating sales when the price has been strong.

The experience in late 1973 and early 1974 is particularly interesting. The tin market was affected by the same strong demand as other commodities. As a consequence world prices rose above the International Tin Agreement ceiling despite liquidation of the entire buffer stock and sales by the U.S. Government of about 42,000 tons of surplus tin between June, 1973, and June, 1974, an amount twice the buffer stock holdings. Thus despite sales of 60,000 tons from stocks in addition to current production, the ceiling price could not be held in the face of strong demand.

At a meeting in the spring of 1974 new floor and ceiling price levels were established by the members of the Council. The new floor price is actually above the old ceiling.

In June of this year a new situation arose. The members of the Council accepted the resignations of the manager of the buffer stock and his assistant. The reasons for this dramatic move have not been made public. However, in operating an inter-governmental buffer stock scheme in a commodity which is traded on commodity exchanges, information as to the moves by the buffer stock operation can be of enormous value to private speculators and traders. Leaks of such information can create serious problems.

Because of the structure of the tin industry, the chances for success of an international tin agreement would appear to be better than for other non-ferrous metals. Yet if one examines the record, the price of tin has exhibited no greater stability in the post-war period than the price of zinc while it has been less stable than the price of lead. A record of the prices of these metals will be available with the copies of these remarks when they are distributed.

I make these remarks not in disparagement of the efforts of the tin producers but simply to point out how difficult it is to control commodity prices—particularly when the commodity is so closely tied to the fortunes of the business cycle as are most of the non-ferrous metals. The difficulties are particularly great for commodities that are traded on open exchanges to which the general public has access. A commodity arrangement in a material such as bauxite or nickel, which is not traded on a commodity exchange, has a greater chance of success because all transactions in these commodities are directly between producers and consumers. In copper, lead, zinc, tin or silver, persons who are neither producers nor consumers can readily influence prices through speculating in anticipation of possible shortages or surpluses.

By their very nature international agreements involve the publication of facts that become readily known by the trading public—the floor price, the ceiling price, the level of stocks actually held, the amount of money available for support of the buffer stock. This is in contrast to the markets for commodities in which there are no international agreements setting targets that are published. Then the plans of individual producers and consumers are known only to them and the speculator must operate in the dark.

Let me cite for you another striking example of how difficult it is to control the price of an internationally traded commodity. At the beginning of 1960 the U.S. Government held a stock of about 2 billion ounces of silver—equivalent to more than four years' world consumption of this metal. Some of this silver was held as backing for paper currency; some of it was held to be used for the minting of silver coins; and some of it was available to the government as so-called free stocks to be sold at whatever price officials of the U.S. Treasury deemed appropriate. To prevent the melting down of the silver coinage, then in circulation, Treasury officials in both Republican and Democratic Administrations wished to hold the price of silver at or below the statutory monetary value of $1.29 an ounce. However, informed members of the financial and business communities observed that world silver production was not equal to world silver consumption—even excluding coinage use of silver from consumption. Silver, which was selling at about 90¢ an ounce in 1960, looked like a good investment to them. Who won? The government or the speculators?

Today, fifteen years later, the U.S. Government owns only a little more than 100 million ounces of silver—barely 5% of the stocks it once held. For the last 20 months the silver price has been above $4 an ounce. The U.S. Government no longer has silver coins in circulation. The paper money backed by silver has all been retired from circulation.

Even starting with a buffer stock equivalent to more than four years' world consumption, U.S. efforts to control or stabilize the price of silver were unsuccessful. The collapse of the $35 an ounce gold price is another example.

The U.S. Secretary of State, Mr. Kissinger, has indicated that the United States is now prepared to discuss commodity arrangements on a case-by-case basis with other governments. There is a strong indication that the U.S. Government would prefer arrangements to include both producers and consumers. This would be more like the tin model, rather than producer associations such as OPEC, CIPEC, or the recently formed group of bauxite exporters. We will be hearing a great deal about these efforts in the next few months. Mexico, I am certain, will play a leading role in the discussions. Your government has clearly indicated its desire to participate in such efforts to stabilize prices.

The talks will be useful in identifying the problems that exist in the various commodities. An exchange of views between producers and consumers can be helpful. This is clear from the discussions of the International Lead-Zinc Study Group over the last 15 years. The participating governments have obtained a much better understanding of these two industries through the annual meetings, usually held in Geneva. However, in my opinion, the likelihood of effective price stabilization over an extended period of time through international commodity agreements is limited.

The chances of success are somewhat better for those commodities in which there is only a small number of producers or which are not traded on commodity exchanges. I have already mentioned bauxite and nickel. Chrome ore and platinum are two others that come to mind since the number of countries that are major exporters is quite limited.

You have asked for some comments on the future outlook for the four metals—silver, copper, lead and zinc. Since all four of these commodities are produced by many major exporting countries and since all four are listed on commodity exchanges, I must reiterate my skepticism as to the chances for a successful price stabilization move through intergovernmental commodity agreements for any of these four.

I will repeat that undoubtedly it would serve both producers and consumers well to have relatively stable prices for these commodities. However, what is desirable is not always attainable. It would be my guess that the prices of all four of these metals will continue to fluctuate, with the trend upward in periods of good general business conditions and with the trend downward in times of recession, such as has been seen in late 1974 and early 1975.

During this period demand for all four metals has been sharply cut. We have had such recessions before during the 30 years since the end of World War II but this most recent experience appears to have been the most severe.

In previous post-war recessions one major sustaining factor in the United States has been large capital expenditures by public utilities—electric power facilities, telephone communications, and the like. These industries have experienced a steady long-term growth trend. They have been conservatively managed; their financial resources have been great; and they took advantage of periods of recession to embark on capital expenditures because construction costs were more reasonable and labor was more plentiful. So, even though automobile sales dropped and housing construction was in a slump, in previous recessions such as those of 1957, 1960, 1967 and 1971, sales of copper to the wire and cable manufacturers and the electrical equipment makers were relatively well sustained because of demand from the utilities.

However, this did not prove to be the case in late 1974 and early 1975. The public utilities cut back very sharply on their capital expenditures and the United States demand for copper this year has been at a low ebb. As one analyzes the situation, the difficulties of the public utility industry were aggravated by the sharp rise in oil prices.

The utility industry in the United States is for the most part privately owned. The charges which the utility industry makes for its services are subject to government controls. The sharp rise in the price of oil caused an enormous increase in utility operating costs. However, the regulatory commissions that must approve utility rates have been reluctant to approve rate increases, fearing public criticism. Therefore, earnings of the utility industry have been adversely affected. The companies are caught by rising costs which they cannot pass on to their customers. Under these circumstances bankers are less willing to make funds available for new utility projects. The sharp drop in utility capital expenditures means copper producers are unable to sell their production.

The copper exporting countries that belong to CIPEC should recognize that a major reason for reduced demand for copper is the high price of oil.

A somewhat similar situation prevails with respect to zinc. The biggest single market for zinc in the United States is the automobile industry. Cars use zinc in the form of die castings for various decorative and functional parts, as oxide for tires, as a coating for galvanized steel, and as a constituent of zinc-rich paints in inhibiting corrosion of exposed steel parts.

Not only in the United States but in all major car-producing countries sales of new cars have fallen far below the record levels of 1973. The public hesitates to buy new cars because high oil prices mean high operating costs. And most of those who overcome their hesitation and do buy prefer to purchase small cars that promise gasoline economy. Since the weight of zinc in a small car is considerably less than in the larger cars previously preferred, high oil prices have been a direct cause of reduced sales of zinc.

Perhaps by now my listeners may feel that I am taking a pessimistic view of the outlook for silver, lead, zinc and copper. First I told you that it is unlikely metal exporters can duplicate the success of the oil exporters in raising prices through joint action. And next I explained that current demand for metals has been adversely affected by high oil prices.

It will take time to overcome the present depressed condition of the metal markets. But I have no doubt at all that in time we will see a return to better levels of demand and to more favorable price trends.

In my judgment this improvement will be sounder if it comes about through the normal operation of market forces than if it is based on intervention through cartel-like moves by exporting governments.

The concept of an adversary relationship between producers and consumers is widely held. I know that in many circles there is a belief that the industrialized coutries have deliberately held down raw-material prices in order to exploit the less-developed countries. I cannot share that belief—the fact is that in the case of most raw materials the largest share of the production is still in the industrialized countries themselves.

To be specific, three industrialized countries—United States, Canada and Australia—have a combined mine production of copper that is greater than the production of the four CIPEC countries. Also, the United States, Canadian and Australian production of zinc and lead is much greater than the combined production of Mexico, Peru, Morocco, Algeria, Zaire and Zambia—the principal lead and zinc producers among the developing countries. And, finally, the combined silver production of the United States, Canada and Australia is approximately equivalent to the silver production of Mexico, Peru and Honduras.

Clearly in the case of the four metals under consideration, developing countries and industrialized countries have a community of interest. If prices are unsatisfactory at times, this has been caused by an excess of supply over demand. When the situation is reversed and demand equals or exceeds supply, the prices of these metals have responded.

The fear of possible cartels and the concept that the world's resources are being depleted at an alarming rate led to a wave of speculation in commodities in late 1973 and early 1974. Users bought more than they needed because of these fears. Part of the slump in sales this year has been due to last year's over-stocking of consumer inventories. There are definite signs that stocks held by our customers have been greatly reduced and that a better rate of buying lies ahead. Perhaps the conversations among interested governments which Mr. Kissinger has proposed will bring these facts out.

In the 30 years since the end of World War II, consumption of copper has increased on an average about 4% a year; consumption of lead has increased on an average about 2-½% a year; consumption of zinc has increased on an average about 4% a year; and consumption of silver has increased on an average about 5% a year. To repeat, these figures are averages. If one compares any given year with the immediately preceding year, the percentages may well be quite different.

The changing phases of the business cycle have a pronounced effect on demand for and consumption of these metals. Unlike agricultural products and energy fuels, which respond to changes in the business cycle in a relatively modest way, non-ferrous metals are overly sensitive. Furthermore, as has already been commented, inventory policies of metal consumers tend to make for greater shifts in demand than in the actual rate of metal consumption.

There have been few signs in the recent downturn in business activity that any fundamental change has occurred in the long-term role of these four metals in the economy. The drop in demand has occurred primarily because of the general slowdown in economic activity and not because other materials are taking over functions which copper, lead, zinc and silver previously performed. It seems safe to expect that when the economy recovers demand for these metals will grow at approximately the same average rates in the future as have characterized the period since the end of World War II.

What does this mean in terms of production and of prices? The ore discoveries of the last three decades have confounded those prophets who had been predicting an early exhaustion of the earth's mineral resources. Known reserves of copper, lead and zinc today are greater than at any time in the past. More metal has been found during the last 30 years than has been extracted from the earth's surface. The situation is not quite so clear with respect to silver, despite some major additions to world silver reserves also.

One must bear in mind, however, that proving ore reserves is not quite the same as creating productive capacity. Ours is a very capital-intensive business. Thanks to the price inflation of the seventies, very large sums of money are required to build new mining and processing capacity. Furthermore, political uncertainties in many parts of the world are tending to slow down the construction of new productive facilities. Thus, while ore reserves appear ample to meet increased demand for base metals, one can foresee the possibility that temporary imbalances will occur between demand and available productive capacity in the future—similar to the shortages experienced in late 1973 and early 1974. During such periods prices may well over-respond, just as they did early last year. This, in turn, will bring about renewed confidence in financing capital expenditures.

With respect to prices, clearly over the long run prices must be high enough to cover the cost of production and to promise an adequate rate of return on capital investment needed for new facilities. At the prices prevailing in mid-1975, copper appears to be most out of phase with costs. The red metal has been selling on world markets below the actual cost of production of many of the world's mines. Moreover, the price does not warrant proceeding with many new projects in view of investment costs estimated at more than $5,000 (U.S. currency) for each ton of new capacity.

Lead and zinc prices, having declined less sharply from their 1974 highs, seem more in phase with long-term realities. As for silver, the price of this metal appears adequate in relation to existing productive facilities but may not be high enough to bring into production some of the low-grade marginal silver deposits known to exist.

Let me try now to summarize my views with regard to these four metals.

The reduced sales and lower prices of all four in the recent past have been partly the result of the change in the general economy and partly the result of excess inventory accumulation by customers during the upsurge of late 1973 and 1974, aggravated by the dislocations caused by sharply higher prices for crude oil.

The major industrial nations now appear to be slowly working their way out of the business slump and one can expect an improvement in demand. For the longer term, consumption of these metals should grow at average rates not very different from those of the last 30 years.

Ore reserves, at least for copper, lead and zinc, are adequate to meet such increased demands, but there may be periods of imbalance caused by delays in bringing in new capacity. High capital costs and political uncertainties currently make it difficult to finance certain projects in spite of the availability of the needed ore reserves.

Prices of metals in the long run will be adequate to cover production costs, including the servicing of capital required for new projects. Violently fluctuating prices of primary metals serve the interests of neither the producer nor the consumer, but finding a formula to create greater stability may well prove difficult since the position of the metals industries is not directly comparable with that of the oil industry.

Finally, I would like to stress my belief that the interests of Mexico, as a major source of these four metals, should not be considered as different from the interests of the major consuming countries. Mexico's mining industry will prosper only if a ready market exists for Mexico's mineral production. Cooperation between producing and consuming countries is a more useful policy for both than is a course of confrontation which sets off producers against consumers.

Statement of Simon D. Strauss, Executive Vice President, ASARCO, Inc., on Behalf of the American Mining Congress

Madam Chairman and Members of the Subcommittee, my name is Simon D. Strauss. I am Executive Vice President of ASARCO Incorporated, a diversified producer of some 24 different metals and minerals. I appear on behalf of the American Mining Congress, a trade association. I serve as Chairman of its Committee on Minerals Availability.

Your interest is in economic stockpiles, a matter that has been receiving Congressional attention since the Arab oil embargo and the quadrupling of oil prices by the Organization of Petroleum Exporting Countries in early 1974. The U.S. government really began stockpiling in early 1940 when legislation authorized the Treasury Department to purchase modest quantities of certain strategic materials for which this country is heavily dependent on imports—tin, rubber, chrome and manganese were among the first items included in this program.

With the fall of France, the Roosevelt Administration became greatly concerned over access to imported raw materials and created three subsidiaries of the Reconstruction Finance Corporation—the Metals Reserve Company, the Rubber Reserve Company and Defense Supplies Corporation—to deal with the problem. They were intended to assure adequate supplies of strategic materials for the greatly expanded defense effort initiated following Hitler's victory in Western Europe.

I joined the staff of the Metals Reserve Company in March 1941, ten months before U.S. entry into the Second World War and remained in government service until the end of 1945. During this period Metals Reserve became the sole importer of metal and mineral products into the United States, acting in concert with the War Production Board with regard to quantities purchased and with the Office of Price Administration in regard to the prices at which the imported materials were distributed to U.S. industry—either for war or for essential civilian purposes. In addition, to stimulate domestic production of strategic materials, Metals Reserve made long-term contracts with domestic producers to develop new mineral properties or to expand capacity of existing properties.

When the war ended Metals Reserve held title to substantial quantities of essential metals and minerals needed either in a wartime or peacetime economy. Thus when, in 1946, Congress enacted basic stockpile legislation, Metals Reserve was able to transfer large tonnages of essential metals and minerals to the strategic stockpile.

As the Committee recognizes, the 1946 legislation authorized stockpiles purely for national security purposes. The quantities of each individual commodity to be stockpiled were set by the administrative agencies, the initial responsibility resting in the Army and Navy Munitions Board which coordinated the views of the other government agencies and departments. Later this responsibility was transferred to the Office of Emergency Management. These stockpile targets were classified information. Private industry was consulted only in order to define specifications for the commodities purchased. Its views were not sought as to the proper amounts to be held nor was information published as to the quantities actually in government possession or under contract for future delivery. Global figures were published showing aggregate dollar value of stockpiles, not broken down by individual commodity.

U.S. involvement in the Korean War in the early '50s greatly accelerated interest in stockpiling. Until early 1957 there was a period of active stockpile procurement by the government. Purchases were made in a variety of ways. Some material was acquired under the Defense Production Act, enacted by Congress during the Korean War; some material was acquired by barter in exchange for surplus agricultural commodities of a non-strategic nature; and much material was bought from producers or dealers on a short-term bid basis.

Shortly after John F. Kennedy became President in early 1961, he made a critical evaluation of the strategic stockpile program and concluded that stockpile holdings were excessive. As a result, under the chairmanship of Senator Stuart Symington of Missouri, a prolonged investigation of the entire stockpile program was carried on in the early '60s. Stockpile objectives for individual commodities and the quantities actually held became public knowledge for the first time. A critical reevaluation of stockpile objectives resulted in substantial reductions. As a consequence the government by the mid-'60s embarked on a program of liquidating many of its holdings—either in whole or in part.

To illustrate, of the six major nonferrous metals held in the government stockpile—aluminum, copper, lead, nickel, tin and zinc—the government since 1963 has completely liquidated its holdings of aluminum, copper and nickel; has greatly reduced its holdings of lead and zinc; and has even substantially reduced its holdings of tin, a commodity for which this country is entirely dependent on imports, originating primarily in countries of the Third World.

President Nixon in the Spring of 1974 announced drastic reductions in stockpile objectives. The new targets were based on the belief that strategic stockpiles would be needed only to cover emergency needs for one year as a military emergency was unlikely to last longer. Should it last longer, it was argued, new sources could be developed or substitute materials could be used. Under previous programs stockpile targets had been based on other assumptions—whether a war would last three or five years; whether certain countries could be considered reliable suppliers; whether the nature of the war would be similar to World War II or the Korean War; or whether the war involvement would be a nuclear holocaust.

When stockpile objectives are based on such radically variable assumptions enormous changes occur each time a new set of assumptions is postulated. These changes in turn disrupt the normal pattern of the commodity markets and are of great concern to the mining industry. Miners claim no expert knowledge as to how long a war might last or what the nature of a war might be. Experience, however, prompts those in the mining industry to feel that it is usually safer to rely on facts rather than assumptions.

Thus no one can gainsay this country's dependence on imported materials as measured in trade figures collected by the Bureau of the Census. No one can dispute the fact that this country is almost entirely dependent on imports of certain virgin metals and ores—tin, metallurgical chrome ore, platinum metals, and manganese are examples. For other materials the United States is virtually self-sufficient. And for others it is only partially self-sufficient.

Experience also has taught the mining industry that new production of mineral commodities cannot be developed in a one-year period. Also, though one material may be substituted for another, the design changes and the necessary tooling process take much longer than one year.

For these reasons many in the mining industry differed with President Nixon's 1973 assumptions with respect to stockpile policy. It appeared that sales of stockpile material newly classed as surplus were to be used for non-defense purposes—to attempt to control prices, then rising sharply, and perhaps also to narrow the budget gap between the government's receipts and disbursements.

In resolutions adopted at meetings in 1973, 1974 and 1975 the American Mining Congress has urged that stockpile objectives should be based on a mathematical formula related to actual import experience for individual commodities.

The average level of imports for a period of, say, three years would be used to determine the initial stockpile objective. This would be reviewed every few years. Should domestic sources be developed and U.S. import dependence lessened, the stockpile objective would automatically drop. Should domestic resources be depleted and U.S. dependence on imports increase, the target objective would rise.

Further, the American Mining Congress recommends that objectives should vary with the degree of import dependence. Three possible classifications would be (a) commodities for which imports represent more than 75% of total supply; (b) commodities for which imports represent 50 to 75% of total supply; and (c) commodities for which less than half the supply is imported.

This Committee is considering whether there should be an economic stockpile in addition to the strategic stockpile. The original concept of the strategic stockpile unfortunately has not been adhered to in recent years. The original legislation clearly spelled out that strategic stockpiles were to be held for military purposes and military purposes only.

The Symington investigation of the early '60s indicated that at times stockpile objectives had been increased to accomplish purposes other than military ones—to assist in foreign trade or to stimulate domestic employment. More recently, during the period of substantial stockpile liquidation, releases from the stockpile have obviously been used at times to try to control prices or to meet industrial needs when sudden shortages developed but when a military emergency had not been declared.

In the view of most mining people the strategic stockpile program has had a disruptive influence on commodity markets. The heavy buying in the early '50s by overstimulating production, caused expansion of capacity which led to surpluses when the stockpile ceased to buy toward the end of the decade. During the '60s the drastic reduction in stockpile objectives and the heavy liquidation of stockpile materials in turn inhibited expansion of capacity, thereby laying the groundwork for the shortages which developed in 1973 and 1974. The industry is apprehensive that untimely government buying and selling will interfere with normal operation of markets.

Nevertheless the industry, recognizing the importance of national security, supports the basic concept of a strategic stockpile—particularly for those materials that are not produced in large quantities within the nation's boundaries. Such stockpiles save manpower, transportation facilities and scarce earth-moving equipment in times of genuine military emergencies.

The oil embargo and subsequent sharp rises in oil prices caused understandable apprehension in government circles and among the public generally about interruptions in the flow of other vital commodities. This Committee's interest in economic stockpiles—as distinct from strategic stockpiles—develops from that concern. The shortages in other commodities experienced in late 1973 and early 1974, however, should be viewed in proper perspective.

Apart from oil, they did not arise from interruption in supplies. Production of most commodities was normal and there was no political interference with trade flows in other commodities such as occurred in the case of the oil embargo. The shortages that developed were due to an enormous expansion in demand, caused only in part by the industrial boom of 1972 and 1973. Added to this genuine increase in consumption were demands created by speculative purchases due to currency uncertainties, fear of cartels that might be formed, disillusionment with securities on the part of many investors who were advised to buy commodities instead, and, finally, as prices responded to these non-trade demands, a rush by purchasing agents to increase inventories.

The business recession actually began in late 1973 but was not widely recognized until mid-1974. By the third quarter of 1974 the fear of shortages began to subside. Instead of adding to inventories, purchasing management began to reduce stocks. Speculators switched out of commodities into high-yield bonds or savings deposits. Concern over cartel action abated as the major differences between the oil industry and other commodities became more widely recognized.

In future spot shortages of certain commodities may again occur when business is good or when supplies are temporarily interrupted by military developments, labor strikes, or natural disasters. In the mineral industry supply cannot be quickly increased because of the long lead time and heavy investment required to create new capacity. On the other hand, demand is rapidly influenced by changes in the political, economic or military climate.

Since shortages will develop from time to time, the proposal for an economic stockpile seems at first glance to be eminently reasonable. The first such stockpile is referred to in the Bible, when Joseph interpreted Pharaoh's dream as a forecast of seven good years followed by seven lean years. Accepting that interpretation, Pharaoh stockpiled grain and cattle during the seven good years and sold them to a populace that might otherwise have starved during the seven lean years.

The Bible does not specify how Pharaoh financed this operation but, since his authority over his subjects was absolute, one must presume he had less difficulty in funding this operation than might be the case today with a similar attempt on the part of the U.S. government.

The amounts of money that could be involved in a comprehensive economic stockpile are enormous. Its effect on the markets would be great. The theory of buying in times of surplus and selling in times of shortage sounds simple but putting it into effective practice is difficult.

The mining industry believes that if economic stockpiles are created they should be limited to those products for which the U.S. is heavily dependent on import sources—say, at least half of the total supply. Furthermore, the stockpile should not be used to try to control prices—an exercise that will inevitably be futile and counterproductive in the long run for internationally traded commodities. The stockpile, if created, should be used only to assure supplies to U.S. industry in the event of an interruption in the normal flow of imports—a move comparable with the Arab oil embargo. A limited program of this sort, if adopted, should be administered by an independent publicly owned corporation comparable in structure with Comsat or Fannie Mae. Conceivably such an organization could finance purchases through the issuing of its own debt obligations backed by the value of the stockpiles.

For many reasons, which this witness will be glad to elaborate during the question period if the Committee wishes, there appears to be little likelihood of effective cartel action in hard minerals comparable with the oil experience. U.S. consumers. have not been denied access to supplies of vital hard minerals from foreign sources. The market mechanism does function in the long run. Shortages of minerals, when they occur, will prove temporary. With few exceptions known reserves of the major minerals are greater today than at any time in the past. The sources of these minerals are more numerous. For example, since the end of World War II the number of Free World countries producing large quantities of nickel has expanded from three to seven. Similarly diversification in supply sources has occurred in copper, zinc, bauxite and in many other metals and minerals.

Government management of economic stockpiles would involve large sums of money, would create serious problems of possible market disruption, and would entail further proliferation of the bureaucratic structure. On the whole, therefore, the mining industry does not support economic stockpiling. However, if it is to be undertaken, then the limitations outlined with respect to the commodities involved and the provisions for release should be borne in mind.

Thank you for this opportunity to present our views.

Statement of Kirby Jones, President, Alamar Associates, Inc., Washington, D.C.

The resumption of trade and travel between the United States and Cuba is more than a possibility, according to the Cubans. Prime Minister Fidel Castro, in a conversation late in 1974, pointed out that shared history and geographical proximity make closer ties between the two countries inevitable:

". . . We are neighbors. Independently of our will, our geographical location and that of the United States makes us neighbors. We cannot move, nor can the United

States. This is speaking realistically, that someday some sort of ties will be established between the United States and Cuba. It is dictated by history and the very interests of Cuba and the United States. Cuba . . . is one of the closest neighbors of the United States and logically, economic and political ties will have to develop . . . We, of course, will not plead with the United States to renew relations; . . . when circumstances change, when passions die down and when men can think more calmly and coldly . . . those ties will be established."

This statement remains as true today as before the issue of Angola was used by the United States to stall what had been a steadily increasing movement toward normalization. While Fidel Castro and his colleagues in Cuba's government are realistic, they can afford to be patient. They have waited fifteen years and they can and will wait longer if necessary—it is not Cuba that has blockaded the United States.

Once considered an anathema to many Western Hemisphere nations, Cuba in a change that must be strange and surprising to some, now occupies a position of increasing acceptance and strength. Cuba presently has full diplomatic relations with over 80 countries including 12 Latin American neighbors as well as the United Kingdom, France, West Germany, Spain, Italy, Belgium, Japan, Denmark, Australia, Austria, Finland, Greece, Netherlands, Norway, Sweden, and Switzerland. Many of these European nations are no less "anti-communist" than the United States and are considered our strongest allies.

In the last four years alone, total Cuban trade with Canada, Western Europe and Japan has exceeded $3 billion. Over 40 percent of Cuba's foreign trade is now carried out with non-socialist countries—an increase of 21 percent in the last 10 years. The dollar value of Cuba's exports in 1974 was $2.7 billion, increasing Cuba's import capacity by 32 percent and creating the first balance of trade surplus since 1959 as well as hard currency earnings estimated at $1.4 billion.

Since early 1973, Western nations that could be considered competitors of the United States in world trade have offered Cuba $3.324 billion in trade credits. In the last year, three more major trading countries have established diplomatic and commerical relations with Cuba: Iran, West Germany, and Venezuela (the original sponsor of the OAS blockade).

All of this clearly indicates a significant Cuban expansion of trade with almost every Western, non-socialist nation except the United States.

A clear example of this occurred just this past December when it was announced that Cuba had purchased approximately 90,000 tons of rice from the European-based foreign subsidiaries of several large U.S. commodity traders. The rice was mostly Italian. While our own Louisiana rice growers sit on their surplus unable to sell, Italian farmers reap the economic benefits of trade with Cuba. In fact it was this last commercial transaction that prompted Representative John Breaux of Louisiana to say, ". . . why can't approval be given to allow that same U.S. company to purchase rice from American farmers to sell to Cuba? . . It just rips me to no end to see our companies sell Italian rice in Cuba . . . American producers and farmers need our help." He was followed by Louisiana Senator J. Bennett Johnston, who called for a lifting of the U.S. blockade.

Such a transaction involving rice was not unanticipated. During a meeting I had with the foreign trade officials of the Cuban government last November it was specifically indicated that Cuba would be interested in purchasing U.S. rice.

In addition to rice, Cuba is a potential market for many other U.S. commodities and products. Of apparent specific interest are the following: corn, beans, vegetable oils, fertilizers, agricultural and construction machinery, such industrial plants as petrochemicals, nitrogen fertilizers, artificial wood from bagasse, steel, paper, citrus products: medical and hospital supplies; and shipping.

It is recognized by Cuban foreign trade officials and by Prime Minister Castro as well, that the Cuban market will not make or break the U.S. economy—or for that matter probably any single large American corporation. Nevertheless, Cuba is a market and a purchaser. To the rice farmer in Louisiana who today cannot sell his rice, Cuba would be very important.

Based on eleven trips to Cuba since July, 1974, during which I have had numerous meetings and conversations with many Cuban government officials, the following conclusions can be drawn.

There is a strong resolve that the lifting of the economic blockade by the United States is clearly the prime prerequisite for any discussions that might lead to political or economic normalization.

Within that context, however, there is a realistic assessment that Cuba could and probably would gain some economic benefit from access to U.S. products, services, and knowledge that has been denied it for more than a decade.

It is certainly no secret that Cuba must import substantial amounts of products (as they are doing now) if they are to realize their current economic goals and projections. This being the case, the Cubans are realistic enough to look toward the day when instead of receiving goods shipped many thousands of miles, these same products could be obtained from a source only 90 miles away. The economic saving involved in transportation costs alone presents an attractive alternative.

Cuban long-range planning is now being done—as it must be—based on the fact that the blockade exists. While U.S. policy makers delay, Cuba continues to enter into an increasing number of commercial contracts with other socialist countries, and such non-socialist countries as Canada, France, Japan, Germany, and England. What this may mean for the United States is simply that some of these new contracts preclude similar arrangements with U.S. companies, thus depriving our own economy of the benefits gained from increased foreign exports.

The Cubans are aware of the increasing interest on the part of U.S. firms to enter into trade with Cuba, and are receptive to expressions of that interest through whatever legal channels might be available.

The Cubans are indeed most expert and knowledgeable in commercial trade negotiations. They have an ever increasing amount of experience dealing with non-socialist countries and expect to be treated as equals by any country in the world. American firms should be clear that the Cuba of 1976 bears absolutely no resemblance to the Cuba that might be remembered from 1958.

The Cubans are not likely to enter into any agreement with an American company without a thorough analysis as to whether that company satisfies certain normal and accepted business criteria in terms of performance, quality of product, delivery, maintenance and price.

Even if the U.S. were to lift the blockade, it is unlikely that the Cubans would permit open access to Havana by American business representatives with their briefcases of samples. The first transaction will be undertaken with great care, and will more likely than not be simple transaction involving the uncomplicated buying and selling of goods.

Finally, while there do exist clear disagreements as to political and economic systems, the Cubans respect much of the technical "know-how" that would be available from the United States and which they feel could be put to good use in Cuba.

It must be remembered that commercial relations with any country can also serve as a means to a political end. It would be a normal pattern to see commercial relations develop with Cuba as a step toward full diplomatic and political relations. Such commercial relations would be of direct benefit and mutual interest to both sides. Once the current preoccupation with Angola is settled, the United States and Cuba may initiate a more beneficial process of negotiation.

Over the past year in my work with American companies in preparation of material and proposals that I have already sent to Havana, it is clear that most U.S. firms do view trade with Cuba as inevitable and would be willing to engage in immediate commercial transactions were that possible under U.S. law. To repeat former Assistant Secretary William Rogers' statement of June, 1975, U.S. companies "do not want to be the last to enter an opening market."

Evidence of this attitude can be seen in the gathering of approximately 50 companies at a New York meeting on "Trade with Cuba" sponsored by the American Management Association on February 11, 1976—at the height of the furor over Angola. Attending the meeting were such corporate giants as Borden, Monsanto, RCA, DuPont, Cummins Engine, John Deere, Coca Cola, General Motors, American Cyanamid, Warner-Lambert, Singer, American Can, and U.S. Steel. Still another daylong meeting on Cuba was held by Business International, a prestigious firm that advises corporations in international business. The meeting, held on April 28th, at the Waldorf Astoria in New York was called "Doing Business With Cuba" and drew 50 major American companies.

While many of the firms participating in these meetings are making their first appraisal of the potential represented by the future Cuban market, it is a clear signal that they are less affected by Angola and other foreign policy matters than they are by the the possibility of "doing some good business."

And while some companies are meeting, others are actually doing business. Ford, General Motors and Chrysler cars have gone to Cuba; as have Continental

Grain rice, Litton desks, Toledo scales, and Warner-Lambert medicine. All of these transactions have been through foreign-based subsidiaries.

The range of companies interested in trading with Cuba precludes categorization. The product list includes airplanes, hotels, railroad cars, cloth, feedgrains, food products and medicine. On the import side U.S. firms have expressed considerable interest in Cuban sugar and nickel, as well as of course, Cuban cigars.

Nor is there an apparent pattern as to the type or size of company interested in Cuban trade. Multinational corporations appear as interested as medium and small firms—although do some of the larger multinationals, Cuban trade potential simply may not translate into enough of a rise in per share earnings as compared to what they can earn with less work in some other market. In the business world in general, however, there is the realization that someone is going to get Cuban business—however large or small—and the general attitude is, "It might as well be us as our competitor."

Already six delegations of American businessmen have made personal visits to Cuba. The purpose of these visits was to evaluate the potential market and trade potential and to engage in direct and personal discussions with the appropriate Cuban Governmental trade and economic officials.

The first U.S. company to visit Cuba made their trip in October, 1975, another in March, 1976 and four others followed in May, 1976. More visits are scheduled throughout the balance of 1976.

The United States government has placed restrictions on U.S. firms that impede their contact with the Cuban government. To be sure, no direct trade is legal as of this writing. In fact, no U.S.-based company may enter into any "transaction" at all with Cuba. This includes not only the buying and selling of products or technology, but also the payment of any sum of money to any Cuban anywhere in the world.

At first glance this set of restrictions may seem to represent an insurmountable obstacle to even beginning talks. The questions most often asked by U.S. companies are—How do I get to Cuba if the State Department restricts travel? And if I do go, how can I stay in Havana if I'm not allowed to spend money?

The State Department regulation only restricts "use of passport" for travel to Cuba; it does not restrict actual travel. In practice what is done is that passports are not used for travel to and from Cuba: The Cuban visa is provided on a separate piece of paper. There is, therefore, no violation of U.S. regulations. If pressed, State Department officials will confirm this.

The matter of transportation to Cuba, as well as hotel, food and related expenses once there, falls under the authority of the Cuban Assets Control Board of the U.S. Treasury Department. According to their regulations, it is illegal to enter into any transaction with Cuba. These regulations are similarly surmountable—simply by not spending money while in Cuba. Some delegations of U.S. businessmen that have travelled to Cuba did so as guests of the Cuban government.

U.S. companies have traveled to Cuba in the manner described above, held meetings with Cuban officials and discussed future trade possibilities. The Cubans are receptive to such visits, proposals and discussions. Neither the visits to Cuba, nor the exchange of information are in violation of United States law.

Not all U.S. companies view the ending of the blockade from the same perspective. There are some firms that are more interested in securing payment for their expropriation claims against Cuba than in any future business possibilities. It is interesting to note that of the total number of claimants, only 1,146 are corporations—the remaining 7,670 are individuals.

Out of the $1.8 billion in claims against Cuba, just ten companies have over $700 million—or almost 40 percent of the total. These ten are the Cuban Electric Company (now owned by Boise Cascade), ITT, North American Sugar Industries, Moa Bay Mining, United Fruit, West Indies Sugar, American Sugar, Standard Oil, Bamgor Punta and Texaco. It is logical to assume that few of these will ever do business with Cuba again—if only because of the nature of their product or service. While the majority of U.S. firms place secondary emphasis on past claims in view of the potential for future trade, some companies that can look forward to little business with Cuba in their fight for past restitution.

The fundamental point, for any company interested in dealing with Cuba, is that the Cuba of 1976 bears absolutely no resemblance to the Cuba of 1958. There is a new political order and it is strongly empowered. The entire economic and social system of Cuba has radically changed—and the consequence is new standards, criteria and systems. These factors must be appreciated, respected and understood if an American company is to develop a working relationship with the Cuban government.

Cuba is expected to spend between $12 and $15 billion over the next five years. The current Five Year Plan places great emphasis on industrial improvements—products and services in which the United States is highly proficient. But Cuba must plan these five years as if the blockade is to continue. This does not mean that they are, or will be, inflexible to new opportunities which might arise. On the contrary, their centralized system is most flexible in this regard.

As the political and diplomatic minuet unfolds, the Cubans will remain open to the possibilities of mutually beneficial trade with the United States—but will never return to the pre-1959 condition of dependency.

The major question facing U.S. business vis-a-vis Cuba is really quite simple. Cuba is a market—business is done with almost all countries except the United States. For how much longer is U.S. business going to sit back and watch this market fall to others?

BIOGRAPHICAL SKETCH OF KIRBY JONES

Kirby Jones is president of Alamar Associates, a Washington, D.C. based consulting firm working with American companies preparing for trade with Cuba. He has made eleven trips to Cuba since July, 1974, and organized and accompanied five delegations of American businessmen invited to Cuba by the Cuban government. Jones was awarded the Overseas Press Club "Citation for Excellence" for Best Television Interpretation of Foreign Affairs in 1974 as a CBS Special Correspondent for "CBS Reports: Castro, Cuba and the U.S.A." and is co-author of "With Fidel: A Portrait of Castro and Cuba," published in June, 1975.

JEFFERSON COMMUNITY ACTION PROGRAM, INC.
Kenner, La., July 6, 1976.

Hon. GILLIS W. LONG,
Chairman, Subcommittee on Inter-American Economic Relationships, Joint Economic Committee, U.S. Congress, Washington, D.C.

Comments for consideration:

1. New Orleans would be the ideal place for an international stock and commodity exchange. The Superdome or the Rivergate, or even the present World Trade Center, would be ideal and would boost American enterprise as well as establish a handle on world markets. Japan is considering such a move now, why not HERE!

2. Have an open invitation to the Latin American Countries to establish a garden in the new parks being planned in Orleans and Jefferson Parish: Native plants and stones designed by their own horticultural interests . . . creating a great interest on the part of local residents as well as tourists. We could make this an "exchange" program—perhaps in small areas of their planning. We should also make an effort for more cultural exchanges.

3. When Americans are assigned to other countries, they should be indoctrinated as well as our military personnel are as to the customs, expectations, good-will requirements, etc., that would help our image. Business simply gives orders—it should be made aware of the need for each person to be an ambassador for his country as well as American business. Perhaps a project similar to the "Student Exchange" for white-collar workers would help.

4. Use one of the old moth-ball fleet ships and use it as a floating HOSPITALITY SHIP to all the ports of call. I am sure many graduate students in government and business would be glad to man such an enterprise. Businesses could sponsor their own public relations as well as contribute to the operation of the ship. A traveling group representative of American performing arts could also add to this.

INA M. COFFMAN,
Director of Community Services.

Attachment.

[From the November-December issue of the Jeffersonian]

PUTTING THE IMAGINATION TO WORK

(By Rose Marie Bauer)

On the door of Ina Coffman's office is a large poster with the words of Albert Einstein, "Imagination is more important than knowledge". "And," adds Ms. Coffman, "what is imagination but a daring rearrangement of things already known?" This is also an apt description of "creativity"—which, Ina Coffman firmly believes, is the cure for all problems: social, physical, mental and environmental.

It is these two attributes, creativity and imagination, along with tremendous interest in people and boundless enthusiasm, that Ina Coffman brings to her job as Director of Volunteer Services for the Jefferson Community Action Program (JEFFCAP). Her title, however, does not begin to describe the depth and scope of the activities and programs she has initiated, developed and coordinated since assuming her position in 1967, shortly after JEFFCAP was founded.

From the very beginning, Ina Coffman saw her job as something far beyond just providing volunteers for already existing social welfare programs. Entitling her overall plan "Operation REACH", she set as her goal "filling the many voids" in the areas of Recreation, Education, Activities, Cultural enrichment and Health for the citizens of Jefferson Parish, particularly the poor and aged.

Jeffcap, whose headquarters are located at 1817 Airline Hwy. in Kenner, operates four Neighborhood Service Centers, located in poverty areas on both the East and West Banks. These Service Centers administer such established programs as Headstart, family planning and counseling, health care, etc. The operating expenses of the Neighborhood Service Centers and the Administration are federally funded. But the programs of the division of Volunteer Services, which Ms. Coffman heads, are not funded; and she laughingly refers to herself as "a professional beggar".

Although she holds an executive position in the field of social work, Ina does not hold a degree in that field. Hers is the case of an avocation becoming a career. And while she has studied at Indiana University, Anderson College in North Carolina, Tulane and Loyola Universities and the University of New Orleans, she feels that her real education has come from the "school of experience."

Prior to becoming a paid professional, her volunteer experience included being an organizer and first president of the Southeastern Geophysical Auxiliary; bringing the Campfire Girls organization to the metropolitan New Orleans area; organizing the first Cub Scout Pack in Airline Park; and being a charter member of Parkway Presbyterian Church and first editor of its newsletter.

Another of her past volunteer activities, for the St. Jude Children's Hospital in Memphis, Tenn., gained Ina national recognition. Beginning in 1964 and for several years thereafter she headed the volunteer effort for the entire state of Louisiana and organized and directed the fund-raising activities of over 6,000 young people all over the state. Her original concept of having the teenagers direct the fund-raising with a minimum of adult help continues to this day and is unique to Louisiana. Elsewhere in the United States the ratio is one grownup for every ten teenagers. Her tremendous success with this program earned for her, in 1967, St. Jude Hospital's award of "Outstanding Woman of the Year"; and for several years she served on St. Jude's Board of Directors.

A native of Nashville, Tenn., Ina was raised in Indiana and during her former marriage lived all over the United States, finally settling in the New Orleans area 19 years ago. She has two sons, one in business in Atlanta and the other in oil exploration in Honduras and a daughter living here, who was just recently married.

In her leisure time she enjoys entertaining and loves cooking, mainly foreign dishes. An avid reader, she is particularly fond of magazines which, she claims, spark many ideas for her Jeffcap "REACH" programs.

Her strong feelings about creativity naturally make her interested in the arts, especially ballet. She assisted in the formation and development of the Delta Festival Ballet and also with the Friends of Longue Vue Gardens. Through these two organizations she was instrumental in bringing the ballet outdoors, where it has proven to be a great success.

In addition to these two organizations, Ms. Coffman is also a member of the La. Conference on Social Welfare, Foreign Relations Assn., National Action Bureau, Directors of Volunteers in Agencies, Young Women's Christian Assn., League of Women Voters and is on the board of the Goals Foundation. Affiliation with these various organizations affords Ina the opportunity for securing a great deal of help in implementing some of her Jeffcap programs; in turn, she often recruits volunteers for projects of these organizations which fit into her "REACH" program.

But Ina does not rely solely on aid from these types of organizations. She tries to enlist the help of individuals, business, local governments, educational institutions and, in fact, any area or echelon of society which she feels is able to develop or carry out a particular program. Most of the help she seeks is not financial, but is given in services, materials and supplies. In programs where funding is needed, and the project qualifies for a federal matching funds grant, these donations of time and goods can be assigned a dollar value and considered part of local matching funds.

The programs which she has brought to the Neighborhood Service Centers cover a wide range of activities. They include such diverse things as sewing, money management, typing, legal advice, nutrition, career planning, artistic and cultural programs, supervised study sessions, professional gardening training and certified maid and governess training, plus many, many others.

But, it is not in the activities of the Neighborhood Service Centers where Ina Coffman's imagination, creativity and ability as a developer of ideas has been most evidence. She has been the motivating force for many more far-reaching projects which are totally unrelated to the Service Centers.

Enlisting the aid of the Jefferson Parish Health Unit, which provides professional guidance and office facilities, Ina instituted the Jefferson Visitor Service whose goal is to help alleviate the isolation and loneliness experienced by many elderly or disabled shut-ins.

Working with the public school system she has established a pilot course at Riverdale High School which gives the girls a comprehensive overview of knowledge useful and necessary for their future roles in life. The students are trained by volunteer professionals in such things as health care, nutrition, career planning and the functions of various community agencies and health care, nutrition, career planning and the functions of various community agencies and governmental bodies.

Another successful project is Village Play School for underprivileged pre-school children, located in Bunch Village Gymnasium. There is a token charge of 25 cents per week per child, and, although the Play School is run by volunteers from area churches, in order for a child to participate the mother must also help out at the school as a volunteer worker. This is in keeping with Ina's philosophy of orienting the poor, as well as the rich, to community service. The fruits of this philosophy are already evident at the Neighborhood Service Centers where individuals who were originally the recipients of training are now volunteer teachers.

A dual purpose was served by Ina's "Project Whistle Stop". This was a fund-rasing activity whereby whistles were sold to the general public, mainly for older people who live alone. Local publicity resulted in orders being received from as far away as Louisville, Ky. Proceeds were used to give a group of Jefferson Senior Citizens with very limited incomes a trip to Baton Rouge (where many of them had never been).

This was but one of many projects for Senior Citizens, some of which are assisted by graduate students from one of the classes of Tulane University's School of Social Work. This class has given invaluable help to other areas of the "REACH" program, as have Loyola University and the University of New Orleans. In a reciprocal action Ina worked to get a graduate school established at the University of New Orleans' Urban Studies' Institute.

Because of her work this past year with the U.S. Naval Reserve's "Project Breakthrough", which provides field trips for underprivileged children. Ina Coffman has been nominated for a national award from the National Center for Voluntary Action in Washington, D.C.

Just recently, she has been successful in getting the YWCA into Jefferson Parish. At present, two programs are underway, in Bridge City and Shrewsbury, under the leadership of a full-time, paid professional of the YWCA. The YW plans to expand the program, and Ina is already seeking ways to bring this about.

Ina was the founder of the "Coordinating Team on Community Development" which brings together various individuals, private organizations and governmental and social welfare agencies. In addition to assessing the needs of the community, setting goals and establishing priorities, the group addresses itself to particular problems. For example, the topic of the text meeting will be "Meeting Solutions to Inflation". Ina is particularly concerned about the grocery stores' practice of changing prices of items already on the shelves and has some definite ideas for strong action at the local level.

Among Ina Coffman's many innovative ideas is one which has become a bill presently being considered by the United States Congress. She proposes that any volunteer worker for any type of governmental agency (including such things as schools), whose time is documented and audited, should be given a tax deduction for the time donated. According to Ina, a double benefit would accrue; it would attract more low-income volunteers to community service; and the greater the number of volunteers a public institution has, the further it can stretch the tax dollars which support it.

Ina is constantly seeking ways of getting the most out of both the public and private welfare dollar. The "United Churches of Kenner Emergency Fund" is an outstanding example of her work in this area. Under her initiation and direction, churches of all faiths, located in Kenner, established a central bureau to dispense charity. Anyone asking a participating church for help is referred to the center which administers the aid, keeps records and makes follow-ups. According to Ina, this has saved the churches more money than they donate to support the program. It avoids duplication and eliminates the "floater beggar" who goes from church to church, getting aid.

It is very difficult to capsule the many facets of the role of JEFFCAP'S Director of Volunteer Services; but she herself summed it up beautifully when speaking to a Regional Girl Scouts meeting:

"It is a most enjoyable job. You work with people who want to help others. You plan and evaluate the needs, then take the necessary steps to meet those needs. You make public relations the sensitive approach to understanding. You believe and you set goals. You motivate everyone to work toward the goal. You work with all ages, where there is no color of skin or station in life. You are a negotiator, you are an in-betweener, yet you are management and labor in one. You start with leadership. You dissolve the ugly with the beautiful things in life and you make the unhappy, HAPPY—and you know you are working with God."

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