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I. Railways

(a) Consolidation of the Railway System

4A. The Government proposes to consolidate the present federal and state railroad networks, embracing 22 railroads, into a single system with four regional superintendencies. This unification is being studied by a commission made up of representatives of the Federal Government and State of Sao Paulo, whose recommendations on the legal, administrative and financial aspects of the merger will be submitted during the third quarter of 1968.

4B. The regional organization recommended by the consultants, however, is already being introduced into the federal railroads and will be reviewed when the above merger is put into effect. It is planned to establish three regional superintendencies early in 1969 (northeast, center and south), coinciding with the geo-economic regions of the country and grouping the operational units located there. The regional superintendents will be selected during the third quarter of 1968, and will take an active part in organizing the regional offices. The new organization will be introduced gradually, so as not to interfere with the continuity of railroad operations. It should be completed by 1970.

(b) Organization of the New National Railway System

5. The federal railroad system is an autonomous mixed-economy enterprise administered by a Board of Directors, composed of a Chairman and Directors, with the assistance of a Consultative Council. The Board of Directors is responsible for the operation of the railroads and their auxiliary services, including the construction of new lines. The Chairman, implementing the resolutions of the Board, is responsible for the day-to-day management of the enterprise, giving an account of his actions to the Minister of Transport, who represents the Federal Government at the General Meeting of Stockholders. Any ministerial agency connected with the railroads will act as a staff agency of the Ministry of Transport and will have no direct supervisory authority over the railroads.

To facilitate the merger, the setting up of the regional systems and the performance of the new activities undertaken, the statutes of RFFSA will be amended to confer greater flexibility on the management. A draft of the statutes has already been prepared and is to be submitted to the General Meeting of Stockholders during the third quarter of 1968.

6. During the second half of 1968, the Federal Railroad System will engage a specialized consulting firm to render technical advice to its staff and, jointly with the staff, to study the reorganization of its services and the implementation of any measures that are considered necessary. In the course of 1969, operating, statistical and cost-accounting criteria, standards and procedures, as well as tariff-setting and commercial policies, will be analyzed and reformulated.

(c) Personnel

7A. The railways will conduct a survey of their personnel to determine actual needs and draw up a program to correct existing distortions. At the same time, they will consider a wage policy that will enable them to recruit and retain personnel with the necessary skill and experience.

The federal railroad system has defined its rational personnel establishment at 131,000 employees on the company's payroll, based on its existing organization and operating methods. This number was reached in 1968 and represents a reduction of 23,000 employees since 1963. Further reshuffling will take place throughout 1969, and redundant staff will have to be pensioned off, dismissed, transferred, or placed at the disposal of the Government. It is hoped that by 1970 RFFSA's payroll will have been cut back to 120,000 employees, representing fewer than 5 men per km of line, which is a perfectly reasonable index.

7B. A working party has been set up by RFFSA to consider revision of the legislation governing the staff of the enterprise. Its findings are to be submitted during the final quarter of 1968.

(d) Accounting

8. The system of accounting will be studied by the above-mentioned consultants and the staff of the railways with a view to updating the schedule of accounts and introducing modern cost accounting in the railways. One basic purpose of the accounting reform will be to provide a rational basis for the reform of the tariff structure.

An auditing office already established within the federal system is advising the accounting services of the various operating units and laying the bases for a mechanized cost accounting system. On these foundations, with the assistance of the technical consultants recommended, it is hoped that by the first half of 1969 the accounts will have been completely reorganized and the new system introduced in the regional superintendencies.

(e) Operations

9. Simultaneously with the merger and reorganization of the present operating units, the railways will revise their operating methods in order to improve the efficiency of railway operations.

Uneconomic stations are gradually being closed down. In the federal system, 202 stations have already been closed or downgraded to simple halts, and a program is being drawn up to eliminate a further 214 stations by December 1969. The cancellation of some trains has been facilitated by improved timetable scheduling and better composition. In addition, during the first half of 1969, an entirely new operating system will be introduced to meet the needs of the regional structure, in collaboration with the technical consultants to be engaged. This system will affect train formation, communications and leave systems, reorganization of workshops, supply and maintenance depots, yards and facilities.

(f) Tariff Policy

10. Beginning in January 1969, the tariff policy will be oriented by competition in the transport market, with any charges resulting from unprofitable operations being allocated to the sectors concerned. The formulation of the new tariff system - which shows the cost of transportation for each specific, regional category of traffic and represents an aggressive policy aimed at winning a larger share of the market - should be completed by the third quarter of 1969, through the joint efforts of the technical consultants and RFFSA's railroad team.

(g) Uneconomic Lines

11. The program for closing uneconomic lines, in pursuance of Decree No.58992 of August 4, 1966, is well underway.

The railroads have already suspended traffic on 75% of the 6,160 km included in the basic program, which is scheduled for completion by 1970. At the request of the railroads, the Standing Committee that is following up the execution of the program has already expanded it to 7,300 km. This revised program is to be completed - and the alternative highways constructed - by 1972.

12. New lines, the planning and/or construction of which is already in hand, will be dealt with as recommended in the Survey Report unless the considerations referred to in Paragraph 13 below are applicable. Construction of those new lines which the Survey Report has identified as uneconomic will be stopped immediately. In cases recommended to be re-studied by the railways, further planning and construction will be stopped as soon as possible and, in any event, not later than the middle of 1969, if the study indicates that the new line would be uneconomic.

13. Wherever the maintenance or construction of uneconomic facilities, including railway lines, is found by the Federal Government to be justified on grounds other than economic, and the Federal Government deems it necessary that these facilities be maintained or constructed, the railways will be reimbursed for construction expenses and net operating losses out of the federal budget, and the expenses will not be charged to the railroads. However, the Federal Government will make an effort to restrict such exceptions to the absolute minimum consistent with national security and social conditions.

14. The investment program for 1968/70, as approved by Law No.5450 of June 5, 1968, will be reviewed periodically, at the intervals laid down in the law, in conformity with the instructions contained in the Strategic Development Plan for 1968/70.

(h) Deficit

15. The main purpose of the above policy is to assure the railroads of a completely viable financial system that will make them increasingly independent of subsidies from the Federal Government.

*+ 140 million in '67*

*Low needs*

The true size of the railroad deficit in RFFSA is now being quantified through the introduction of accounts standardization, by which it is sought to define the charges arising out of government demands, such as low rates for carrying certain goods, provision of free services, maintenance of unprofitable sections, trains and services, granting of fare privileges to former staff, in addition to the discriminatory taxes on rail freight rates, the amounts of which will be recorded in the accounts as notional receipts. Quite apart from this new truth in accounting, the steady reduction of the deficit ought to produce an operating factor of 2.0 in 1968, which will be the best performance index attained by RFFSA since 1959.

## II. Highways

16. The objective of the Government's highway policy is to create a roads infrastructure which will be efficiently integrated with, and complementary to, other means of transportation. This involves the development of rational investment programs based on sound economic criteria and the creation of efficient national and state organizations to share, in the most efficient manner possible, the responsibilities for planning, constructing and maintaining the national roads system. The Government's directives in this respect hold that road users must pay the cost of the road services offered.

Accordingly, the following measures will be taken in the course of the next three years:

### (a) Delegation of Construction and Maintenance Functions to State Highway Departments

17. A study of the organization of the Federal Highways Department is already underway and will be completed by the end of 1968. On the basis of this study, the Government will formulate in early 1969 a program for the reorganization of the Federal Highways Department, with particular emphasis on its planning, regulatory and supervisory functions.

The study will also attempt to coordinate the work of the State Highway Department with the program to be adopted, so as to enable them to take over from the DNER the duties of construction, paving, maintenance and policing of federal highways.

The transfer of these responsibilities to the State Governments will be effected gradually, as regional conditions, the capacity of the highways agency, and the nature of specific projects permit.

In effecting this delegation, the Federal Government will ensure that the states implement the recommendations of the Survey Report regarding the organization of their highway departments.

(b) User Charges

18. The Government is studying the possibilities of reforming the present system of user charges so that there will be a broad correspondence between the use of highways by particular classes of vehicles and the economic costs of constructing, maintaining and administering the National Roads System. Toward the end of 1968 the Ministry will submit its final proposals to that effect to the country's financial authorities, with a view to analyzing the probable repercussions on Brazil's economic and financial policy. The Government's conclusions will be reported to the World Bank.

(c) Investment Program

19. The Government intends to base its investment program on the highway construction priorities recommended in the Survey Report, with due regard for the national economic situation. Moreover, it intends to maintain, within the Ministry of Transport, a continuous planning process to update the Master Plan on the basis of current and subsequent detailed studies on the technical and economic feasibility of proposed highways, seeking at all times to make the investments that will yield the best return.

III. Ports

20. The Government's policy on ports is to decentralize the administration by setting up autonomous and financially viable entities responsible for their operation, to adopt specific measures for introducing an accounting system, and to set port charges on the basis of the cost of the service rendered at a reasonable level of efficiency. To achieve these objectives, the Government intends to take the following measures:

(a) Decentralization of Port Administration

21. The Federal Government will have to take the necessary legislative and administrative steps to set up corporations in the above ports. In the first half of 1969 inventories of the assets of the principal ports will be conducted, after which the corporations will be set up. The states and municipalities in which the ports are located, as well as business and industrial interests, may participate in these corporations.

(b) Accounting, Tariffs and Port Operations

22. It is proposed to introduce a modern, commercial accounting system in the ports of Rio de Janeiro, Santos and Recife. By December 1968 qualified consultants will be retained to work on the existing plan to introduce such a system in the ports. This work should be completed during the first half of 1969, so that the system can be introduced during the second half of the year.



23. The consultants will also introduce a system of cost accounting. The resulting cost information will be used by the port authorities to establish a schedule of port charges, related to the cost of services rendered, for the major ports. The level of charges will be such that a reasonable rate of return on the total net investment is assured. The new tariff of charges will be phased into operation as data on the cost of services provided are obtained through the cost accounting system.

IV. General

24. The Government trusts that the World Bank, in its studies concerning the grant of the Highway Loan, will take due account of the above measures, which embody certain aspects of the country's transport policy. The Government will at all times be receptive to any technical assistance intended to improve and perfect the country's transportation media.

Yours truly,

(signed)

Mario Andreazza  
(Minister of Transport)

## 2. BACKGROUND

### A. General

2.01 Brazil is somewhat larger than the continental United States, with an area of about 8.5 million km<sup>2</sup>. It is divided administratively into 22 States with limited autonomy, a federal district and four territories administered directly by the Federal Government. The population (88 million in mid 1968) is the eighth largest in the world and is growing at about three percent per annum.

2.02 The Gross Domestic Product for 1967 is estimated at NCr 47.2 billion, equivalent to about US\$15 billion (US\$170-180 per capita). The annual real growth rate, after falling to 2.2 percent in 1963-64, is recovering slowly, having been 3.7, 4.4 and 4.1 percent respectively in 1965, 1966 and 1967, and is expected to be at least 5.0 percent in 1968.

2.03 The public sector generally has been a major source of inflationary pressure over the past decade. Operating subsidies to transport have been particularly important in this respect. The Government's objective is to reduce gradually the rate of inflation by, among other things, improving transport operations and by setting limits on permissible wage increases. Government policies and general economic conditions are promising; the 1968 Economic Mission to Brazil expects an average annual growth rate in the Gross Domestic Product of about 5.5 percent during the next few years.

### B. Transportation in Brazil

2.04 Brazil's transport network has been influenced by geographical and historical factors. The easily accessible coastline of nearly 5,000 km together with 1,600 km along the Amazon River has been instrumental in the development of population and economic centers. Settlement along or near water has also been influenced by the partially navigable Sao Francisco, Parana and Paraguay Rivers. Railways were developed primarily to penetrate the interior and to carry resources to the ports. For the most part, these lines are unconnected with each other and often have different gauges. Road transport, in terms of ton-km performed, has been more important than rail transport for many years and has almost doubled in importance over the last seven years (Table 1). This rapid growth has been both a consequence and a cause of difficulties in coastal shipping and railways. However, important parts of the highway system are deficient even for present needs. Aviation has been important for many years, providing transport to many otherwise inaccessible areas.

2.05 In Brazil there are 15 federal railway systems and 7 railway systems owned by the State of Sao Paulo. These total approximately 25,000 km and 6,500 km, respectively. Another system (E.F. Vitoria a Minas), of about 570

km, is operated by a mining company that is partly owned by the Federal Government. In absolute terms, railway freight traffic has increased by 42 percent from 1961 to 1967, but in relative terms the railway share of total traffic decreased from about 18 to 15 percent in this period (Table 1). The largest absolute increase in freight hauled was in iron ore, accounting for about 46 percent of total railway traffic and 92 percent of the Minas a Vitoria traffic. In recent years the federal and state railways have been suffering from intense road competition, even for bulky commodities such as sugar, livestock and timber; they are inefficient, with overextended light density lines and large staffs. The consultants for Phase I of the Transport Survey (Para. 1.02) made recommendations to increase efficiency but progress has been slow (Para. 2.14 et seq.).

2.06 Brazil's coastal shipping fleet consists of four passenger vessels, small tankers and 145 dry cargo vessels over 500 deadweight tons. The fleet is generally old, slow, expensive to operate and poorly utilized. A major renewal and expansion program is underway. Coastal shipping traffic has increased from 14 billion net ton/km in 1961 to 19 billion net ton/km in 1967 (Table 1). The increase is due to longer voyages rather than to greater tonnages.

2.07 Of Brazil's five major commercial airlines, four (VARIG, CRUZEIRO DO SUL, PARAENSE AND SADIA), are privately owned and operated, while the fifth, (VASP), is owned by the State of Sao Paulo. VARIG has the most extensive network, linking Brazil with other cities in South and North America as well as with Western Europe and Africa. The airlines contributed 0.2 percent of the total freight ton/km amounting to about 240 million ton/km in 1967 (Table 1).

2.08 For passenger traffic in 1965, bus transport was the most important, accounting for 53 percent of the total passenger km. Automobile transport accounted for 31 percent and railways 14 percent (Table 2).

2.09 Pipelines, all except one operated by the Government monopoly PETROBRAS, are becoming important in the movement of crude oil from the fields in Bahia and for oil and derivatives inland from the coast. Three short pipelines are located in the States of Bahia, Sergipe and Guanabara and a fourth links Rio with Belo Horizonte, a distance of 365 km, while another of 90 km connects an inland refinery near Porto Alegre with its sea terminal in the State of Rio Grande do Sul. Another line of 120 km, owned by the federal railways, links the city of Sao Paulo with the port of Santos. The ton/km movement by pipeline is not known.

2.10 Investment in transport has averaged about NCr 3.2 billion annually (1967 prices) from 1960 to 1966 (US\$1.2 billion equivalent, Table 3). In the public sector transport investment is about one-third of total public investment, road construction alone accounting for about 22 percent.<sup>1/</sup> Investment in highway construction rose significantly by about 25 percent between 1960 and 1966, as did investment in fixed facilities for other forms of transport.

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<sup>1/</sup> Economic Growth of Brazil: Problems and Prospects, Vol. I.  
IBRD October 23, 1967, p. 45

## Transport Coordination

2.11 Transport coordination, in the sense of a set of policies to encourage the movement of traffic by that mode of transport which, in the long run, can move it at the lowest economic costs, does not exist at present in Brazil. By and large, many past transport investments have been made without reference to priorities based on relative net contributions to national income and a number of investments have been made where the yield has been extremely low.

2.12 Current pricing policies do not ensure recovery of investment and operating costs of any mode of transport except pipelines. In rail and maritime transport not even current operating costs are recovered and large subsidies have been required. These are a major source of inflation as the federal subsidies accounted for about 43 percent of the federal cash budget deficit in 1967. In that year for example, the subsidies were; federal railways NCr 474 million, ports NCr 34 million, shipping NCr 112 million, and air transport NCr 14 million, a total of NCr 634 million or US\$234 million equivalent. The largest share, US\$140 million equivalent, was for the federal railways. Moreover the yield of road user charges is about 40 percent of the economic cost of highways.

2.13 Following the Bank's Economic Mission in 1964, the Government and the Bank realized the serious situation in the transport sector. In arranging for the subsequent Transport Survey (Para. 1.02), the Government signed a Memorandum of Understanding, the main provisions of which committed the Government to pursue rational investment policies and aim for efficiency in the transport sector. The railways were to be reorganized into regional systems, uneconomic lines were to be abandoned, the construction of unremunerative new lines was to stop and some of the excessive staff was to be reduced. Management was to be operated on sound business principles and rates were to be raised over time eventually to cover costs. Some specific measures were to be undertaken during the course of the study; 1,000 kms of uneconomic lines to be closed in 1965/1966, the excessive labor force to be reduced by 10,000 in the same period and rates increased by an amount which would exceed any cost increases by at least 20 percent. The Government actually achieved the target for the abandonment of uneconomic lines, the staff was reduced by 8,300 and the railway deficit declined in real terms by 24 percent. In respect of ports, the Government undertook that ports would be operated by local port authorities and on a commercial basis with Government's function being limited to coordination. The Port Master Plan to implement these objectives has been prepared by consultants. The Government also stated its intention to reorganize the National Highway Department and to pursue a policy of highway financing whereby the users would pay for their costs; these objectives are in the planning stage and are discussed further below in connection with the proposed project.

2.14 A further Memorandum of Understanding was agreed upon as a preliminary to Phase II of the Survey. About 1,000 km of uneconomic railway lines were to be abandoned in 1967 and staff reduced by another 10,000. Construction of new lines was to cease unless recommended in Phase I, and

there were to be realistic increases in rates and fares. While some progress has been achieved performance has fallen short of expectations; line abandonment was less than one-third of that agreed upon because the alternative highways have not been built, staff has been reduced by less than 3,000, and tariffs are still below costs for most goods and passenger traffic. The railway deficit, in real terms, was about the same in 1967 as it was in the previous year and although most construction of new railway lines has ceased some is still taking place contrary to Phase I recommendations.

2.15 In the highway sector, the Government was to limit highway construction to roads indicated by the Phase I studies and those in other States agreed upon with the Bank. Again the limitation of construction has not been fully observed.

2.16 The Government is taking steps to remedy this situation. A "Strategic Program" of broad objectives for transport policy was approved by the Government in July 1967, which embodied most of the principles of the Memoranda of Understanding. This was re-stated in the President's 1968 Budget message, as a result of which a Plan of Action has been prepared including a 3-year transport investment plan for 1968-1970 based principally on an analysis of benefits and costs. The Plan also sets out the objectives and measures by which it is intended to bring about improved transport coordination, including most of the measures agreed to in the Memoranda of Understanding and the recommendations of the Transport Survey.

2.17 When these measures are implemented, significant progress towards transport coordination will have been made. It should be recognized, however, that the transport problems to which these actions are addressed are widespread and deep-rooted. While the plans are well-conceived, it can be expected that progress will be difficult and, at best, slow. The importance of the problems and the Government's desire to work with the Bank in an ambitious program to bring about solutions, justify the Bank's continued efforts along these lines in the face of the mixed progress to date. Close cooperation between the Government and the Bank will be required. Prior to loan negotiations, the Government communicated to the Bank the major objectives of the Government's policies in highways, railways and ports and of the measures and time schedules proposed to achieve these objectives. The main elements of the Government's future transport policy are given in Annex C.

3.23 A new road plan has been prepared as part of a 3-year plan (1968-70) for the transport sector (Para. 2.16). The plan is broadly based on the priorities established for national and state roads by Phase I studies of the Transport Survey, and the preliminary findings of the Phase II studies.

#### F. Characteristics and Growth of Road Traffic

3.24 Data on the vehicle fleet are poor and the estimates given below are to be considered as the best approximations. The national total in 1965 was estimated to be about 1.3 million cars and pick-ups, 57,000 buses, and 436,000 trucks, and the total vehicle fleet has been growing by an average annual rate of nearly 8 percent in recent years. For Brazil as a whole there was one vehicle for every 47 persons in 1965 compared with one vehicle for every 18 persons in Argentina and one for 40 persons in Chile. The distribution among the states and territories was uneven; for example, Sao Paulo accounted for about 37 percent of the total and Guanabara for 10 percent (Table 8). Most of these vehicles were manufactured by the local automobile industry at high costs under the protection of high import duties reaching 150 percent. In fact, no significant vehicle imports of any kind have occurred in Brazil since 1960. About half the truck fleet is of 5-9 ton carrying capacity, gasoline-powered; heavy diesel trucks of over 15 tons carrying capacity account for only 7 percent of the truck fleet (Table 9).

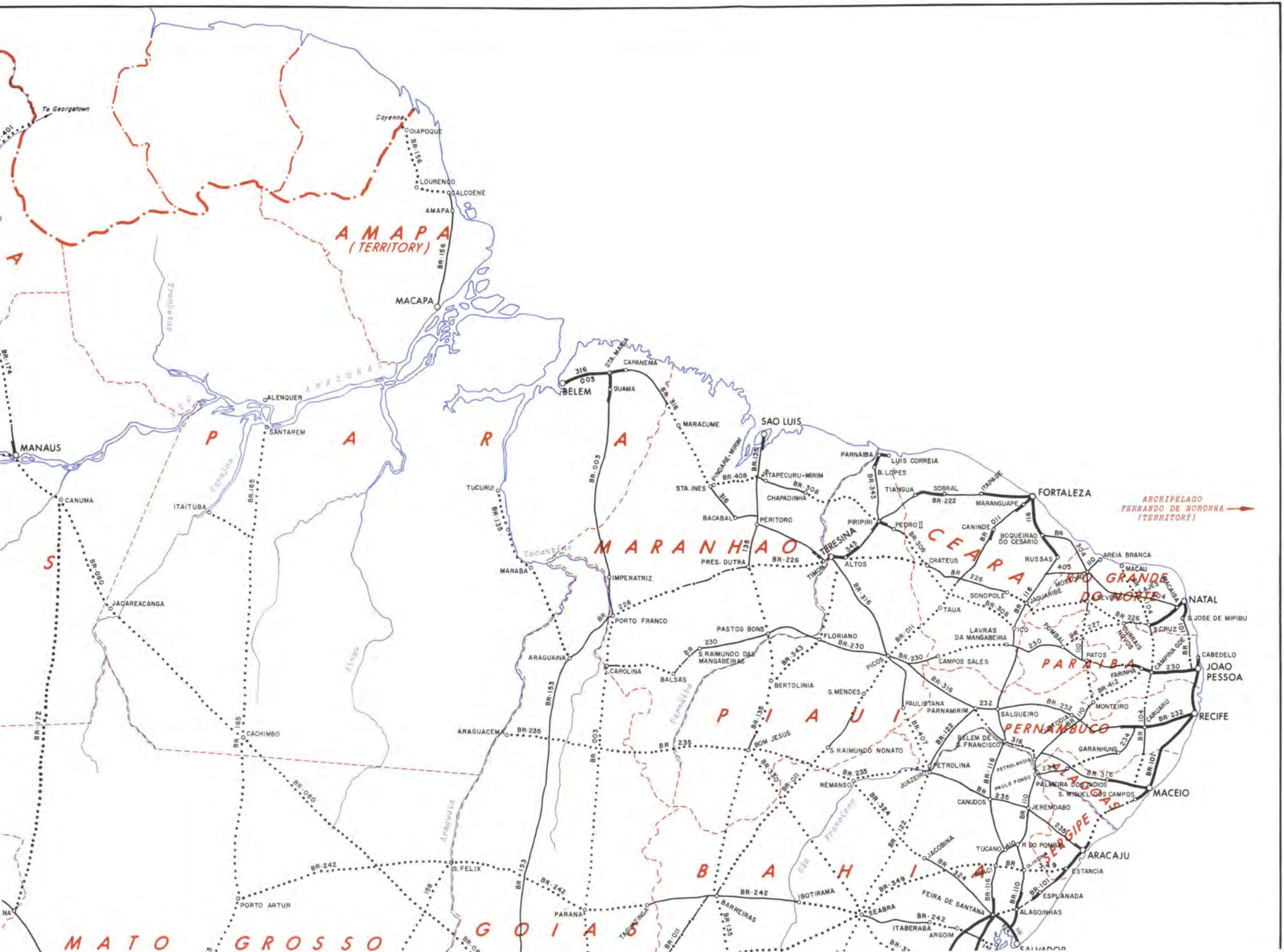
3.25 The total vehicle fleet is expected to grow from about 1.8 million vehicles in 1965 to about 2.8 million in 1971 (Table 10). The projected high growth rate for passenger cars (8.9 percent per annum) reflects the expected greater availability of cars, higher personal incomes and population growth. The highest growth rate is expected for inter-city buses, reflecting the same factors, together with the movement of passengers from uneconomic railway services that are to be suspended.

3.26 Knowledge of traffic characteristics has improved in the last two years as a result of the Transport Survey highway studies. The DNER and GEIPOT now make regular traffic counts, as do some of the states. The State of Sao Paulo for example, has over 800 regular counting stations. Origin-destination surveys are done although not on a systematic basis. The Government has agreed that data collection for highway planning purposes will be undertaken systematically in the future.

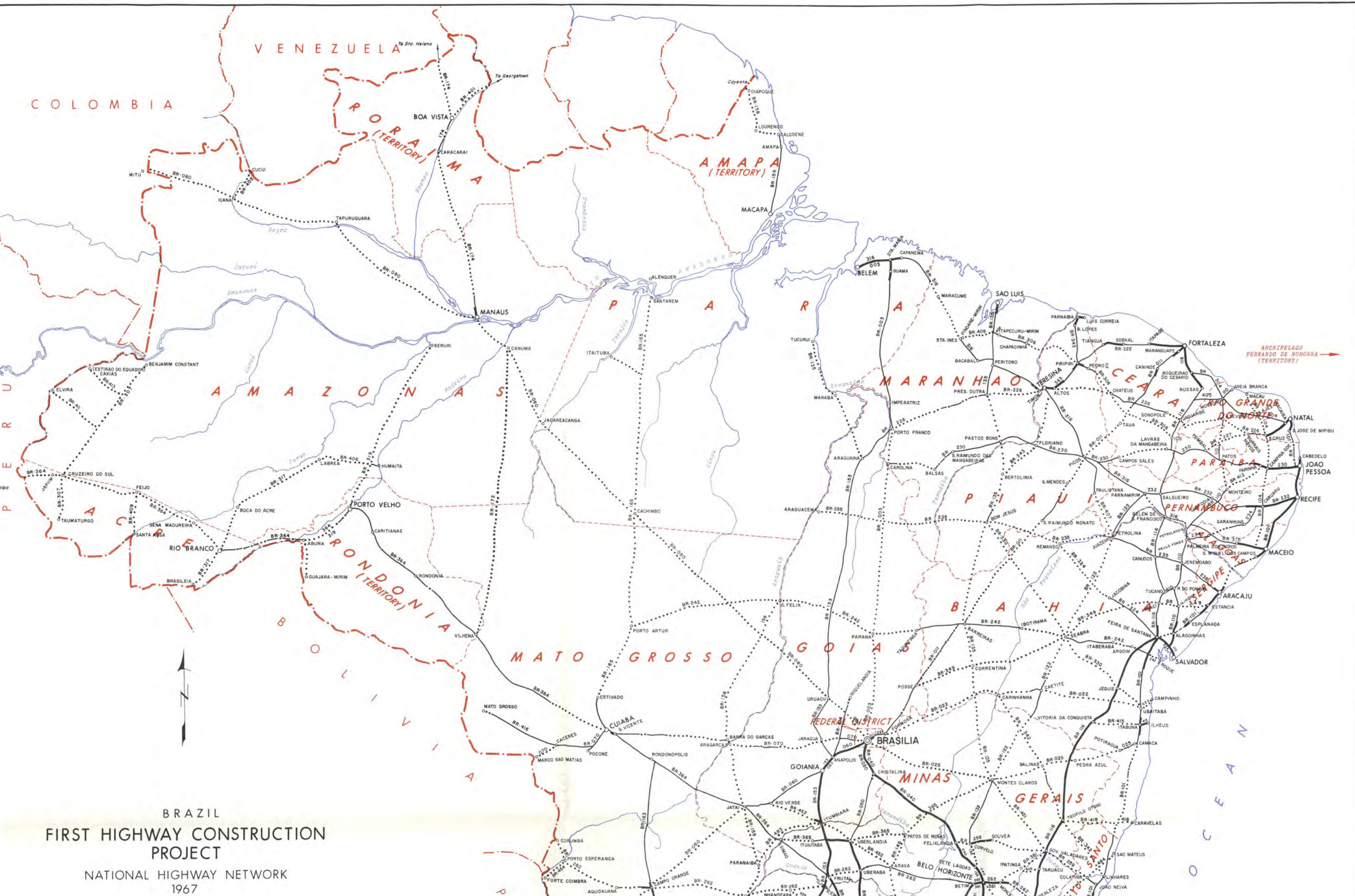
3.27 The hub of Brazil's road transport network is the city of Sao Paulo, where several important interstate highways converge. Route BR-116 starts in the northeast in Ceara and continues south through Feira de Santana to Sao Paulo to the Uruguay border (Map 1). Its most heavily travelled sections are in the south. In 1966, for example, at Governador Valadares, the ADT was over 2,000 vehicles rising to 15,000 near Sao Paulo and remaining over 4,000 in the State of Rio Grande do Sul (Table 11). Freight traffic is heavy, trucks being as much as 80 percent of the traffic

flows in Minas Gerais. Other traffic data are given in Table 11 for all the main highways. The high proportion of trucks is evident, averaging 51 percent for the highway sections shown. Vehicle operating costs are given in Table 12. These tend to be somewhat higher than those experienced in the US, primarily because of the higher price of vehicles.

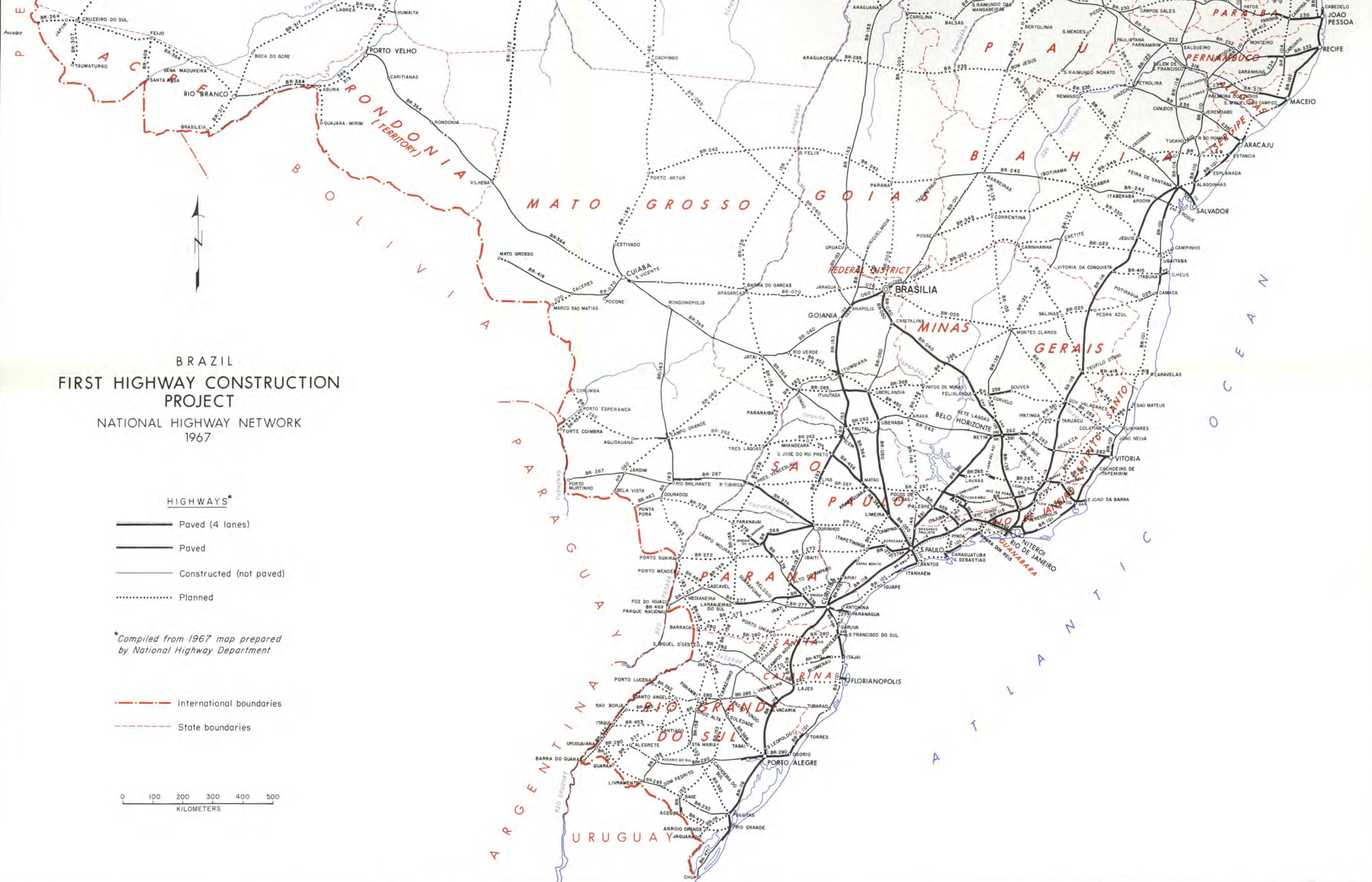
3.28 Entry to the interstate road transport industry requires DNER approval but is not difficult. Two-thirds of the ownership must be Brazilian. It is not necessary to prove public convenience and necessity for a proposed truck route, or to file information regarding tariffs, the commodities to be carried or financial standing. The granting of licenses is more or less automatic. Intrastate trucking operators are licensed by the DER's in the same way. Bus companies must apply to DNER or to DER's depending on whether the proposed services are inter or intrastate. Unlike truckers, however, applicants must prove public need and file tariffs and timetables for each route. There is, then, clear demarcation of interstate and intrastate road transport regulation which is, on the whole, not unduly restrictive.







BRAZIL  
 FIRST HIGHWAY CONSTRUCTION  
 PROJECT  
 NATIONAL HIGHWAY NETWORK  
 1967

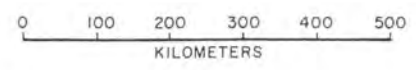


BRAZIL  
 FIRST HIGHWAY CONSTRUCTION  
 PROJECT  
 NATIONAL HIGHWAY NETWORK  
 1967

- HIGHWAYS\*
- Paved (4 lanes)
  - Paved
  - Constructed (not paved)
  - Planned

\*Compiled from 1967 map prepared by National Highway Department

- International boundaries
- State boundaries



H

TABLE 1  
NOMINAL AND EFFECTIVE RATES OF PROTECTION IN SELECTED DEVELOPING COUNTRIES

(Percent)

	Brazil		Chile		Malaysia		Pakistan		Philippines	
	Nominal	Effective	Nominal	Effective	Nominal	Effective	Nominal	Effective	Nominal	Effective
<b>Agriculture and Fishing</b>										
01 Agriculture	18	11	58	58		21	7	-		34
02 Fishing	21	-2	42	62		-10	30	-		0
Average	18	11	57	58		20	8	-		33
<b>Processed Food</b>										
10 Meat products	20	21	10	-101		-4	-	-		36
11 Prepared foods	83	202	110	164		16	251	572		68
12 Sugar	0	-51	29	12		199	204	504		105
13 Confectionary	73	145	200	360		-4	-	-		32
14 Dairy products	45	157	85	160		-8	56	248		200
15 Cereal products	63	114	81	154		1	-	-		26
16 Other food products	16	-43	137	45		-51	-	-		95
17 Beverages	58	81	166	279		198	123	183		0
18 Oil and fats	49	121	54	7		-2	102	191		66
Average	27	14	103	52		-3	151	357		84
<b>Tobacco</b>										
19 Tobacco	93	195	106	90		-127	207	336		0
<b>Mining and Energy</b>										
03 Solid fuels	38	38	37	28		-3	-	-		-13
04 Gas	10	-70	153	446		16	-	-		6
05 Iron ore mining	0	-16	0	-8		-22	-	-		-21
06 Nonferrous metal ore	4	-34	12	-32		-22	60	57		-37
07 Petroleum, natural gas	23	-4	47	110		-7	30	24		-20
08 Construction material	21	4	117	152		-2	-	-		21
09 Other materials	23	14	60	59		7	-	-		82
Average	19	-5	40	72		-8	35	29		-9
<b>Intermediate Products I</b>										
21 Thread and yarns	68	143	66	12		3	23	17		98
28 Lumber	11	-7	24	2		-1	73	112		-19
31 Wood pulp	18	2	49	60		36	12	-38		24
35 Leather	63	138	166	425		39	45	97		205
39 Synthetic materials	48	71	166	303		24	224	469		42
40 Other chemical materials	19	-2	87	97		10	65	84		28
44 Petroleum products	111	291	44	132		-4	47	63		12
45 Nonmetallic mineral products	36	36	115	154		11	91	118		62
46 Glass and glass products	62	71	186	266		28	164	212		61
48 Pig iron	18	41	0	33		8	-	-		11
49 Steel ingots	18	47	106	1161		-8	24	61		36
54 Nonferrous metals	52	121	37	45		8	90	274		31
Average	48	96	61	100		9	72	138		28
<b>Intermediate Products II</b>										
22 Textile fabrics	103	182	211	455		65	105	198		0
29 Wood products	64	105	146	255		20	-	-		0
32 Paper and paper products	54	87	60	63		13	94	156		57
37 Rubber products	78	142	102	149		5	153	298		114
38 Plastic goods	68	102	151	158		29	236	459		144
41 Chemicals	55	85	133	206		42	65	91		83
50 Rolled steel products	32	74	54	74		-5	55	165		53
51 Other steel products	24	-3	66	84		-4	69	177		6
55 Metal castings	20	9	108	167		-2	-	-		38
56 Metal manufactures	52	75	104	165		16	95	167		46
Average	62	103	113	195		25	91	173		40
<b>Non-durable Consumer Goods</b>										
23 Hosiery	103	178	428	1015		68	126	157		0
24 Clothing	103	124	325	544		31	225	392		0
25 Other textile articles	98	126	168	170		22	-	-		122
26 Shoes	103	146	165	192		3	60	62		0
33 Printing "publishing"	59	68	72	79		-2	28	2		18
36 Leather goods	86	119	153	164		35	60	67		128
66 Precision instruments	24	13	76	77		8	110	145		22
67 Toys, sport goods, jewelry	90	123	181	260		18	65	68		123
Average	73	94	188	300		20	112	156		40
<b>Consumer Durables</b>										
62 Automobiles	78	128	95	123		-8	249	514		87
64 Bicycles and Motorcycles	103	185	92	120		25	221	460		10
Average	80	132	95	123		-5	247	510		81
<b>Machinery and Transport Equipment</b>										
57 Agricultural machinery	26	11	35	-2		-5	-	-		1
58 Nonelectrical machinery	47	57	85	90		7	89	125		12
59 Electrical machinery	55	65	100	130		17	66	83		48
60 Ships	14	-21	9	-82		-7	-	-		-3
61 Railroad vehicles	30	18	75	80		-5	-	-		-3
Average	47	53	83	89		9	80	109		22
<b>Averages</b>										
Primary products	18	4	49	64		7	17	na		14
Manufactured goods	46	69	93	112		8	97	185		48

TABLE 2

## INTERNATIONAL PRICE COMPARISONS FOR SELECTED CAPITAL GOODS INDUSTRIES

	Material and Supplies 1/ as % of Final Price			Import Component (Col. (3) as % of (1))	Price Ratios		Gross Protection	Protection, Assuming Imported Inputs at International Price	Net Protection, i.e. Assuming All Material & Supply Inputs at International Prices	Effective Protection (Percentage Premium of Value Added of Domestic Industry over that of Representative Inter- national Manufacturer)
	Total	Domestic	Imported 2/		Domestic Materials	Imported Materials				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Percentage of Foreign Price 4/	(9)	(10)
<b>Small Trucks a/</b>										
Argentina	61	49	12	19.7	2.34	2.43	80	67	17	31
Brazil	57	53	4	7.0	1.54	2.25	28	25	2	3
Mexico	71	39	32	45.1	2.66	2.03	52	27	-10	-18
<b>Small Trucks b/</b>										
Argentina	74	62	12	16.2	3.48	2.50	104	90	-1	-2
Brazil	72	68	4	5.6	2.32	2.50	50	46.5	-11	-20
Mexico	75	43	32	42.7	2.23	2.00	30	10	-20	-38
<b>Mechanical Industry</b>										
<b>Argentina</b>										
Diesel Engine 225/280 HP	37	22	15	40.5	2.43	1.09	99	97	71	132
Diesel Engine 410/685 HP	40	22	18	45.0	3.30	1.12	133	129	93	200
Tractor Decca A-55	47	42	5	10.6	3.44	1.11	207	205	114	233
<b>Mexico</b>										
Excavators	45	25	20	44.0	1.30	1.09	21	19	12	22
Crushers	28	8	20	71.4	1.32	1.07	24	22	20	28
Road Rollers	41	24	17	41.5	1.57	1.11	43	41	29	50
Motor Graders	49	23	26	53.1	1.40	1.11	26	23	15	30
Boilers	40	24	16	40.0	1.40	1.11	40	38	28	51
<b>Heavy Electrical Equipment</b>										
<b>Argentina</b>										
Generators:										
(1) 2109 KVA	39.0	15.3	23.7	61.0	2.13	1.49	150.0	131.0	112.0	260.0
(2) 4000 KVA	33.5	15.3	18.6	55.0	1.68	1.42	81.0	71.0	59.8	100.0
<b>Brazil</b>										
Transformers 33 MVA 220/88 KV	51.8	12.6	39.2	75.7	1.28	1.64	17.0	-2.0	-5.9	-9.9
Generators 42 MVA 13.8 KV 100 rpm	45.9	11.6	34.3	74.9	1.38	1.09	46.0	42.0	36.5	77.0
Motors 700 HP 6.9 KV	19.3	12.5	6.8	35.2	1.65	1.00	50.0	50.0	42.0	44.0
Generators 1500 KVA 380 V 900 rpm	50.3	25.7	24.6	48.8	1.56	1.37	6.1	-1.5	-11.3	-20.4
<b>Mexico</b>										
Transformers:										
(1) 25/33 MVA 161/69 KV	80.6	40.2	40.4	50.1	1.61	1.16	20.0	13.0	-5.0	-17.6
(2) 12.5 MVA 115/6.9 KV	79.5	34.1	45.4	57.0	1.53	1.20	-10.0	-17.0	-27.6	-59.9
(3) 40/55 MVA 115/66/13.8 KV	80.9	25.7	55.2	68.4	1.30	1.34	40.0	20.0	11.1	78.4
(4) 92 MVA 230/13.2 KV	77.4	22.0	55.4	71.6	1.68	1.22	28.1	15.0	4.0	16.4
Switch Panels 2400 V 3 phase	78.9	29.2	49.7	63.1	1.25	1.39	25.0	16.0	8.6	43.2
Motor Control Panels 480 V 3 phase	73.9	60.3	13.6	19.5	1.47	1.08	45.0	45.0	17.3	54.3
Distribution Tables Two sections	79.1	19.9	59.2	74.8	1.96	1.32	45.0	24.0	9.8	47.8
Current Transformer	17.1	13.0	4.1	56.3	1.38	1.00	40.0	40.0	35.0	43.1
<b>Pakistan</b>										
Motors 20 HP 380/220 V	64.9	23.2	41.7	64.3	2.17	1.34	71.0	52.0	29.0	92.0
Transformers:										
(1) 25 KVA 11/0.4 KV	46.6	26.8	19.8	42.4	2.48	1.15	48.8	45.0	21.2	36.0
(2) 50 KVA 11/0.4 KV	53.2	21.6	31.6	59.3	1.93	1.18	77.7	68.0	50.0	148.2

Note: The definitions of Columns (7) - (11) are discussed in the text.

1/ Supplies include electricity, fuel, lubricants, office supplies and rent.

2/ Including indirect, i.e., import component of domestic inputs and depreciation unless otherwise specified.

3/ Domestic prices include taxes unless otherwise indicated.

4/ International price (C.I.F., port of entry, unless otherwise indicated).

a/ Foreign prices F.O.B.

b/ Prices, C.I.F., and including indirect taxes.

Foreign and domestic prices excluding indirect taxes.



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# THE DEPARTMENT OF STATE

American Republics Establish an Alliance for Progress

## American Republics

## Establish an Alliance for Progress

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RESEARCH  
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## American Republics Establish an Alliance for Progress

*The special meeting of the Inter-American Economic and Social Council which began at Punta del Este, Uruguay, on August 5 was concluded on August 17 with the signing of a declaration and a charter by all the members of the Organization of American States except Cuba. Following are a statement of August 19 by President Kennedy and an exchange of remarks between the President and Secretary of the Treasury Douglas Dillon, U.S. Delegate, at ceremonies welcoming the return of the U.S. delegation, together with remarks made by Mr. Dillon on August 17 at a plenary session of the meeting and texts of the Declaration to the Peoples of America and the Charter of Punta del Este.<sup>1</sup>*

### STATEMENT BY PRESIDENT KENNEDY

White House press release dated August 19

Secretary Dillon and members of the United States delegation to the conference in Punta del Este: With pride in your accomplishment I welcome you home. You have played a leading role in one of the historic meetings of the hemisphere. You have made plain in action the dignity, the good sense, and the generous purpose of the United States, and its full commitment to the Alliance for Progress.

A great international conference, as you well know, is hard work. Headlines and photographs

<sup>1</sup> For remarks made by President Kennedy on Aug. 3 and an announcement of the members of the U.S. delegation, see BULLETIN of Aug. 21, 1961, p. 317; for a message of Aug. 5 from the President to the meeting, together with a statement made by Mr. Dillon on Aug. 7, see *ibid.*, Aug. 28, 1961, p. 355.

show only the top of the iceberg. All of you have been heavily engaged, in these 2 weeks, in the processes of proposal and counterproposal, argument and study, negotiation and persuasion that are essential to progress in such meetings. All of you have had to bear in mind, and act upon, the requirements both of leadership and of restraint which always rest upon representatives of the United States. We at home have followed your work with great interest, and we know that you have done well.

"Alliance for Progress" was a phrase in January.<sup>2</sup> It became a proposal in March.<sup>3</sup> Now it is a fact. In the language of the Declaration of Punta del Este, we of the American Republics are now committed to a "vast effort to bring a better life to all the peoples of the continent." This is a partnership; there is work in it for all of us, and the United States must surely do its full share.

While you have been in Uruguay—and I know you will want me to add my thanks to yours for the generous hospitality of the Government and people of that sister Republic—we have been working in Washington for foreign aid legislation to support your efforts. We are still working. So let me take this happy occasion as one more opportunity for me to emphasize to all in our Government, and indeed to all Americans, that the great hopes of the Alliance for Progress require strong support for a well designed, fully funded program of aid to friendly nations. Your success, Mr. Secretary, is a challenge and inspiration to us all.

<sup>2</sup> For text of President Kennedy's inaugural address, see *ibid.*, Feb. 6, 1961, p. 175.

<sup>3</sup> *Ibid.*, Apr. 3, 1961, p. 471.



## REMARKS AT WELCOMING CEREMONY

White House press release dated August 19

### President Kennedy

Ladies and gentlemen, I want to express our great satisfaction in welcoming back to the United States the Secretary of the Treasury, Mr. Dillon, who headed our mission to the conference in Uruguay.

I must say I believe that this conference was the most important event which has occurred in the foreign policy of the United States in the last 6 months. I think it offers our hopes for the future. I think it represents a more concentrated effort by a great number of Republics and a great number of people in this hemisphere to build a better life for their people.

It is a particular source of satisfaction to all of us that we were represented at that conference by the Secretary of the Treasury, Mr. Dillon, who has represented this country in previous conferences but who represented this country with particular distinction at this conference.

During the last 2 weeks he has carried forward the concepts which motivated the Alliance for Progress with the greatest vigor, the greatest understanding, and the greatest determination. And I think it is a source of credit to him and to the other members of the delegation that this conference and this agreement which finally was achieved represented our best hopes and the best hopes of our fellow Republics. So that while we are extremely sorry that I was not able to go, and the Members of the Senate and other members of the Government and Members of the House were not able to attend this conference as we had at first hoped—we were engaged in a struggle here—we do feel, however, that Mr. Dillon represented this country with the greatest distinction and the greatest credit. And I want him to know, and all those who were engaged in this conference, that we stand strongly behind the commitments that were made there, that this Government will do everything it possibly can to make sure that these commitments are carried out.

They stretch over a period of 10 years, and I am sure that this administration and other administrations to follow will make sure that it devotes the efforts of this country to assisting our fellow Republics in achieving a better life for the people of those countries.

This can be done now, I am hopeful, by agreeing to legislation which will permit us to make long-range commitments.

I welcome back the Secretary of the Treasury and all the other members of the delegation, which is a most distinguished one.

We have here some stamps which were issued by the country which was our host, on the last day, which are stamps for the opening and the closing of this conference. We want you to know, Mr. Dillon, that you carried with you our best hopes and you have come back with our fondest expectations.

### Secretary Dillon

Mr. President, I thank you for your kind words. We were negotiating in Punta del Este for some 10 days with all the other American Republics, and it was a source of great satisfaction that at the end of that time we reached an agreement which is consecrated in the document called the Charter of Punta del Este, which served as the framework of the Alliance for Progress and that sets forth this framework in accordance with the views and expectations of what this alliance should be: a cooperative undertaking wherein each country pledges its effort to do its part for the common effort to increase economic strength and the social development of the populations of Latin America.

The Latin American Republics agreed to increase their own efforts, to modernize their tax systems, to institute programs of land reform, and do all the other things necessary to get under way really substantial programs of development. And we, on our part, agreed to help them in this effort.

And I am delighted here to say, Mr. President, that we will carry forward that commitment because this is the most important thing that I can see for us.

I have here with me a copy of this charter which we adopted down there, which I am glad to bring back and give to you, Mr. President.

### REMARKS BY SECRETARY DILLON, AUGUST 17

Press release 574 dated August 17

Before explaining or commenting on our vote in favor of this charter, I want to add my thanks to the Government of Uruguay which gave us this beautiful town and which made such wonderful

arrangements for us here at the conference. I want to thank you for your hospitality and for the effectiveness of your arrangements. And we want to thank, as has been done in this resolution, the whole town of Punta del Este and the Department of Maldonado, which has paid us the high honor of giving us their city's medal while we were here. We also, above all, wish to pay our respects to the host Government of Uruguay for everything that they have done. We want to thank the secretariat, José Antonio Mora, Jorge Sol, and we want to thank you, Mr. Chairman, for the way you have presided over our meetings.

Mr. Chairman, I have not intended to take up the time of this meeting by commenting on any of the flood of untruths and falsehoods which the Government of Cuba has charged my country with. Now I do not think that that is in any way necessary. However, unfortunately, in the presentation today, the delegate of Cuba has chosen to take one phrase out of this document and try to twist its meaning so as to gravely misrepresent the position of the United States. He has tried to give the implication that the United States somehow recognizes the permanence of the present regime in Cuba. This we do not do and never will do, because to do so would be to betray the thousands of patriotic Cubans who are still waiting and struggling for the freedom of their country. We recognized the Cuban revolution when it occurred, and we held out the hand of friendship to that revolution. This hand was repeatedly rejected, and then, day by day, we saw the Government of Cuba betray the aims of the revolution which had brought it to power and give over the people of Cuba to the domination of a foreign power which the Cuban Government now calls our "sister socialist republic." The United States continues to extend the hand of friendship to the people of Cuba, no matter what the conduct of its present government. We believe that the people of Cuba share the hopes and aspirations of the people of the other American Republics. We further believe that the people of Cuba desire to realize their hopes and aspirations within a framework of free institutions.

We await the day when the people of Cuba have once more regained their freedom from that foreign domination and control to which they are presently subjected so that they may once more join wholeheartedly in the free community of

American states. We believe this is their desire, and we believe it is a desire which is supported by every delegation represented at this conference.

Now to return to the business of this conference.

This is a memorable occasion for our hemisphere. Here two great currents have come together: the spirit of pan-Americanism, which, in the democratic tradition of our Western civilization, unites our peoples in their love of individual freedom, of the right freely to choose their leaders and to have a part in making the laws under which they live; and, secondly, the burning desire of our peoples to achieve a status of health, education, and human dignity which will permit them to enjoy the full flowering of their individual talents.

We have met here in the tradition of free and equal sovereignty that guides our hemispheric relations. After full and free discussion—very useful discussion—we have taken a historic step. We have agreed upon the establishment of an Alliance for Progress. We have consecrated that agreement in the Charter of Punta del Este—a true landmark in the history of the Americas.

The document we have just approved reaffirms the great principles of Operation Pan America.<sup>4</sup> It also reaffirms the high principles of the Act of Bogotá.<sup>5</sup> It pledges the countries of Latin America to carry out steps of structural reforms and self-help that are needed to speed economic growth and to spread its benefits far and wide among all our peoples.

The United States, for its part, pledges its support to this great effort and indicates its willingness to contribute a substantial share of the external financing which will be needed. We are already meeting to carry out this pledge. For, as we met, our new foreign aid legislation, containing for the first time authority to make long-term commitments, has been under consideration in our Congress and has just now been approved by the Senate of the United States.

In the Charter of Punta del Este we have also recognized the overriding importance of economic integration, and we have charted the way to improve the situation of many of the basic exports that are so important to Latin America. This is

<sup>4</sup> For background, see *ibid.*, June 30, 1958, p. 1090, and Oct. 13, 1958, p. 574.

<sup>5</sup> For text, see *ibid.*, Oct. 3, 1960, p. 537.

particularly so in the case of coffee, which is vital to 14 countries of the hemisphere.

In doing all of this we here have shown a spirit of unity and serious effort which bodes well for the success of our efforts. Our resolute refusal to be diverted into sterile political arguments has been a clear sign of the importance which our peoples attach to the task at hand.

But the successful completion of this task marks only the beginning of our labors. For although we have charted the way to progress, plans alone will not feed the people, cure the sick, or educate our children. We must now undertake the hard and steady work of making a reality out of our dreams. The road to progress lies clear and straight before us. We must march down that road hand in hand. I am confident that in so doing and with the help of God, who blesses our efforts, we will bring to our hemisphere an entirely new life, a life that will enable all our peoples to achieve in freedom and dignity the full fruition of their talents.

## **DECLARATION TO THE PEOPLES OF AMERICA**

Press release 572 dated August 16 (revised)

Provisional English text

Assembled in Punta del Este, inspired by the principles consecrated in the Charter of the Organization of American States, in Operation Pan America and in the Act of Bogotá, the representatives of the American Republics hereby agree to establish an Alliance for Progress: a vast effort to bring a better life to all the people of the Continent.

This Alliance is established on the basic principle that free men working through the institution of representative democracy can best satisfy man's aspirations, including those for work, home and land, health and schools. No system can guarantee true progress unless it affirms the dignity of the individual which is the foundation of our civilization.

Therefore the countries signing this declaration in the exercise of their sovereignty have agreed to work toward the following goals during the coming years:

To improve and strengthen democratic institutions through application of the principle of self-determination by the people.

To accelerate economic and social development, thus rapidly bringing about a substantial and steady increase in the average income in order to narrow the gap between the standard of living in Latin American countries and that enjoyed in the industrialized countries.

To carry out urban and rural housing programs to provide decent homes for all our people.

To encourage, in accordance with the characteristics of each country, programs of comprehensive agrarian reform, leading to the effective transformation, where re-

quired, of unjust structures and systems of land tenure and use; with a view to replacing latifundia and dwarf holdings by an equitable system of property so that, supplemented by timely and adequate credit, technical assistance and improved marketing arrangements, 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.

To wipe out illiteracy; to extend, as quickly as possible, the benefits of primary education to all Latin Americans; and to provide broader facilities, on a vast scale, for secondary and technical training and for higher education.

To press forward with programs of health and sanitation in order to prevent sickness, combat contagious disease, and strengthen our human potential.

To assure fair wages and satisfactory working conditions to all our workers; to establish effective systems of labor-management relations and procedures for consultation and cooperation among government authorities, employers' associations, and trade unions in the interests of social and economic development.

To reform tax laws, demanding more from those who have most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while, at the same time, promoting savings and investment and reinvestment of capital.

To maintain monetary and fiscal policies which, while avoiding the disastrous effects of inflation or deflation, will protect the purchasing power of the many, guarantee the greatest possible price stability, and form an adequate basis for economic development.

To stimulate private enterprise in order to encourage the development of Latin American countries at a rate which will help them to provide jobs for their growing populations, to eliminate unemployment, and to take their place among the modern industrialized nations of the world.

To find a quick and lasting solution to the grave problem created by excessive price fluctuations in the basic exports of Latin American countries on which their prosperity so heavily depends.

To accelerate the integration of Latin America so as to stimulate the economic and social development of the Continent. This process has already begun through the General Treaty of Economic Integration of Central America and, in other countries, through the Latin American Free Trade Association.

This declaration expresses the conviction of the nations of Latin America that these profound economic, social, and cultural changes can come about only through the self-help efforts of each country. Nonetheless, in order to achieve the goals which have been established with the necessary speed, domestic efforts must be reinforced by essential contributions of external assistance.

The United States, for its part, pledges its efforts to supply financial and technical cooperation in order to achieve the aims of the Alliance for Progress. To this end, the United States will provide a major part of the minimum of 20 billion dollars, principally in public funds, which Latin America will require over the next 10 years

from all external sources in order to supplement its own efforts.

The United States will provide from public funds, as an immediate contribution to the economic and social progress of Latin America, more than one billion dollars during the twelve months which began on March 13, 1961, when the Alliance for Progress was announced.

The United States intends to furnish development loans on a long-term basis, where appropriate running up to fifty years and at very low or zero rates of interest.

For their part, the countries of Latin America agree to devote a steadily increasing share of their own resources to economic and social development, and to make the reforms necessary to assure that all share fully in the fruits of the Alliance for Progress.

Further, in carrying forward the Alliance for Progress, each of the countries of Latin America will formulate comprehensive and well-conceived national programs for the development of their own economies.

Independent and highly qualified experts will be made available to Latin American countries in order to assist in formulating and examining national development plans.

Conscious of the overriding importance of this declaration, the signatory countries declare that the inter-American community is now beginning a new era—when it will supplement its institutional, legal, cultural and social accomplishments with immediate and concrete actions to secure a better life, under freedom, for the present and future generations.

## **CHARTER OF PUNTA DEL ESTE**

Provisional English text

### **The Charter of Punta del Este**

#### **ESTABLISHING THE ALLIANCE FOR PROGRESS WITHIN THE FRAMEWORK OF OPERATION PAN AMERICA**

##### **PREAMBLE**

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

Almost two hundred years ago we began in this Hemisphere the long struggle for freedom which now inspires people in all parts of the world. Today, in ancient lands, men moved to hope by the revolutions of our young nations search for liberty. Now we must give a new meaning to that revolutionary heritage. For America stands at a turning point in history. The men and women of our Hemisphere are reaching for the better life which today's skills have placed within their grasp. They are determined for themselves and their children to have decent and ever more abundant lives, to gain access to knowledge and equal opportunity for all, to end those conditions which benefit the few at the expense of the needs and dignity of the many. It is our inescapable task to fulfill these just desires—to demonstrate to the poor

and forsaken of our countries, and of all lands, that the creative powers of free men hold the key to their progress and to the progress of future generations. And our certainty of ultimate success rests not alone on our faith in ourselves and in our nations but on the indomitable spirit of free man which has been the heritage of American civilization.

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

#### **TITLE I**

##### **OBJECTIVES OF THE ALLIANCE FOR PROGRESS**

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

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

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

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

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

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

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

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

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

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

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

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

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

11. To strengthen existing agreements on economic integration, with a view to the ultimate fulfillment of aspirations for a Latin American common market that will expand and diversify trade among the Latin American countries and thus contribute to the economic growth of the region.

12. To develop cooperative programs designed to prevent the harmful effects of excessive fluctuations in the foreign exchange earnings derived from exports of primary products, which are of vital importance to economic and social development; and to adopt the measures necessary to facilitate the access of Latin American exports to international markets.

## TITLE II

### ECONOMIC AND SOCIAL DEVELOPMENT

#### *Chapter I. Basic Requirements for Economic and Social Development*

The American republics recognize that to achieve the foregoing goals it will be necessary:

1. That comprehensive and well-conceived national programs of economic and social development, aimed at the achievement of self-sustaining growth, be carried out in accordance with democratic principles.

2. That national programs of economic and social development be based on the principle of self-help—as established in the Act of Bogotá—and the maximum use of domestic resources, taking into account the special conditions of each country.

3. That in the preparation and execution of plans for economic and social development, women should be placed on an equal footing with men.

4. That the Latin American countries obtain sufficient external financial assistance, a substantial portion of which should be extended on flexible conditions with respect to periods and terms of repayment and forms of utilization, in order to supplement domestic capital formation and reinforce their import capacity; and that, in support of well-conceived programs, including the necessary structural reforms and measures for the mobilization of internal resources, a supply of capital from all external sources during the coming ten years of at least 20 billion dollars be made available to the Latin American countries, with priority to the relatively less developed countries. The greater part of this sum should be in public funds.

5. That institutions in both the public and private sectors, including labor, cooperative, commercial, industrial, and financial institutions, be strengthened and improved for increasingly effective use of domestic resources, and that the necessary social reforms be effected to permit a fair distribution of the fruits of economic and social progress.

## *Chapter II. National Development Programs*

1. Participating Latin American countries agree to introduce or strengthen systems for the preparation, execution and periodic revision of national programs for economic and social development consistent with the principles, objectives and requirements contained in this document. Participating Latin American countries should formulate, if possible within the next eighteen months, long-term development programs. Such programs should embrace, according to the characteristics of each country, the elements outlined in the Appendix.

2. National development programs should incorporate self-help efforts directed to:

a. The improvement of human resources and widening of opportunities through raising general standards of education and health; improving and extending technical education and the training of professionals, with emphasis on science and technology; providing adequate remuneration for work performed; encouraging managerial, entrepreneurial, and salaried talent; providing more productive employment for underemployed manpower; establishing effective systems of labor relations, and procedures for consultation and collaboration among public authorities, employer associations, and labor organizations; promoting local institutions for basic and applied research; and improving the standards of public administration.

b. The wider development and more efficient use of natural resources, especially those which are now idle or underutilized, including measures for the processing of raw materials.

c. The strengthening of the agricultural base, progressively extending the benefits of the land to those who work it, and ensuring in countries with Indian populations the integration of these populations into the economic, social, and cultural processes of modern life. To carry out these aims, measures should be adopted, among others, to establish or improve, as the case may be, the following services: extension, credit, technical assistance, agricultural research and mechanization; health and education; storage and distribution; cooperatives and farmers' associations; and community development.

d. The more effective, rational and equitable mobilization and use of financial resources through the reform of tax structures, including fair and adequate taxation of large incomes and real estate, and the strict application of measures to improve fiscal administration. Development programs should include the adaptation of budget expenditures to development needs, measures for the maintenance of price stability, the creation of essential credit facilities at reasonable rates of interest, and the encouragement of private savings.

e. The promotion through appropriate measures, including the signing of agreements for the purpose of reducing or eliminating double taxation, of conditions that will encourage the flow of foreign investments and help to increase the capital resources of participating countries in need of capital.

f. The improvement of systems of distribution and sales

in order to make markets more competitive and prevent monopolistic practices.

## *Chapter III. Immediate and Short-Term Action Measures*

1. Recognizing that a number of Latin American countries, despite their best efforts, may require emergency financial assistance, the United States will provide assistance from the funds which are or may be established for such purposes. The United States stands ready to take prompt action on applications for such assistance. Applications relating to existing situations should be submitted within the next 60 days.

2. Participating Latin American countries should immediately increase their efforts to accelerate their development, giving special emphasis (in addition to the creation or strengthening of machinery for long-term development programming) to the following objectives:

a. The completion of projects already under way and the initiation of projects for which the basic studies have been made in order to accelerate their financing and execution.

b. The implementation of new projects which are designed:

- i. To meet the most pressing social needs and benefit directly the greatest number of people;
- ii. To concentrate efforts within each country in the less developed or more depressed areas in which particularly serious social problems exist;
- iii. To utilize idle capacity or resources, particularly underemployed manpower;
- iv. To survey and assess natural resources.

c. The facilitation of the preparation and execution of longterm programs through measures designed:

- i. To train teachers, technicians, and specialists;
- ii. To provide accelerated training to workers and farmers;
- iii. To improve basic statistics;
- iv. To establish needed credit and marketing facilities;
- v. To improve services and administration.

3. The United States will assist in the realization of these short-term measures with a view to achieving concrete results from the Alliance for Progress at the earliest possible moment. In connection with the measures set forth above, and in accordance with the statement of President Kennedy, the United States will provide assistance under the Alliance, including assistance for the financing of short-term measures, totalling more than one billion dollars in the year ending March 1962.

## *Chapter IV. External Assistance in Support of National Development Programs*

1. The economic and social development of Latin America will require large public and private financial assistance on the part of capital-exporting countries, including

the members of the Development Assistance Group and international lending agencies. The measures provided for in the Act of Bogotá and the new measures provided for in this Charter are designed to create a framework within which such additional assistance can be provided and effectively utilized.

2. The United States will assist those participating countries whose Development Programs establish self-help measures, economic policies and programs consistent with the goals and principles of this Charter. To supplement the domestic efforts of such countries, the United States is prepared to allocate resources which, along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals envisaged in this Charter. Such assistance will be allocated to both social and economic development, and where appropriate, will take the form of grants or loans on flexible terms and conditions. The participating countries will request the assistance of other capital-exporting countries and international institutions so that they may provide assistance for the attainment of these objectives.

3. The United States will assist in the financing of technical assistance projects proposed by a participating country or by the Secretariat of the Organization of American States for the purpose of; a) contracting, in agreement with governments, for experts to assist the governments, including the preparation of specific investment projects and the strengthening of national mechanisms for preparing projects, using specialized engineering firms where appropriate; b) carrying out, pursuant to cooperative agreements existing among the Secretariat of the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank, field investigations and studies, including those relating to development problems, the organization of national planning agencies and the preparation of development programs, agrarian reform and rural development, health, cooperatives, housing, education and professional training, and taxation and tax administration; and c) convening meetings of experts and officials on development and related problems.

The governments or above-mentioned organizations should, when appropriate, seek the cooperation of the United Nations and its Specialized Agencies in the execution of these activities.

4. The participating Latin American countries recognize that each has in varying degree a capacity to assist fellow republics by providing external technical and financial assistance. They recognize that this capacity will increase as their economies grow. They therefore affirm their intention to assist fellow republics increasingly as their individual circumstances permit.

#### *Chapter V. Organization and Procedures*

1. In order to provide technical assistance for the formulation of development programs, as may be requested by participating nations, the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank will continue and strengthen their agreements for coordination in this field,

in order to have available a group of programming experts whose service can be used to facilitate the implementation of this Charter. The participating countries will also seek an intensification of technical assistance from the Specialized Agencies of the United Nations for the same purpose.

2. The Inter-American Economic and Social Council, on the joint nomination of the Secretary General of the Organization of American States, the President of the Inter-American Development Bank, and the Executive Secretary of the United Nations Economic Commission for Latin America, will appoint a panel of nine high-level experts, exclusively on the basis of their experience, technical ability, and competence in the various aspects of economic and social development. The experts may be of any nationality, though if of Latin American origin an appropriate geographical distribution will be sought. They will be attached to the Inter-American Economic and Social Council, but will nevertheless enjoy complete autonomy in the performance of their duties. They may not hold any other remunerative position. The appointment of these experts will be for a period of three years, and may be renewed.

3. Each government, if it so wishes, may present its program for economic and social development for consideration by an ad hoc committee, composed of no more than three members drawn from the panel of experts referred to in the preceding paragraph together with an equal number of experts not on the panel. The experts who compose the ad hoc Committee will be appointed by the Secretary General of the Organization of American States at the request of the interested government and with its consent.

4. The Committee will study the development program, exchange opinions with the interested government as to possible modifications and, with the consent of the government, report its conclusions to the Inter-American Development Bank and to other governments and institutions that may be prepared to extend external financial and technical assistance in connection with the execution of the program.

5. In considering a development program presented to it, the ad hoc Committee will examine the consistency of the program with the principles of the Act of Bogotá and of this Charter, taking into account the elements in the Appendix.

6. The General Secretariat of the Organization of American States will provide the personnel needed by the experts referred to in paragraphs 2 and 3 of this Chapter in order to fulfill their tasks. Such personnel may be employed specifically for this purpose or may be made available from the permanent staffs of the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank, in accordance with the present liaison arrangements between the three organizations. The General Secretariat of the Organization of American States may seek arrangements with the United Nations Secretariat, its Specialized Agencies and the Inter-American Specialized Organizations, for the temporary assignment of necessary personnel.

7. A government whose development program has been the object of recommendations made by the ad hoc Committee with respect to external financing requirements may submit the program to the Inter-American Development Bank so that the Bank may undertake the negotiations required to obtain such financing, including the organization of a consortium of credit institutions and governments disposed to contribute to the continuing and systematic financing, on appropriate terms, of the development program. However, the government will have full freedom to resort through any other channels to all sources of financing, for the purpose of obtaining, in full or in part, the required resources.

The ad hoc Committee shall not interfere with the right of each government to formulate its own goals, priorities, and reforms in its national development programs.

The recommendations of the ad hoc Committee will be of great importance in determining the distribution of public funds under the Alliance for Progress which contribute to the external financing of such programs. These recommendations shall give special consideration to Title I. 1.

The participating governments will also use their good offices to the end that these recommendations may be accepted as a factor of great importance in the decisions taken, for the same purpose, by inter-American credit institutions, other international credit agencies, and other friendly governments which may be potential sources of capital.

8. The Inter-American Economic and Social Council will review annually the progress achieved in the formulation, national implementation, and international financing of development programs; and will submit to the Council of the Organization of American States such recommendations as it deems pertinent.

#### APPENDIX

##### *Elements of National Development Programs*

1. The establishment of mutually consistent targets to be sought over the program period in expanding productive capacity in industry, agriculture, mining, transport, power and communications, and in improving conditions of urban and rural life, including better housing, education and health.

2. The assignment of priorities and the description of methods to achieve the targets, including specific measures and major projects. Specific development projects should be justified in terms of their relative costs and benefits, including their contribution to social productivity.

3. The measures which will be adopted to direct the operations of the public sector and to encourage private action in support of the development program.

4. The estimated cost, in national and foreign currency, of major projects and of the development program as a whole, year by year over the program period.

5. The internal resources, public and private, estimated to become available for the execution of the program.

6. The direct and indirect effects of the program on the balance of payments, and the external financing, pub-

lic and private, estimated to be required for the execution of the program.

7. The basic fiscal and monetary policies to be followed in order to permit implementation of the program within a framework of price stability.

8. The machinery of public administration—including relationships with local governments, decentralized agencies and non-governmental organizations, such as labor organizations, cooperatives, business and industrial organizations—to be used in carrying out the program, adapting it to changing circumstances and evaluating the progress made.

#### TITLE III

##### ECONOMIC INTEGRATION OF LATIN AMERICA

The American republics consider that the broadening of present national markets in Latin America is essential to accelerate the process of economic development in the Hemisphere. It is also an appropriate means for obtaining greater productivity through specialized and complementary industrial production which will, in turn, facilitate the attainment of greater social benefits for the inhabitants of the various regions of Latin America. The broadening of markets will also make possible the better use of resources under the Alliance for Progress. Consequently, the American Republics recognize that:

1. The Montevideo Treaty (because of its flexibility and because adherence to it is available to all of the Latin American nations) and the Central American Treaty on Economic Integration are appropriate instruments for the attainment of these objectives, as was recognized in Resolution No. 11 (III) of the Ninth Session of the Economic Commission for Latin America.

2. The integration process can be intensified and accelerated not only by the specialization resulting from the broadening of markets through the liberalization of trade but also through the use of such instruments as the agreements for complementary production within economic sectors provided for in the Montevideo Treaty.

3. In order to insure the balanced and complementary economic expansion of all of the countries involved, the integration process should take into account, on a flexible basis, the condition of countries at a relatively less advanced stage of economic development, permitting them to be granted special, fair, and equitable treatment.

4. In order to facilitate economic integration in Latin America, it is advisable to establish effective relationships between the Latin American Free Trade Association and the group of countries adhering to the Central American Economic Integration Treaty, as well as between either of these groups and other Latin American countries. These arrangements should be established within the limits determined by these instruments.

5. The Latin American countries should coordinate their actions to meet the unfavorable treatment accorded to their foreign trade in world markets, particularly that resulting from certain restrictive and discriminatory policies of extra-continental countries and economic groups.

6. In the application of resources under the Alliance for Progress, special attention should be given not only



to investments for multinational projects that will contribute to strengthening the integration process in all its aspects, but also to the indispensable financing of industrial production, and to the growing expansion of trade in industrial products within Latin America.

7. In order to facilitate the participation of countries at a relatively lower stage of economic development in multinational Latin American economic cooperation programs, and in order to promote the balanced and harmonious development of the Latin American integration process, special attention should be given to the needs of these countries in the administration of financial resources provided under the Alliance for Progress, particularly in connection with infrastructure programs and the promotion of new lines of production.

8. The economic integration process implies a need for additional investment in various fields of economic activity and funds provided under the Alliance for Progress should cover these needs as well as those required for the financing of national development programs.

9. When groups of Latin American countries have their own institutions for financing economic integration, the financing referred to in the preceding paragraph should preferably be channeled through these institutions. With respect to regional financing designed to further the purposes of existing regional integration instruments, the cooperation of the Inter-American Development Bank should be sought in channeling extra-regional contributions which may be granted for these purposes.

10. One of the possible means for making effective a policy for the financing of Latin American integration would be to approach the International Monetary Fund and other financial sources with a view to providing a means for solving temporary balance-of-payments problems that may occur in countries participating in economic integration arrangements.

11. The promotion and coordination of transportation and communications systems is an effective way to accelerate the integration process. In order to counteract abusive practices in relation to freight rates and tariffs, it is advisable to encourage the establishment of multinational transport and communication enterprises in the Latin American countries, or to find other appropriate solutions.

12. In working toward economic integration and complementary economies, efforts should be made to achieve an appropriate coordination of national plans, or to engage in joint planning for various economies through the existing regional integration organizations. Efforts should also be made to promote an investment policy directed to the progressive elimination of unequal growth rates in the different geographic areas, particularly in the case of countries which are relatively less developed.

13. It is necessary to promote the development of national Latin American enterprises, in order that they may compete on an equal footing with foreign enterprises.

14. The active participation of the private sector is essential to economic integration and development, and except in those countries in which free enterprise does

not exist, development planning by the pertinent national public agencies, far from hindering such participation, can facilitate and guide it, thus opening new perspectives for the benefit of the community.

15. As the countries of the Hemisphere still under colonial domination achieve their independence, they should be invited to participate in Latin American economic integration programs.

#### TITLE IV

##### BASIC EXPORT COMMODITIES

The American Republics recognize that the economic development of Latin America requires expansion of its trade, a simultaneous and corresponding increase in foreign exchange incomes received from exports, a lessening of cyclical or seasonal fluctuations in the incomes of those countries that still depend heavily on the export of raw materials, and the correction of the secular deterioration in their terms of trade.

They therefore agree that the following measures should be taken:

##### I. *National Measures*

National measures affecting commerce in primary products should be directed and applied in order to:

1. Avoid undue obstacles to the expansion of trade in these products;
2. Avoid market instability;
3. Improve the efficiency of international plans and mechanisms for stabilization;
4. Increase their present markets and expand their area of trade at a rate compatible with rapid development.

Therefore:

A. Importing member countries should reduce and if possible eliminate, as soon as feasible, all restrictions and discriminatory practices affecting the consumption and importation of primary products, including those with the highest possible degree of processing in the country of origin, except when these restrictions are imposed temporarily for purposes of economic diversification, to hasten the economic development of less developed nations, or to establish basic national reserves. Importing countries should also be ready to support, by adequate regulations, stabilization programs for primary products that may be agreed upon with producing countries.

B. Industrialized countries should give special attention to the need for hastening economic development of less developed countries. Therefore, they should make maximum efforts to create conditions, compatible with their international obligations, through which they may extend advantages to less developed countries so as to permit the rapid expansion of their markets. In view of the great need for this rapid development, industrialized countries should also study ways in which to modify, wherever possible, international commitments which prevent the achievement of this objective.

C. Producing member countries should formulate their plans for production and export, taking account of their

effect on world markets and of the necessity of supporting and improving the effectiveness of international stabilization programs and mechanisms. Similarly they should try to avoid increasing the uneconomic production of goods which can be obtained under better conditions in the less developed countries of the Continent and which are an important source of employment.

D. Member countries should adopt all necessary measures to direct technological studies toward finding new uses and by-products of those primary commodities that are most important to their economies.

E. Member countries should try to reduce, and, if possible, eliminate within a reasonable time export subsidies and other measures which cause instability in the markets for basic commodities and excessive fluctuations in prices and income.

## II. *International Cooperation Measures*

1. Member countries should make coordinated, and if possible, joint, efforts designed :

- a. To eliminate as soon as possible undue protection of the production of primary products ;
- b. To eliminate internal taxes and reduce excessive domestic prices which discourage the consumption of imported primary products ;
- c. To seek to end preferential agreements and other measures which limit world consumption of Latin American primary products and their access to international markets, especially the markets of Western European countries in process of economic integration, and of countries with centrally planned economies.
- d. To adopt the necessary consultation mechanisms so that their marketing policies will not have damaging effects on the stability of the markets of basic commodities.

2. Industrialized countries should give maximum cooperation to less developed countries so that their raw material exports will have the greatest degree of processing that is economic.

3. Through their representation in international financial organizations, member countries should suggest that these organizations, when considering loans for the promotion of production for export, take into account the effect of such loans on products which are in surplus in world markets.

4. Member countries should support the efforts being made by international commodity study groups and by the Commission on International Commodity Trade of the United Nations. In this connection, it should be considered that producing and consuming nations bear a joint responsibility for taking national and international steps to reduce market instability.

5. The Secretary General of the Organization of American States shall convene a group of experts appointed by their respective Governments to meet before November 30, 1961 and to report, not later than March 31, 1962 on measures to provide an adequate and effective means of offsetting the effects of fluctuations in the volume and

prices of exports of basic products. The Government experts shall :

- a. Consider the questions regarding compensatory financing raised during the present meeting ;
- b. Analyze the proposal for establishing an international fund for the stabilization of export receipts submitted in the Report of the Group of Experts to the Special Meeting of the IA-ECOSOC as well as any other alternative proposals ;
- c. Prepare a draft plan for the creation of mechanisms for compensatory financing. This draft plan should be circulated among the member Governments and their opinions obtained well in advance of the next meeting of the Commission on International Commodity Trade.

6. Member countries should support the efforts under way to improve and strengthen international commodity agreements and should be prepared to cooperate in the solution of specific commodity problems. Furthermore, they should endeavor to adopt adequate solutions for the short- and long-term problems affecting markets for primary products so that the economic interests of producers and consumers are equally safeguarded.

7. Member countries should request the cooperation of other producer and consumer countries in stabilization programs, bearing in mind that the raw materials of the Western Hemisphere are also produced and consumed in other parts of the world.

8. Member countries recognize that the disposal of accumulated reserves and surpluses can be a source for achieving the goals outlined in the first part of this Title, so that, together with the generation of local resources, the consumption of essential products in the receiving countries may be simultaneously increased. The disposal of surpluses and reserves should be carried out in an orderly manner, in order to :

- a. Avoid disturbing existing commercial markets in member countries, and
- b. Expand the sale of their products to other markets.

However, it is recognized that :

- a. The disposal of surpluses should not displace commercial sales of identical products traditionally carried out by other countries ; and
- b. Such sales should not substitute for large scale financial and technical assistance programs.

IN WITNESS WHEREOF this Charter is signed, in Punta del Este, Uruguay, on the seventeenth day of August, nineteen hundred sixty-one.

The original texts shall be deposited in the archives of the Pan American Union, through the Secretary General of the Special Meeting, in order that certified copies may be sent to the Governments of the Member States of the Organization of American States.

The records of the Conference include a statement that the only authoritative text of agreements reached during the Conference is contained in the Charter of Punta del Este and in the specific resolutions passed by the Conference.

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*Mr. McNamara - As requested, please.  
RBS 8/22*

Mr. R.B. Steckhan  
Room 1220

*Latin  
Source*

First Part

LATIN AMERICAN REALITY

1. Introduction

Latin America: hope and concern. Pluralism and differences. Common bases.

1.1 Latin America, in the assembly of nations today, appears as a symbol of hope and a cause of concern. ✓

Despite its growing pluralism and the marked differences from nation to nation, Latin America is a combination of countries closely linked by blood, religion, language and culture. It received a cultural heritage that was not an exotic transplant, but it assimilated and acquired individual profiles and characteristics. Despite its limitations, the Latin American continent is a source of cultural wealth and potential resources that make it highly esteemed by the rest of the world.

The providential role of Latin America: symbol of unity.

1.2 The past and the present of the countries of Latin America can be completely understood only if they are considered as moving toward a future in which Providence will mark them out as a symbol of unity for all nations.

Awareness of changes and transformation. A catalyst of universal unity.

1.3 The process of integration through which it is passing is not unconscious and fatalistic. This historic moment in Latin America combines an awakening to an awareness of its own values and destinies with a recognition of those values by other nations. This makes it easier to understand that its laborious progress toward development and integration tends to be an important catalyst for the unity toward which the entire human race is moving today, i.e. a future in which the values and wealth of all cultures will meet without destroying one another. On the other hand, the power-seeking ambitions and the ideologies that motivate these cultures are avidly seeking to direct the economic resources and human potential of our continent in favor of their own interests.

Present circumstances: A challenge. The Christian can neither ignore it nor be neutral.

1.4 We Christians can neither remain aloof nor be neutral in the movement of our people toward their historic destiny. The situation of change through which we are passing requires us to adopt new attitudes

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for an urgent overall and profound structural reform. The presence of new problems and the restating of old problems are a true challenge, but in the plan of Providence they arise as a sign of the times, demanding imagination, boldness and a joint effort to find a proper solution.

The present document does not offer an exhaustive diagnosis. It presents a view of common problems.

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1.5 Without pretending to make an exhaustive diagnosis, we shall merely point out here a few social, economic, political, cultural and religious features of the physiognomy of Latin America which pose serious problems for Christianity. On the other hand, a diagnosis of the situation at the continental level would demand a study of Latin American typology, because it is a combination of various countries which in turn differ markedly among themselves. We shall therefore confine ourselves to presenting what we might call common problems.

The account may appear pessimistic because it does not stress the positive aspects that do exist, but rather reflects the realities of the Latin America situation, a tragic one that calls for rapid and effective measures.

## 2. Demographic Situation

The Continent with the highest rate of demographic growth. Population predominantly rural and young. Consequences.

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2.1 Population growth in Latin America is at a higher rate than that of any other continent. In 1900 there were 63 million inhabitants; fifty years later 163 million; and today, in mid 1968, it is estimated that the population is 268 million. Projection of the present trend would give 690 million Latin Americans by the year 2000. ✓

This population is still predominantly rural, except for the case of a few countries, and it is tending to move toward the great cities. Here we have the serious migratory problem. The population is predominantly young: 40% are less than 15 years of age.

The rate of population growth has important economic, social and ethical repercussions, as indicated below.

## 3. Economic Situation

Privileged minorities and dispossessed majorities. Subjection to foreign capital. The dependent character of Latin American trade.

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3.1 An index very often used as a partial measure of economic development is the average per capita income. In Latin America it amounts to only US\$300 per year; currently equivalent to one-third of what a European

obtains and one-seventh of a North American income. In these latter years, most of the countries have had a rate of economic growth very much below that planned by the Alliance for Progress.

It should not be forgotten that there are great differences between the various countries of Latin America and also between the various social groups within each country. A tiny minority receives most of the income. This group holds the agricultural property and the sources of industrial production, whereas the great masses have a minimum income and are subject to the constant menace of unemployment.

This economic situation is also marked by subjection to foreign capital, often predominant and subject to no contracts, lending to accumulate power and with very little permanent interest in the countries. Latin American commerce, moreover, is jeopardized by its great dependence on the developed countries, which purchase raw material from Latin America at low prices and sell to Latin America at progressively higher prices the manufactured products needed for development.

The lack of continental integration and of a united front to present to the developed world make the social and economic advance of our peoples more difficult.

Causes of the low rate of savings. Other factors that aggravate the economic situation: growth of population, process of imitation, absence of mechanization, etc.

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3.2 Furthermore, demographic pressures are creating a progressively increasing internal demand for food, clothing, housing and education. In turn, the imitative process, reinforced, accentuated by the impact of the mass communication media is qualitatively changing the demand for goods and services.

The action of labor unions, powerfully organized in many countries, is accentuating the process of redistribution of income and going beyond the traditional demands for "bread and work".

The growth of light industry, which expanded considerably after the Second World War, is increasing the demand for machinery and industrial raw materials -- again, dependence on foreign countries.

The existence of little or no agricultural mechanization makes it difficult to meet the increasing need for food and fails to stimulate food exports, which have generally stagnated.

All these factors keep the rate of internal savings low, and inflation obstructs the channeling of savings into more profitable activities.



#### 4. Social Situation

The social situation is both a consequence and a cause of the economic situation.

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4.1 The social situation is both the consequence and cause of the economic structure described above. Social development presupposes an improvement in standard of living, elimination of extreme poverty and expansion of social services. Moreover, it implies a radical change in the social structure that will permit all men to share in the goods and services of society and in the determination of their own destiny.

The privileged classes. Very low standards of living. Wages do not cover elementary needs.

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4.2 For most of the population the standard of living is extremely low. The privileged classes represent some 2% or 3% of the population. The middle classes, together with workers and artisans, have an economic level which varies from modest to poor. They have access to health and education services, they have adequate clothes and food, and an opportunity to participate in the political and cultural life of the country. Their aspirations have grown more rapidly than their prospects. Nevertheless, it is difficult for them to obtain housing, and the social security systems do not effectively meet their needs. Inflation, alternating with periods of austerity, has contributed to creating a climate of social insecurity.

The over-extended services sector, often conceals forms of unemployment in bureaucracy and unproductive activities. Wages are, in general, at a level which does not even permit the satisfaction of elementary needs.

Marginal urban population. Rural emigrants. Characteristic: passive marginality.

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4.3 The marginal urban population is made up largely of rural emigrants who have come to the city with renewed pressure, in the hope of improving their living conditions, or have been driven from the country by the impossibility of continuing to live off the land. They form whole sections built of discarded materials within the cities and on their outskirts where the low standard of living, lack of sanitation, crowded conditions and the very size of the huts represent existence in sub-human conditions.

Characteristic of these inhabitants is their marginality: a marginality that is preeminently passive, as they neither share in the various goods and services of society (medical, social, educational, etc.), nor contribute to decision making, nor take part in solving problems, including those which directly affect them. This marginality is increased by the internal disintegration in which they live. Lacking social cohesion, they are unable to organize themselves.

Nevertheless, it must be recognized that, in many cases, the very awareness of their own marginal character prompts them to rise above the situation through community action or development.

Rural population.

Possesses characteristics of urban marginality and some peculiar to itself together forming the basis for the present social structures in rural Latin America.

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4.4 The rural population has many of the characteristics of marginality described above: inadequate food, defective housing, lack of services, scant participation in social and political life. The schools, frequently few in number, are often so deficient that pupils do not even reach the stage of basic literacy. On this same cultural level, it is necessary to emphasize the importance and influence of the role of social communication media in stimulating a demand for previously unknown items. The impact of the transistor radio on the countryman is a good case in point.

Ownership of land by the rural population varies widely in different parts of Latin America. Rural mechanization and agrarian reform have begun in some countries, but at too slow a rate or without a clear-cut approach. This and the opposition, sometimes, of minority groups make it even more difficult to make significant changes in the pattern and raise the productivity of the land.

Native population and other ethnic groups.

In Latin America there is cultural pluralism and crossing of races. Their rights are unknown and unrecognized.

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4.5 On the map of Latin America, besides the dominant culture of the western type, there is also a great plurality of cultures and a cultural crossing of Indians, Negroes, mestizos and others. The languages, customs, institutions, values and aspirations of these different cultures are insufficiently known and unrecognized. Integration of these groups into the national life is unfortunately envisaged frequently as destruction of their cultures rather than as recognition of their right to develop, to enrich the cultural patrimony of the nation and thereby to enrich themselves.

Situation of youth.

Presence of youth: the most numerous group. Becoming a new social force, it rejects the world formed by its elders and demands new solutions.

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4.6 Youth today is not only the most numerous group in Latin American society but is an independent factor in society. The cultural and social changes have affected it profoundly. Formerly it was integrated with various other social groupings: family, teaching centers and labor. Youth was reached through institutions directed by adults. Now youth presents itself as a new social force with its own ideas and values and its own internal dynamism, seeking new responsibilities and new functions within the Latin American community. It lives in an age of crisis and change that provokes conflict between the generations. Young people reject the image of the world that their elders

have formed because they consider their way of life insincere. This dissatisfaction is steadily growing. Youth desires new solutions for a more just society.

## 5. Cultural Situation

### Education

Education: fundamental element in development.

Fifty percent illiterate. Drop-outs.

5.1 Education is fundamental to socio-economic development. Latin America has a population nearly 50% illiterate, without including the number of functional illiterates within the adult population. Attempts to improve the school system quantitatively, have not kept time with the demands credited by demographic growth.

The number of drop-outs, especially in the country and in the marginal populations of the city, is alarming.

Lack of planning. Inadequacy of the university.

Diversification in education is lacking in terms of the demands of national development and the plurality of cultural situations. Agricultural, technical and vocational schools are of recent creation and do not meet the needs. The same is true of the Latin American universities, which, being copies of universities of developed countries, do not answer the special needs of Latin America. They have maintained traditional studies and have practically no curricula of intermediate length, so necessary for socio-economic development. The universities undertake little research and there is no interdisciplinary dialogue, indispensable to the progress of culture and the overall development of society.

Quantitative and qualitative deficiencies of the body of teachers.

In speaking of the educational system, it is necessary to mention also the lack of educators, the inadequate training of many of these and often, the ideological dependence on foreign countries. The role of the educator is not yet sufficiently esteemed in society. Their remuneration is low. National treasuries with few exceptions, devote more funds to military budgets than to educational budgets.

Schools are not ready for change. True educational democratization is lacking.

The schools are not yet equal to the role of transforming Latin American social structures. There have been qualitative changes in the approach to education as well as changes in its scope designed to prepare men in terms of the new world that is dawning but they have not penetrated into our educational systems. We are still far from having true educational democratization. There

is still a great neglect of adult education, so important in a continent where nearly half the adult population is still illiterate. Basic education is also of somewhat recent creation and not very widespread even yet in our countries.

### Cultural Trends

Rapid process of cultural change. Characteristics of this process. Influence of social communication.

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5.2 Latin America is rapidly advancing from a predominantly traditional society to a new society. The cultural changes chiefly affect the large cities but do not leave rural sectors unaffected. The present society is characterized by (a) a new type of social relations; (b) by a consequent socio-cultural pluralism, and (c) by new patterns of behavior, (d) by new expectations and desires. All this is the outcome of the social communication media which profoundly contribute to the creation of a form of mass culture and to the increase of this desire for change.

### New Channels for transmission of ideas.

#### (a) Social Relations

Social links, heretofore based predominantly on family, are disappearing to give way to those founded on contract and free association, giving rise to greater specialization and social differentiation.

For example, channels for the transmission of ideas such as the traditional family structure are not now a principal means of communication. Now there is no fixed approach to life. There is greater freedom to seek for personal objectives. The continued specialization of labor introduced by a technological progress leads to greater interdependence among men and to the recognition of the complexity of phenomena that are progressively becoming more closely interrelated.

#### (b) Socio-cultural Pluralism

##### The transfer from a monolithic society to a pluralist society.

Most important is the change in values and standards, since it is there that the religious system is most affected. The standards or rules that are most valued are not those that have the sanction of age but those that are most functional. A monolithic society in which cultural values were transferred almost by inertia is being succeeded by a different society with a combination of standards and values offering various viewpoints on life. Authority is no longer accepted without discussion. There is a desire to participate in the fixing of goals, to argue, to discuss problems before accepting decisions. A certain socio-cultural pluralism is being born, both on the political level and on the religious and social levels. ✓

(c) New Patterns of Behavior

A growing sense of liberty. Consequences.

All these changes give rise to new types of behavior. There is a growing sense of liberty, although, due to the low social and economic level, for many people it remains only on the plane of desires and aspirations. Furthermore, it cannot be denied that there is a growing internationalism that is displacing regionalism and nationalism. The man of today, in the face of insecurity, uncertainty and the threat of being alone, is anxiously seeking community and integration into a group. As compensation for the anonymity that characterizes society, there is a search for community forms of life.

(d) New Expectations and Desires

Awareness of Poverty. Displacement of religious thinking.

The Latin American, who has borne poverty in silence for a long time, is now suddenly awakened and his demands exceed the rate of development. What used to be unconscious poverty has become conscious misery. Nevertheless, parallel with the new unsatisfied expectations, there is a growing sense of frustration which is often at the base of a desire for revolution in search of a rapid overall change of existing structures. ✓

As a logical consequence of these changes, the center of gravity represented by religious thinking, is being displaced, and the increasing rationalization of society is bringing with it a loss of many values, an end to magic, secularization, and a centering of everything on man rather than on God.

6. POLITICAL SITUATION

Political dependence

Our political systems are inadequate to meet the growing demands for the integration of the Latin American continent. The political systems have been a copy of European systems imposed on a very different situation. Latin American policies continue to be dominated by the great world powers.

Political marginality of the people ✓

Among the most important indications of this situation is the political marginality of the Latin American people shown by the scant participation of the masses in the decisions of universal concern. This trend is increasing as a result of the people's disillusionment with the politicians and of a trophy of the political world. Democracy is often more formal than real genuine freedom of organization and overall government planning are lacking.

Lack of intermediate groups

Political systems are characterized by various forms of oligarchy. The lack of intermediate groups that facilitate integration into national life, such as labor unions, university organizations and rural organizations, results in government by small groups without any effective counter balance. Nor has the state efficiently carried out its mission; at times it has tended to monopolize all human activity, while at others it has neglected the proper control of the great sources of national wealth. There is also an imbalance between small pressure groups and, in many countries, the military is one of the groups which is decisive in policy making.

The role of the great popular movements.

The most positive advances towards full participation in the democratic process have been made in Latin America by the great popular movements that have come into being in some countries. They are in themselves forces integrating those who until now have been marginal and, in the long run, they will prove to be an instrument of integration of the nation as a whole.

"Temptation to Violence" ✓

In the present state of continental evolution, there is a ferment of agitation, and Latin America is confronted with a "temptation to violence". Full national integration is a sure means of eliminating internal violence and some Latin American countries wish to demonstrate that they can move forward peacefully on this path through genuinely national and popular movements, but it is clear that the success of those movements will depend on the thoroughness and rapidity with which economic development problems and changes in social structure are faced.

7. To sum up:

The analysis presented above shows us a state of underdevelopment affecting the general situation of our continent. Our men have seen the unjust social differences and discovered that they are not destined to live in this way forever and, if necessary, they will turn to violence

to right these wrongs. It cannot be denied that in many parts of the continent a revolutionary attitude prevails, which demands massive, bold, urgent and profound acts of renovation. It should not surprise us that the seeds of violence are so implanted, because the situations that exist provoke violence in that they detract from human dignity and suppress liberty. We should be surprised, rather, at the patience of the people who have for many years borne conditions which would hardly be accepted by those with a full awareness of the human rights. Lack of technical development, the oligarchic classes and large-scale foreign capitalism are obstacles in the way of the necessary changes and offer active resistance to everything that may attack their interests, consequently creating a potentially violent situation, but the alternative do not lie between the status quo and change, but rather between violent change and peaceful change. In the face of so serious a situation which so dramatically affects our people, we believe that it is not sufficient to describe the realities underlying the temptation to violence, but we feel it our duty to denounce, here and now, these selfish interests and to make an appeal to all men of good will to combine their intelligence, their energies and their potential in building a society wholly founded on justice, love and liberty.

. . . . .

9. Visible presence of the church and its answer to the situation described above

The presence of the Church must be evaluated through the impact of all of its members and methods of work.

9.1 It is important to consider, however briefly, the manner in which the Church has been active in the Latin American situation described above. Its presence is not to be measured solely by the action of the ecclesiastical hierarchy with which the Church has sometimes been identified, but by the actions of Catholics at large. This presence and action are visible therefore through all of its members (bishops, priests, religious and lay members), through the organizations from the parish to the continental level and also through the means or instruments of action of the Church itself. The visible presence of the Church must be envisaged in relation to the various aspects of Latin American reality presented in the foregoing paragraphs of this first part.

Complexity of the problems.

9.2 The complexity of the demographic problems together with the lack of an adequate basis on which to form a judgment make it difficult for the Church to make a clear and definitive pronouncement on the matter.

Attitude toward economic and social structures

With regard to self-seeking, which is widespread, and to the injustice in the economic and social structures, certain aspects must be noted in the attitude of the Church. The action of bishops, priests,

and laymen seriously committed to the defense of human rights cannot be ignored. This defense has been undertaken through sermons, statements, documents, plans for agrarian reform on ecclesiastical property, dialogue and collaboration with Latin American groups interested in the process of change and development. It is true, nevertheless, that the Latin American Church as a whole does not yet present a sufficiently positive image of social concern. Prophetic denunciations of injustices and advocacy of the changes necessary have not been as extensive and as frequent as would be desirable. There has not been sufficient solidarity and support for those who have valiantly discharged a prophetic function in this respect. The Christian conscience does not show the responsiveness and maturity called for in the situation today. Inertia, insensitivity and apathy, the appearance of religious practices unrelated to the present historical stage are proof of a defect in that faith. Such a defect is especially serious when it appears in men dedicated to God or in laymen of the privileged classes who claim to be Christians.

Attitude toward urban and rural marginality.

The attention devoted by the Church to the urban marginal population has been varied. In some places it has been non-existent or very scant, in others it has been fairly intensive. It is certain that there are cases in which this presence has not touched the root need for positive human involvement and that, in other cases, perhaps fewer but exemplarily significant, the groups of the Church who act in those sectors are very much concerned with the problem of such involvement. It cannot be denied that the Church is making great efforts on behalf of the rural marginal population. These efforts perhaps are beginning to correct the image that has heretofore existed of a Church that was more concerned with cultivating the privileged classes than with the problems of the underprivileged. The Church's historic role in defense of underprivileged ethnic groups also contributes to this. Nor has everything been done in that field that should have been done and it is necessary to review the Church's actions. It is evident, in fact, that its efforts have been insufficient to eliminate ethnic discrimination and the promotion of the interests of these groups has not been sufficiently rapid and efficient.

Attitude towards youth.

9.4 Youth has been one of the principal concerns of the Church, which has been active in the creation of numerous educational centers. Latin America would today probably be very far behind, if the Church had not acted in this sector. As in the Latin American situation as a whole, youth has begun to pose new problems that are disturbing, and are such that they are not likely to be readily understood by the Church or lead rapidly to a rethinking of its approach. It is clear that the Church has not attached importance to other means of involvement perhaps more effective than those



of teaching. As yet, in the education of young people sufficient emphasis has been laid on an awareness of their social duties and on the catalytic role they must perform on the Continent. The men of the Church, with few exceptions, find it difficult to learn to speak the language of youth, to understand the profound reasons for their discontent, and rebelliousness and to discern the values that are hidden behind those states of mind. In a word, they do not always succeed in understanding the attitudes of youth, seeking a new form of integration with society.

#### Attitude toward Cultural Change

9.5 As yet the Church -- and only through a few of its members -- has very little appreciation of the depth and significance of the cultural changes that Latin America is undergoing. As a whole, it must intensify its responsiveness and perception, in the face of the emergence of a pluralist society with mass culture, in course of secularization. It will also have to realize the significance and importance that the social communication media have in this new society.

#### Attitude toward education

The Church historically has played an important role in education and any evaluation of this would yield positive results, but there can be no doubt that the problems created by the changes on the Continent are affecting the entire educational sector, putting it in a state of crisis, so that the Church has the duty of reviewing its role in all this very thoroughly. Some aspects of this crisis are the preference given to the upper classes in access to secondary and university education, the concentration of such establishments in urban areas, the vertical character of such education and of scholastic organization, and the scarcity of Christians in official educational institutions.

#### Attitude toward politics. The Official Church and the action of Christians.

9.6 One of the most serious problems presented is that of the relation of the Church and Christians to politics. Two points here require special attention. The relation of the official Church to the political authorities and the actions of Christians, especially when they have a certain representative character because they belong to apostolic movements, in the specific field of politics. Both points require a review of the criteria, conscious or unconscious, adopted by the Church to govern its relations with the State and to direct the actions of Christians. Among other things, and by way of example only, the criteria governing the acceptance by the Church and the clergy of privileges from the State will obviously have to be reviewed, since this is one of the factors that contribute to creating the image of a Church identified with the political authorities.

Attitude toward new demands for evangelism

9.7 The Church has sought to maintain the tradition of evangelism of past ages by time-honored means. Lately, some bishops and priests have posed the problem of the real situation of the faith of the people. In fact the changes that have taken place in the world, appears yet to have emerged no clear idea of the nature of the new requirements for evangelism and catechesis.

In many areas rites and sacraments have been allowed to lapse and the proclamation of the Gospel, the teaching of the faith and the formation of a Christian community culminating the authentic celebration of the Eucharist have been neglected.

Few efforts have yet been made to discover, following the advice of Vatican Council II those native religious values which may worthily be incorporated into the liturgical renewal. Finally, only now is a beginning being made to seek the proper roads for constructive ecumenicalism.

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TECHNICAL NOTES FOR SPEECH TO INTER-AMERICAN PRESS ASSOCIATION

I. ECONOMIC GROWTH IN LATIN AMERICA

(A). Some Relevant Facts

1. According to figures in the World Bank annual report, the average annual rate of growth in GDP in Latin America over the period 1960-66 was 4.7 per cent, or 1.7 per cent on a per capita basis. The growth rate reported by CIAP for 1967 was almost the same. The rate of growth in per capita GDP since 1960 has been slightly below the rate achieved in the 1950s (according to ECLA about 2 per cent) and some way below the target in the Alliance for Progress (2½ per cent). The rate of population increase has probably been fairly steady at close to 3 per cent a year since the early 1950s. ✓
2. Average per capita GDP in Latin America today is in the region of \$400 per annum. Of the seven major Latin American countries, Argentina and Venezuela are well above this level, Mexico and Chile somewhat above it, Peru a little below it and Brazil and Colombia well below it. These countries between them account for over four fifths of the GDP of Latin America as a whole; Mexico, Brazil and Argentina alone, in that order, account for two thirds. In the period since 1960 only Mexico has comfortably exceeded the per capita growth target established under the Alliance; Chile and Peru have both done somewhat better than the target, though both have run into serious economic troubles during the past twelve months; Colombia and Venezuela have performed a little below the target, Argentina and Brazil well below. ✓
3. In common with the experience of developing countries in other parts of the world, agricultural growth in Latin America (2.7 per cent per year) has lagged behind overall growth. However, industrial expansion (5.6 per cent a year in manufacturing) has been rather unimpressive by comparison with southern Europe, Asia, or the Middle East; of the major Latin American countries, only Mexico has achieved dynamic growth in this sector. Argentina and Mexico have the most highly industrialized economies in Latin America with upwards of one quarter of GDP derived from manufacturing and Argentina is the only country (apart from Uruguay and Costa Rica) without a major problem of rural poverty and underemployment. ✓
4. According to World Bank estimates, gross domestic investment in Latin America, as a proportion of GNP, has averaged around 18 per cent during 1960-66 - a considerably higher level than in Africa or Asia, but well below southern Europe. Data on investment are particularly unreliable, but if the official estimates are accepted, the rate

of fixed investment has tended to decline rather than to increase since the start of the Alliance. This is notably true of Brazil; among the major countries Mexico is the only clear exception. The picture for domestic savings is broadly similar, with the marginal savings rate for the period 1962-66 at or below the average rate in all the major countries except Mexico and also Chile (where high copper prices have helped).

5. Net capital inflows into Latin America since 1960 appear to have been considerably smaller in relation to GNP (1.2 per cent according to World Bank figures for 1960-66, including some addition to international reserves during the period), than inflows into the rest of the under-developed world. This is not because of a shortage of official aid, which has in fact risen quite sharply (see next section), but because increased aid flows have been largely offset ~~by a sharp rise in debt service payments.~~ Commodity prices have on the whole moved in favor of Latin America since 1960, and average export prices for the period 1960-66 appear to have been about the same as in the second half of the 1950s, though, of course, well below the levels reached during the Korean boom. However, different Latin American countries have had very different experiences with respect to movements in world prices; the coffee countries, notably Brazil and Colombia and certain countries in Central America, have been going through a relatively unfavorable period since the Alliance started, but countries which rely heavily on meat exports and exports of non-ferrous metals - notably Argentina, Chile, Bolivia and Uruguay, also Peru - have enjoyed much better average terms of trade in recent years than in the late 1950s. It is difficult to generalize on this point with respect to the Alliance as a whole, though it is probably true to say that export price changes have been a more important factor influencing the growth of individual Latin American countries, whether for better or for worse, than changes in the level of foreign aid.

by other items in the capital account.

6. Primary products still account for over 90 per cent of the exports of Latin American countries and play a dominant role in intra-zonal trade as well as in trade with the rest of the world. Since 1960 commodity exports of Latin American countries have been rising at an annual average rate of about 5 per cent, which is considerably below the rate of growth in world trade as a whole (over 8 per cent). Chile (because of copper prices), Peru (principally fishmeal and copper) and Mexico have recorded higher than average export growth rates since the Alliance started, while Colombia (coffee) and Venezuela (petroleum) have been below average, with Argentina and Brazil in the middle (Argentina would have done much better if more emphasis had been given to agricultural incentives). Peru's export expansion has slowed down considerably during the last two years. Chile faces a difficult period of adjustment during the next two years because of the likely fall in copper prices, but can look forward to renewed export expansion in the early 1970s.

7. Heavy reliance on suppliers' credits, in part reflecting weak central controls over national finance, is a well-known characteristic of Latin American development, and several of the large countries in the area embarked upon the Alliance for Progress carrying a big load of short and medium-term external debt. In 1964 service on external public debt alone absorbed 27 per cent of Argentina's external receipts on current account, 25 per cent for Brazil, 23 per cent for Mexico and 18 per cent for Chile, and Argentina, Brazil and Chile all renegotiated part of their external debt through the Paris Club in 1964-65. The increase in official aid from the United States under the Alliance, including large amounts of aid at very favorable terms, has also contributed to some improvement in the debt service profiles of Brazil and Chile, and Argentina and Mexico are in process of gradually reducing their debt service ratios through better management. Nevertheless, debt service payments continue to weigh much more heavily on the balance of payments of Latin America than on that of other developing countries. According to World Bank figures, total payments on external public debt by Latin American countries in 1967 amounted to about \$2 billion, or more than half the payments due from all developing countries (although Latin America accounted for less than one third of the total debt outstanding). This was equivalent to about 25 per cent of Latin America's total commodity exports in that year. Argentina, Brazil and Mexico between them account for about 55 per cent of Latin America's external public debt and all still have debt service ratios in excess of 20 per cent. The one major country in which the external debt situation has got much worse in recent years, largely as a result of poor financial management, is Peru, which now has a debt service ratio in the region of 15 per cent (agreements for renegotiating part of this debt are currently being worked out with the principal creditor countries).

8. High rates of inflation, commonly in excess of 20 per cent a year, have long been characteristic of certain Latin American countries, notably Argentina, Brazil and Chile (more recently also Uruguay). None of these countries has yet succeeded in breaking away from inflation, though Argentina still has a chance of doing so during the next two years. There are other Latin American countries where the record of financial stability is better, or at any rate no worse, than in other parts of the world; Mexico and Venezuela have been outstanding in this respect. Peru now appears to be moving, for the first time in many years, into an inflationary phase, and several other countries which previously had good records of price stability may be getting into increasing difficulties (e.g., Bolivia and Ecuador).

9. In all the countries where inflation has been a major problem in recent years, rising public expenditures on social services have been an important factor contributing to it. Argentina, Brazil, Chile, Costa Rica and Uruguay all have well-established social security systems (in contrast to Mexico, for example) and Peru has recently

started one. Public expenditures on housing have been particularly high in Chile (20-25 per cent of all public investment), and in Peru education has been absorbing a very rapidly increasing share of national resources (30 per cent of the total Central Government budget in 1967).

10. Levels of taxation and public savings in Latin America vary widely from country to country according to the relationship between the public and private sectors, levels of government expenditure on social services and other factors. Since 1960 Brazil, Chile and more recently Colombia have made big efforts to increase tax revenues. Chile and Brazil are now at one extreme with tax revenues and social security contributions absorbing over 30 per cent of GDP. In Mexico, by contrast, the proportion is only 12 per cent. Colombia and Venezuela are fairly close to Mexico, while Argentina is in an intermediate position (around 20 per cent of GDP). Private savings in Brazil and Chile are correspondingly low, and half or more of national savings are mobilized through the public sector. In Argentina at the present time the public sector plays a more than averagely important role in carrying out investment and providing finance for it. In most other Latin American countries, particularly Venezuela, Mexico and Peru, it is the private sector which is the mainspring of economic growth.

11. There is a lack of reliable data on income distribution in Latin America. This is obviously a major problem in most Latin American countries apart from Argentina, Costa Rica and Uruguay where there is no seriously depressed rural sector. The Andean highlands in Peru, Ecuador and Bolivia, northeast Brazil, parts of southern Mexico and Central America and Paraguay stand out as areas of acute rural poverty where the climate and in some cases the soil conditions also are particularly unfavorable.

#### (B). Qualitative Evaluation

12. Latin America has done quite well during the past 5-10 years, but not as well as might reasonably be expected, given the relatively high levels of development already achieved, the area's European traditions and its favorable resource endowment (though geography and climate are unkind to integration by making land communication so difficult and living conditions so diverse). Its unity is as apparent to the outside world as the unity of India and it is frequently the subject of easy generalizations; yet although there are certain common factors which help to explain why the economies of Latin America have not grown more rapidly, the diversity of the area is just as striking, and there are wide variations both in the economic performance of individual countries and in the nature of the development problems with which they are confronted.



13. To take two extremes, Argentina, where there is no serious problem of rural poverty and the average standard of living is probably higher than in Spain, is a different world altogether from Bolivia or North East Brazil. Most people would agree that Mexico is the outstanding performer in Latin America on the record of the past twenty years, and one of the outstanding success stories of economic development anywhere. This obviously has something to do with the social revolution which took place in that country in the early part of the century. It also has something to do with Mexico's climate and geographical position, its diversified natural resources and its close proximity to the United States, which makes it particularly accessible both to North American ideas and technology and to the American market, including the market for tourism. No other major Latin American country has these particular advantages. Argentina, however, also has unique advantages of its own, even though it has not been very good at exploiting them over the past thirty years. While its remoteness is possibly a drawback from an economic point of view, it enjoys a temperate climate such as few other countries in Latin America and, with Uruguay, has exceptionally favorable conditions for agriculture.

14. Latin America is commonly associated with inflation. Yet of 18 Latin American countries, nine have had a smaller increase in the cost of living since 1958 than the average for Western Europe. Weak central control over public finances and difficulties in collecting taxes are nevertheless common characteristics of most Latin American countries. Indeed, the generally poor quality of government administration has a good deal to do with deficiencies in economic performance. Civil servants in Latin America tend to be poorly paid, particularly in the inflationary countries, and while the average caliber is low, the numbers are very large, displaying the worst faults of bureaucracy. The problem is aggravated by political instability and frequent ministerial changes. In Argentina, for example, as pointed out in our latest economic report, there have been seven Presidents over the past ten years, and Ministers of Economy have during this time remained in office on average for only about ten months. Mexico is a striking exception to this rule, and the fact that many of the key officials in charge of economic policy in that country have been unchanged for quite a long time is one of the explanations for Mexico's superior performance.

15. If civil service standards in Latin America on the whole compare unfavorably with countries which have been under British, French or Dutch colonial rule, there are many public agencies which are well managed. National Financiera and the Highway Department in Mexico, Furnas in Brazil, Empresas Publicas de Medellin and the agrarian reform institute in Colombia, ENDESA in Chile - all these organizations and many others have proved themselves extremely capable in preparing and executing projects financed by the Bank and they are really the foundation of our operations in Latin America as a project lender.

16. There is a tradition in Latin America, inherited from Spanish days, of strong opposition to central authority. The political institutions of the area, generally embodying the separation of powers between the executive and legislative, are indeed well designed to frustrate strong and decisive government action and to complicate the task of what Roberto Campos has called "crisis management" - hence the common habit of reverting to military rule in times of financial and economic crisis.

17. The role of the military in Latin America today is a complex subject on which there has been much speculation. It varies enormously from country to country. The army is obviously an important autonomous force in Brazil, Argentina, Bolivia and Ecuador; in Colombia it is at present under the thumb of the constitutional government; in Costa Rica it does not exist. In some countries at particular points in time the military have been an influence for reform and improvement (this may be true in Argentina today), but this is certainly not always the case. Although soldiers tend to be pampered in some countries, and there has been some wasteful expenditure on defence, it is difficult to maintain that military diversions as such have been a major obstacle to growth in Latin America. Defence expenditures seldom account for more than 2 or 3 per cent of GDP in Latin America, and although they do from time to time weigh quite heavily on the balance of payments, their economic consequences tend to be exaggerated. However, measures to counteract what is considered to be a threat of internal subversion are sometimes a more serious distraction, most notably at the present time in the Dominican Republic, but also to a lesser degree in such countries as Bolivia, Colombia, Guatemala, Peru and Venezuela.

18. One encounters in many Latin American countries certain attitudes widely prevalent among the leadership groups which do perhaps constitute a common thread of resistance to change and opposition to the mass consumption society. Mr. Servan-Schreiber, in writing about Europe, has commented on the weak relationship between the leadership groups and the people and "a curious desire by these leaders to sit on the sidelines of change". This rings true also of many parts of Latin America where the governing elites tend to take their ideas and their education from Europe (Spain and France especially) and where there is a strong current of antagonism to the United States and to the values with which the United States tends to be identified. Such attitudes are nowhere more apparent than in Argentina which is the most European society in Latin America.

19. Yet here again there are many exceptions. In Colombia, for example, the leadership group by and large has accepted its responsibility to do something for the people, and the people recognize this. You therefore have a Government which is in many ways quite oligarchic, but at the same time extremely popular. There is also an oligarchy in charge of the Government in Peru, but it is to a large extent divorced from the mass of the people for racial and geographical reasons.

20. The dynamism of the private sector, itself, of course, very much influenced by government policies, is another important variable in Latin America. It is much more evident in Mexico City or Sao Paulo than in Buenos Aires or Santiago. The industrial boom which took place in Brazil in the early 1960s was one of the most striking advances in the economic development of Latin America during the present century. The main impetus to private industrial development in Latin America has come from business in the United States, and in trying to assert their independence Latin Americans have only too often tended to throw the baby out with the bath water.

21. The rapid growth of population in Latin America, and the social and religious attitudes underlying it, is unquestionably a major obstacle to raising the standard of living in some countries. The problem is particularly acute in Colombia, Ecuador, Peru and parts of Central America because of the shortage of employment opportunities. Argentina is the notable exception of an empty country needing more people to develop it.

(C). Role of the World Bank

22. In short, the present economic and political situation in Latin America is extremely fluid, varying considerably from country to country and offering frequent opportunities for useful intervention by external lending agencies in support of groups who are on the side of economic progress and have sensible ideas about policy. The Western Hemisphere Department is continually probing for opportunities of this kind, and our lending strategy for individual countries 1/ is based on the belief that we can have some influence over general economic and sectoral policies, as well as over the particular projects which we finance.

23. So far as general economic policies are concerned, the Bank has tried to exert influence in support of those in Latin America who want to keep the growth of private consumption and public welfare expenditures in check. For this reason it has put major emphasis in all countries on public savings as a measure of fiscal performance, while recognizing that this approach has its limitations, particularly inasmuch as it can lead to a diversion of resources away from the private sector (there is also the problem that the conventional distinction between current and capital items may sometimes be a misleading guide to the value of expenditures from a development point of view). As to the relative emphasis placed on control of expenditures and increases in revenues as a means of raising public savings, this has varied from country to country. In Brazil and Chile, for example, where levels of taxation are already excessive, the Bank has been underlining the importance of reducing public expenditures and following more restrictive incomes policies. In Venezuela and Peru, on the other hand, and to some extent in Argentina, we have pressed the arguments in favor of increased taxation.

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1/ This strategy has been outlined in the papers on the principal countries prepared in connection with the five-year forecasts.

24. There have been cases (notably Brazil in the early 1960s) where the existence of a high rate of inflation has been regarded in itself as a bar to Bank lending of any kind. However, we have come increasingly to recognize inflation as a fact of life in some Latin American countries and we have tried in these cases to ensure that the long-term growth of the economy is at least to some extent protected against the worst consequences of internal price instability through flexible exchange rate policies and careful management of external debt. The desirability of savings being generated through operations of public enterprises has been emphasized in all countries and usually made a condition of lending to individual enterprises, particularly in the power sector.

25. It is more difficult to generalize about factors which have determined the composition of Bank lending to Latin America and the conditions attached to individual projects, although we have increasingly tried to relate our project financing to broader considerations of sectoral development. Project and sector conditions are frequently designed to reinforce general economic policy objectives (e.g., by contributing to public savings or assuring adequate incentives for agricultural producers), just as general policy conditions are sometimes very relevant to the effectiveness of individual projects which the Bank is financing (e.g., the connection between exchange rate policy and agricultural incentives).

26. The five-year forecasts of Bank lending to Latin America are based explicitly on the assumption that the general economic performance of most of the borrowing countries will be reasonably satisfactory - an assumption reflected in the macro-economic projections for individual countries. Specifically, we have assumed major improvements in private industrial investment and management in Brazil and Argentina, the containment of inflation within reasonable limits in both these countries, and in the case of Argentina more dynamic growth in the agricultural sector. In Colombia we have projected a vigorous expansion of exports based on a continuing improvement in exchange rate policies, as well as sound management of public finances. We believe that recent economic trends in Latin America do provide some basis for a moderate degree of optimism with respect to the pace of development over the next five years and justify our planning for a major expansion of the Bank's lending activities, even though some of our assumptions will obviously not be fulfilled.

## II. LEVELS OF EXTERNAL ASSISTANCE

27. The Alliance for Progress called for a large increase in external assistance to Latin America along with a major effort of self-help on the part of the Central American countries themselves. The reference to external assistance in the 1961 charter of Punta del Este read in part as follows:

"The American Republics recognize that to achieve the foregoing goals it will be necessary ... that the Latin American countries obtain sufficient external financial assistance, a substantial portion of which should be extended on flexible conditions with respect to periods and terms of repayment and forms of utilization, in order to supplement domestic capital formation and reinforce their import capacity; and that, in support of well-conceived programs, including the necessary structural reforms and measures for the mobilization of internal resources, a supply of capital from all external sources during the coming ten years of at least 20 billion dollars be made available to the Latin American countries, with priority to the relatively less developed countries. The greater part of this sum should be in public funds."

28. There has undoubtedly been a large increase in both gross and net flows of long-term official capital to Latin America from the U.S. Government and the international agencies in Washington since the Alliance started, as Table 1 on the following page shows. <sup>1/</sup> However, according to ECLA figures, the annual average current account deficit of Latin America in the period 1960-66 (about \$845 million) was not very different from the average for the 1950s (Table 2). Heavy investment by the oil companies in Venezuela in the late 1950s helps to explain both the increase in Latin America's current account deficit during that period and the rise in direct investment.

29. The Alliance for Progress looked to private foreign investors for a major contribution to the financing of Latin American development, and official contributions were also expected from Canada, European countries and Japan in addition to the United States. The information on gross and net flows from these sources is not very reliable, and in the case of European countries and Japan it is difficult in practice to draw a dividing line between official and non-official capital or between aid and export financing. From the data in Table 2 it would appear that foreign private direct investment in Latin America since 1960 has been somewhat lower than in the 1950s, while net aid from "other official sources" (i.e., excluding the Washington agencies) has been relatively small. Very large debt service payments to European countries help to explain why the main burden of providing external finance for the Alliance has fallen on the U.S. Government, the World Bank and the IDB.

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<sup>1/</sup> Figures for the U.S. Government in earlier years are incomplete and are being checked with U.S. officials.

Table 1  
DISBURSEMENTS FROM SELECTED OFFICIAL SOURCES TO LATIN AMERICA  
(million US dollars)

Gross Disbursements	Annual Average		1961	1962	1963	1964	1965	1966	1967
	1951-55	1956-60							
1. U.S. Government <sup>1/</sup>	n.a.	n.a.	762	566	557	571	589	787	n.a.
of which:									
AID			76	148	192	237	324	493	
Eximbank			418	213	134	61	136	185	
PL 480			173	134	167	231	107	109	
Other <sup>2/</sup>			95	71	64	42	22	-	
2. World Bank Group	64	82	101	158	273	251	187	261	310
of which:									
IBRD	64	77	96	139	262	233	163	231	280
IFC	-	5	5	12	3	8	8	9	9
IDA	-	-	-	7	8	10	16	21	21
3. IDB	-	-	10	54	141	199	183	212	242
of which:									
Ordinary Capital			3	28	59	107	83	98	113
Special Fund			2	9	16	25	29	45	70
Trust Fund			5	17	66	67	71	70	60
<u>Repayments</u>									
1. U.S. Government <sup>3/</sup>	n.a.	n.a.	109	159	206	144	201	268	n.a.
2. World Bank Group	6	28	40	44	47	60	73	77	85
3. IDB	-	-	-	-	2	9	16	29	46
<u>Net Capital Inflow</u>									
1. U.S. Government <sup>3/</sup>	404/	1624/	653	407	351	427	388	519	n.a.
2. World Bank Group	58	53	71	114	226	191	114	184	225
3. IDB	-	-	10	54	139	190	167	183	196
<u>Total</u>	98	215	734	575	716	808	669	886	

<sup>1/</sup> Figures refer to autonomous capital inflows. Debt rescheduling credits have not been included. These amounted to \$46 million in 1961, \$88 million in 1962, \$80 million in 1963, and \$60 million in 1964 and 1965.

<sup>2/</sup> Excludes disbursements from technical cooperation and development grant appropriation. Includes other grants and all loans.

<sup>3/</sup> Repayments refer exclusively to AID and Eximbank development loans. The classification of Eximbank loans into autonomous and compensatory categories may not be precisely the same as for the gross disbursement figures; hence some uncertainty remains in regard to the net US Government autonomous capital inflow figures.

(Cont.)

4/ External financing in Latin America. E.C.L.A. 1965, p. 134 explains how these figures were estimated. Although these figures are not strictly comparable to those for later years, an independent check against figures for total U.S. Government long-term capital inflow (i.e. both autonomous and compensatory) substantiates the trend shown.

Sources: U.S. Government. Foreign Assistance Act of 1967. Hearings on H.R. 7099, Part VI, p. 1257

Recent Economic Developments in Latin America  
O.E.A./Series H/X.11., p. 173

External Financing in Latin America. E.C.L.A.  
New York, 1965 pp. 134, 209-211

IDB. Annual Reports. 1961-1967

Table 2  
LATIN AMERICA (excluding Cuba): SUMMARY OF INTERNATIONAL TRANSACTIONS ON CAPITAL ACCOUNT  
(Million U.S. Dollars)

	<u>Annual Average</u>		<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
	<u>1951-55</u>	<u>1956-60</u>							
<u>Balance on Goods Services and Private Donations</u>	-620	-1,060	-1,240	-1,240	-370	-700	-420	-1,100	-1,600
<u>Official Donations and Long-Term Loans (Net)</u>	+120	+430	+920	+890	+990	+970	+580	+1,050	
of which:									
<u>Washington Agencies</u>	(+100)	(+220)	(+730)	(+580)	(+720)	(+810)	(+670)	(+890)	
<u>Other Official Sources</u> <sup>1/</sup>	(+20)	(+210)	(+190)	(+310)	(+270)	(+160)	(-90)	(+160)	
<u>Direct Investment (Net)</u>	+330	+850 <sup>2/</sup>	+370	+220	+230	+400	+510	+570	
<u>Other and Errors and Omissions</u> <sup>3/</sup>	-30	-430	-400	-610	-390	-560	-180	-420	
<u>Net Compensatory Financing</u>	+190	+210	+340	+740	-460	-90	-490	-100	
of which:									
<u>Balance of payment loans (net)</u>	(+120)	(+160)	(+170)	(+30)	(-140)	(-90)	(+160)	(-20)	
<u>Changes in net monetary reserves (increase - )</u>	(+70)	(+50)	(+210)	(+390)	(-370)	(-210)	(-380)	(-)	
<u>Deferred import payments</u>	-	-	(-40)	(+320)	(+50)	(+210)	(-270)	(-80)	

<sup>1/</sup> Includes all operations, other than direct investment, that result in a change over a term of more than one year in the liabilities of the recipient countries with the exception of Compensatory Financing. Development loans and supplier credits are the most important component elements.

<sup>2/</sup> An average of \$310 million per annum during this period is accounted for by direct investment in Venezuela. The major part of this direct investment took place in the oil industry.

<sup>3/</sup> This classification includes net changes in public and private long-term capital assets, short-term capital assets and errors and omissions.

Sources: Years up to 1960: External Financing in Latin America E.C.L.A., E/CN.12/649/Rev. 1, New York, 1965  
After 1960: Estudio Economico de Latin America, 1967, E.C.L.A. E/CN.12/808 May, 1968



III. GOALS OF THE ALLIANCE FOR PROGRESS

30. The text of the charter of Punta del Este establishing the Alliance for Progress in 1961 is appended for reference at "A". The "fundamental goals" for the 1960s were:

- (i) an economic growth rate for each country of not less than 2.5 per cent per capita per year;
- (ii) a more equitable distribution of national income, concurrently with an increase in the proportion of GNP devoted to investment;
- (iii) diversification of national economies, with the aims of reducing dependence of exports on a limited number of primary products and increasing domestic capital goods production;
- (iv) acceleration of the process of "rational industrialization", with special attention to the development of capital goods industries;
- (v) rising agricultural productivity and output;
- (vi) encouragement of programs of comprehensive agrarian reform;
- (vii) elimination of adult illiteracy and, as a minimum, access to six years of primary education for each child of school age by 1970, together with a general improvement in vocational, secondary and higher education and training facilities;
- (viii) an increase of at least five years in life expectancy at birth and a general improvement in health, requiring, among other things, that not less than 70 per cent of the urban and 50 per cent of the rural population be provided with adequate drinking water and drainage;
- (ix) an increase in construction of low cost houses for low income families;
- (x) maintenance of stable internal price levels;
- (xi) the strengthening of existing agreements on economic integration, with a view to the ultimate fulfillment of aspirations for a Latin American common market; and

- (xii) development of cooperative programs designed to prevent the harmful effects of excessive fluctuations in export earnings from primary products and the adoption of the measures necessary to facilitate the access of Latin American exports to international markets.

31. Part of the difficulty of assessing progress towards these goals is that, within a given period of time, the aims are mutually contradictory, and although these contradictions were of course recognized when the Alliance was created, no guidance was given on how they were to be reconciled. In the hope of evoking a broadly based popular response in Latin America, heavy emphasis was laid on the need for measures to secure more equal distribution of income and property and to extend social services. Yet many of these measures were bound in themselves, at least in the short run, to have an adverse effect on domestic savings and investment and to complicate the task of maintaining stable prices. For example, an inordinately rapid increase in educational expenditures in Peru in 1964-67 was one of the principal factors that led to a fiscal crisis and devaluation of the sol. Similarly, the introduction of an agrarian reform program can well have an immediate adverse impact on national agricultural production, if only because of its unsettling effects on activity and investment in the commercial farming sector. This may be the case now in Chile, though the evidence is inconclusive; there is no doubt, however, that the additional public expenditures called for under the new agrarian reform law in Chile have been a major factor in the breakdown of the Chilean Government's stabilization program during the past two years.

32. The macro-economic data given in Section I provide some measure of the overall progress of economic development in Latin America in relation to the goals of the Alliance. It is much more difficult to quantify the results achieved in the social sectors such as education, health and housing. A great deal of detailed information is available on all these subjects, but the situation varies greatly from one country to another, and aggregation is often not very meaningful. In the case of education, according to the latest CIAP annual review and the 1967 report of the Social Progress Trust Fund, the percentage of children of primary school age registered in primary schools is estimated to have risen from 71 per cent in 1960 to 83 per cent in 1967, and there has been some improvement in the average length of time the children stay in primary schools. Percentages of children enjoying middle and higher education are estimated to have increased by approximately 10 per cent since 1960. Enrollment of students in Latin American universities has risen from 510,000 in 1960 to an estimated 880,000 in 1966.

33. CIAP, meeting in Guatemala at the end of July 1968, reaffirmed its belief that the Alliance for Progress was vital to the maintenance of the sustained development of the continent and expressed its concern at the tendency for the U.S. Congress to reduce substantially the amounts

of technical and financial assistance requested by President Johnson for the Alliance. At the same time, the communique pointed out serious deficiencies in the efforts of Latin American countries to help themselves, with particular reference to the slow progress of land reform, the inequitable distribution of taxation, inefficient agricultural marketing systems, lack of progress in modernizing private industry and inadequate labor and social policies. The text of the communique is appended for reference at "B". It is practically silent about things which the World Bank normally regards as key indicators of general economic performance (e.g., growth of GDP, domestic savings and investment, control of inflation, exchange rate policies, external debt management, etc.).

THEMES FOR SPEECH TO INTER-AMERICAN PRESS ASSOCIATION

1. Latin American countries, each in its own way, have been responding to the need for social change and faster economic growth and are trying to reconcile the many contradictions inherent in the process of development. The progress made depends first and foremost on the extent to which a consensus is reached within each society on economic development as a primary goal of national activity and on the broad policies to be followed in pursuit of this objective. Where there is at least some measure of agreement on this point, external agencies can help to provide a country with additional resources for investment and with the know-how required to use these resources efficiently; they can also help the country in choosing the right measures to promote economic growth. But where a country does not really want organized development, where the leading groups are more interested in keeping things as they are or in jockeying for political position than in encouraging economic and social change, there is relatively little that an agency like the World Bank can do.
2. That is why, in Latin America as in other developing regions, the World Bank has always felt it necessary to relate its lending in some way to the efforts which its member countries are making to help themselves. It is indeed bound by the spirit of its charter and by its obligations to those on whom it relies for funds to ensure that the economic policies of countries to which it lends are conducive to growth and calculated to encourage efficient use of the capital it makes available. There will be much dispute in any given situation about what the right policies are, but most of us would agree that the level of domestic savings, and particularly the marginal savings rate, is an important indication of a country's readiness to organize itself for development. There are many other tests, including the ability to keep inflation under control, the tax system and how it is administered, the encouragement given to efficient production in industry and agriculture, measures to limit the growth of population, efforts to promote exports, exchange rate policies, management of external debt and so forth. We would never seek to dispute a Government's right to decide its own policies, but the policies actually adopted are the best guide we have as to how serious a country really is about economic development and therefore as to the chances of the Bank being able to contribute something useful.
3. Many Latin American countries have in fact demonstrated very clearly that they are interested in growth and ready for change - there is ample evidence of this in the record of the past seven years since the Alliance for Progress started. Moreover, Latin American development has moved forward during this period with relatively little assistance

from outside because much of the aid received has been offset by debt repayments (net capital inflows equal to only 1.2 per cent of GDP in 1960-66, a lower percentage than in any other developing region). The World Bank has made a modest contribution to this process, but we would be the first to recognize how small our lending has been in relation to the capital mobilized within Latin America itself.

4. With respect to the future, we are prepared to step up our contribution to the financing of economic development in Latin America. The extent of our role in Latin America will depend on the speed with which project plans and investment programs are accelerated and on the determination with which individual countries move to resolve the policy problems previously noted. I am confident that, with some additional efforts on the part of our borrowers and with some modifications in Bank procedures, we shall be able to double our lending to Latin America over what it has been in recent years (refer to successes in raising funds and steps being taken to recruit additional staff and to streamline lending procedures). If we can raise our lending level in Latin America to \$600-700 million a year over the next few years, we will be able to play a larger part in maintaining and in some countries increasing significantly the pace of development. Taking Latin America as a whole, I am sure that a faster rate of growth can be achieved in future than the  $4\frac{1}{2}$ -5 per cent a year, which seems to have been the average for the early 1960s. This will depend more than anything else on the success which is achieved by our host country and by the neighboring country of Brazil in giving support to a revival of private investment. We are prepared in the World Bank group to work closely with both governments and with the private sector in both countries in bringing about such a revival.

5. While continuing our traditional support for economic infrastructure, particularly power and transport, we hope to diversify our lending in Latin America with more direct involvement in agriculture and manufacturing, primarily through local credit institutions, and in education and in the improvement of rural conditions. We are already engaged in very intensive project preparation activities in the field of agricultural credit in Latin America, and I am confident that even in the short run we can achieve a substantial expansion in our activities in that sector, particularly the development of livestock. I would not be at all surprised if our lending in agriculture increases by three or four times over the next five years compared with the last five. An even larger increase in percentage terms is projected for education and manufacturing.

6. Over the longer term I am particularly interested in finding an answer between us to the problem of over-population of the big cities on the one hand and rural poverty and unemployment on the other. I have serious doubt that the development process as it now emerges in most of Latin America is contributing to a resolution of these problems. We will be probing to see if schemes for the integrated rural and urban development of depressed areas can be designed within the framework of sound national programs.

7. In lending for agriculture we will be prepared to support land reform and the improvement of near-subsistence farming provided that suitable encouragement is also given by government policy to the expansion of commercial farm production. We recognize the key role of education in relation to long-term development and believe that one of the primary aims of educational policy should be to encourage social mobility and help in breaking down class barriers; our own lending will continue to focus mainly on secondary and vocational schools, with priority being given to projects designed to make this type of education more easily accessible to the rural population.

8. Industrialization in Latin America has suffered from disregard of two critical considerations, namely economies of scale and the principle of comparative advantage. Many of the best minds in Latin America have been engaged in trying to find a solution to this problem through economic integration, and I am sure that this is the right approach. But even without integration I believe that individual countries can do a great deal to improve their industrial promotion policies and to avoid a repetition of the costly errors of the past. The staff of the World Bank have been giving increasing attention to studying these problems (refer to recent tariff studies and studies of the automobile and heavy electrical industries), and this is one area in which I believe that our research work can be usefully extended. Meanwhile, the Bank and IFC will continue to keep an eye open for opportunities of increasing their industrial lending in Latin America, particularly through financial intermediaries. The need to develop more efficient local industries will also continue to be an important consideration in the application of the Bank's procurement policies.

9. The fulfillment of these lending possibilities must depend to an important extent on the opportunities presented to the Bank for making an effective contribution to national development programs. We shall continue to do all we can to support those in Latin America who want to exercise restraint over the growth of private consumption and public welfare expenditures in order that more resources can be allocated to investment without giving rise to inflation, for inflation itself sets in train all sorts of forces that are destructive of growth. For this reason we shall continue to press for a high level of public savings in all countries to which we lend, while recognizing the importance of these savings being realized by means which do not deprive the private sector of the resources it needs to finance expansion. Where inflation already exists, Latin American experience tends to show that flexible exchange rate policies can help to protect the long-term growth of the economy against the worst consequences of internal price instability. Particular care also needs to be taken in such circumstances with respect to the management of external debt. The World Bank cannot responsibly ignore what a country does in matters such as these in deciding upon the best ways of using the funds at its disposal.

10. The Alliance for Progress recognizes the complex inter-relationship between social and economic objectives. There is frequently a contradiction in practice between measures of social reform and more equal income distribution on the one hand and the measures needed to promote production in the fairly short run on the other. This contradiction is evident in Budgets unbalanced by rising social service expenditures, in inflation fostered by wage and salary adjustments in excess of increases in the cost of living, in agriculture stifled by price controls imposed for the benefit of the urban population, in inefficient industries established to help deal with unemployment, in industrial stagnation brought about by rising labor costs and declining profits. Each country has to judge for itself the proper balance to be struck at any given point in time between these conflicting objectives. This is often a difficult and agonising choice. The World Bank is certainly not indifferent to welfare expenditures, but it cannot easily compromise with the principle that the projects which it finances must have a reasonable chance of yielding a good economic rate of return, even if this is not precisely measurable. Nor can we easily give our support to policies of subsidising the prices of public services (frequently being provided mainly to the urban groups above the poverty level) because it is extremely important in general to maintain the rule that public enterprises should, wherever possible, be run at a profit.

11. I hope you will think of the Bank as an agency which is sympathetic to change and modernization and always ready to experiment itself when occasion offers, but which must nevertheless, because of its worldwide membership and operations, try to be consistent in the policies adopted towards different countries and cautious about making exceptions to rules which it has established. It is our aim to be always on the lookout for ways in which, in collaboration with the IDB, the IMF and other UN agencies, we can usefully supplement and reinforce the efforts which Latin American countries are making to raise their levels of per capita production and to take advantage of what modern technology has to offer.





PROPOSED PLAN FOR IMPLANTATION OF A FAMILY PLANNING PROJECT  
IN THE STATE OF BAHIA

Braze Luck 11/19  
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Sund  
Chy & Alt  
Friedman  
& others  
Chy & Alt  
Sund

I - INTRODUCTION

A project related to family planning in the State of Bahia should aim at the following requisits:

- 1) To reach, mainly, the low socio-economic segments of the population living on the peripheral areas of large and medium size urban non organized communities.
- 2) To be handled by the State Health Department.

It is convenient to say that there are large tracts of promising land in the State of Bahia in which the demographic density is very low. In those areas it might be desirable an increment of the population, thus integrating them in the economic-administrative complex of the State. According to our social structure, large families are quite a common event in rural areas, being the agricultural production as well as the family income directly related to the size of the family. It is our impression not to be worthwhile to develop birth control programs in them. However, in the areas in which the landlord still dominates the labor force it seems reasonable to establish such a kind of program.

As the rural medical care did not reach the minimal needed to improve health of the people a high infant mortality rate persists, which is compensated by also high birth rates in such a way reaching an equilibrium. More over, as birth control programs are related to the existence of medical services and since they are absent in most areas of the state, it would not be a good public health policy to develop one in the absence of the other.

Birth control in urban areas has been widely used for a long time among wealthy people and begins to be tried in the lower-middle and low classes. In these, however, lack of education and sometimes downright ignorance have been serious obstacles to its dissemination. This situation brings about an imbalance of the social structure, therefore causing uncontrolled increase of a marginal population of low cultural and intellectual level.

The above mentioned situation is also determining an increased demand on public services by the fact that the fastest growing classes have no means to provide their own needs concerning health and education, not to mention the claim for jobs housing, transportation, hygiene and sanitation, electric power, and so on, which are inter

related to any demographic growth regardless of the segment of population involved.

## II - OUTLINE OF THE PLAN

### A - EXECUTION

Any Governmental initiative concerning family planning must depend on the existing health outfits as previously done in other Latin America countries (Guatemala, Chile, Costa Rica). It should aim at providing knowledge and offering the means for birth control. In no situation and under no circumstances should birth control be forced upon the population as harmful to its purposes. The birth control plan would be available at the health units and, in addition to this, a more practical system of communication could be developed to bring about basic information on the services to the communities. Due to political implications, it is convenient not to develop exclusive birth control clinics. It is advisable, therefore, that State Health Department be responsible for the program.

By the one hand, pre-natal clinics, mother-clubs as well as health education programs of the State Health Department might be used to motivate people toward birth control. On the other hand, the maternity hospitals, gynecological clinics and related services could act toward the applying of birth control techniques.

### B - HUMAN RESSOURCES AND STRUCTURE

To attain the above mentioned purposes the State Health Department will need a supplementation of personnel mainly family-planning trained personnel, such as doctors, nurses, auxiliary nurses, social workers not available in its present situation. The number will depend on the magnitude of the program to be implanted.

A committee composed of doctors, demographers, statisticians, sociologists would be in charge of longitudinal planning, communication techniques development, training of personnel and organization of educational campaigns. Mobile units formed by nurses as well as social workwrs, would care for the development of the program at the community level.

### C - FUNDS

Organization of such program will depend upon consecution of additional funds from either Government or other sources. In the present stage of the planning it is impossible to foresee the ammount of money needed. But at any rate large sums seem necessary.

M