

Peace Corps Talk on
land reform

Intro.

~~Disturb. Outline.~~

Imitation pearls real swine.

~~Artif. pearls~~

But this group different, so have
entirely approp. ^{it is swine who are imitation} swine pop. of L.A.
~~But don't knock~~

tried to come up w. some real pearls.

- shd. be one of ^{major reasons for sending you there.} mortgage-lifters.

swine! If understand all implications of curl in lip of cattle
baron when he sneers at 'pig farm', know what I mean
when suggest what L.A. needs is more swine; (more, at least, in
barneys, fewer in Presidencies). Pigs bring home the bacon.

Subject is 'reform'. Set tone by observing that what we
must ^{modify radically} ~~change~~ our current notions of liberal & conservatism, reform
& reaction, to apply terms to L.A. Much of what we achieved
in 18 - 19th c. has yet to be done there: dev. local govt.; distrib.
land widely. Achievements that have come to be held in
low esteem by reformers - taken for granted. Never do that to
a girl - & liberty is a girl.

We think of liberal reform as tech. nat. govt. to
run deficits; shift from prop. to excise taxes. If so,
L.A. govt very enlightened. Progressive func is
lay's field to field - L.A. way ahead of us.

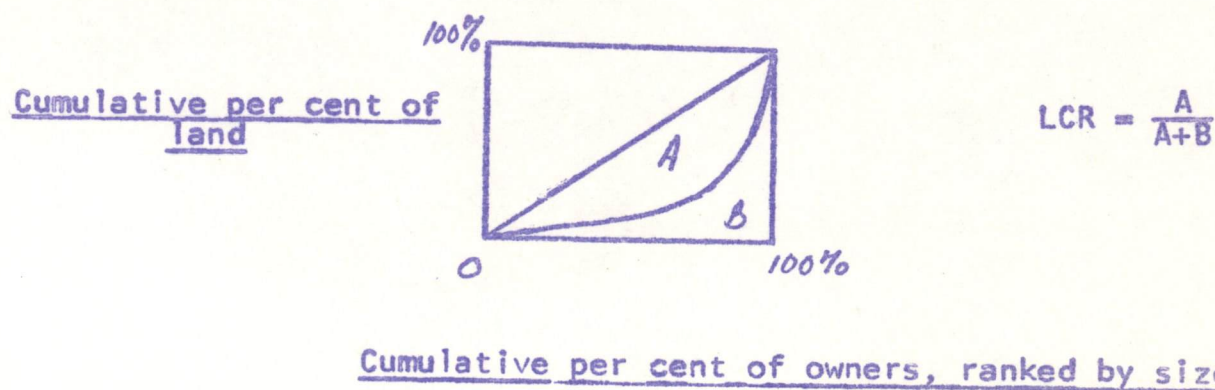
We are taking for granted what L.A. needs had.

<u>Series</u>	<u>LCR</u>	<u>Per cent in top bracket</u>	
		<u>Individuals</u>	<u>Items owned, operated, or received</u>
U.S. Farm operations, '50	.70	2.3	43
U.S. National income, '52	.40	10	30
U.S. Farm Operating income, '46	.42	7	25
Liquid assets, U.S., '54	(.47) [‡]	10	39
Chile, Farm ownership, '51	.93	1.5	75
Denmark, Farm ownership, '51	.47	2.0	14.2
Iowa, farm operations, '45	.35	1.4	5.8
California, farm operations, '50	.86	4.4	71
Brazil, farm ownership, '40	.80	1.6	48
Venezuela, farm ownership, '36	(.87) [‡]	5	90
Nile Delta, farm ownership, '50	(.98) [‡]	.05	37

‡ Estimated

Note: Accuracy of Latin American figures subject to wide variation.

Meaning of Lorenz Concentration Ratio (LCR):



Intro (cont.)

U.S. reform of farm land means retain farm use, maintain artif. scarcity. L.A., up vs. ultimate realities, get more to use. True, they dump coffee, but def. need more for domestic food.

✓ Distrib. papers.

I. The Status Quo.

"Be Hell-of-a-mess..."

A. Problems

1. Concn. of ownership & control.

Brazil 10% hold 77%
0.3% 52%

B.A. Province, 320 fam. have 59%

Chile - 1% hold 48%

n.e. Brazil, 2% have 48%

U.S. - 3% .. 42%, but our data better - Chile

probably worse.

~~Cf. Ia.;~~

~~Cf. Calif.~~

Minifundia - another problem? Counterpart of same problem. ~~Perennial~~ Perennial confusion of issues, on part of those who insist on framing issues in terms of

black & white latifundia vs. minifundia. 3d, or ec.
 alternative, big get smaller so small get larger. End up w.
 medium size fms.

2 analytic tools: LCR; MNP

Insist on them. Means are meaningless. Story of
 duck & hunter statistician who went duck-hunting.

Need is to ~~create~~ shift land from big to small -
not to create minif., but to get rid of them, make them big.

MNP

2. Mnp. of social control by landowning oligarchy.
 Politics & journalism, army (& church?) - news blackout, too
 touchy to handle). Opinion formation.

Low level of patriotism. Intl. ops. & playboys -
 too rich to be patriotic, a naive middle class weakness.

Worldwide investments.

3. ~~Low~~ Maldistribution of popn.

a. From farm to farm, as above.

b. Among regions. Small fms. on rough,
 hilly land; big spreads on flat, fertile low lands

To a degree That is worldwide trend - is obvious in U.S.

But the diff. of degree is phenomenal. Best lands of L.A. used for grazing cattle. Lowlands, lands around cities, shd. be mkt. gardens.

Some rural popn. found in foothills.

Ganado, cattle, ^{& colorful ganaderos, cowboys} not a symbol of L.A. vigor, but stagnation.

Arrested devt.

Stopped short in wild west era - we outgrew in 20 yrs. Not even finished. Grass-fed cattle, diseased, stingy, sells at discount.

Almost no ganado de cerda (swine). Cattle are the curse of L.A.

4. Low arts of agric.

a. Low yields. Bcs. backward techniques, low inputs, even labor, on Extension agric. - types of products. Pig farms. Lost out to cattlemen. Look right on MNP curve. best land.

b. Bcs. of conservation? No, also highly exploitive.

i. Tenants - no care

ii. Rich - can't be bothered. Magnus Derrick. But he was good husbandman chd. B.A. He lived on his ranch. They live in Paris, leave green desert to peons. He was a plunger - wd. intensify; they stick to lowest risk.

iii. Poor - fmg. submrgul. land nearly impossible

w/o destruction, shallow soils, steep slopes.

Threatened by bandits.

iv. 'Parasitos' - squatters No title or security.

Occ. 45% of cult.d. land in Panama, e.g. Can't invest for future.

Combo. of factors helps explain crisis of n.e. Brazil. Area

always had dry cycles; now, wth-hold'g capae. of soil reduced. Never developed defenses like our dust bowl - sorghums, kaffir, corn, now huge feed grain producer, drought resistant

Fertilize? Export fertilizer, don't use it.

5. Few public, open, or common facilities. Everything in personam

a. Xpt - big landowners do it. No local govt. - vacuum.

Not only no common carriers on the roads; often no common roads. Those

4.7. had to build its own.

b. Credit. Primitive

6. Tax structure: regressive w/o being motivational.

Excises, elaborate. Many fall on producers - consumers too
 poor. Weigh on wheels of indy, ^{in measure that} ~~to extent~~ they turn. Again, hits
 no i.g.

Land as such pays almost no taxes. Such as there are
 are not in rem, but in personam; not ad valorem, but
~~or~~ ad usibus. More like old French Taille, defined as ^{one} ~~tax~~ ^{unintended} ~~unintended~~ ^{as compensation}
~~publican~~ ~~oppression~~ ~~extorted~~ visible signs of ability-to-pay ~~unintended~~ by
 political influence. Some areas admin'd. by publicans.

Cadaster? Instrument of subversion. Tax rolls in personam. Maps a recent innovation.

7. Xenophobia

Popular opiate, indulged by extremists of left & right. We underestimate the influence of the right in this regard. They still regard meddling Yankee do-gooders as greater threat than Marxists. Dr. Boyd, Panamanian spokesman, scion of great cattle barony

B. Historical development

1. Spanish tradition, forged in 15c. wars of liberation vs. Moors. Shepherds vs. sedentary irrigators. (Bu. said Arab is not son of desert but its father, but not so Moors.) Peculiar intolerance, fanaticism. Reinforced by contact w. sedentary, ~~more~~ pagan, pre-gunpowder Indians - rationale for exploitation was all ready.

King assigned haciendas, w. landownership equated to governance. No room for local democracy - never developed.

Called feudalism, but is a slur. ~~was~~ Feudalism. relatively enlightened form of social org.

Might have evolved, like our proprietary colonies. But Indians were ripe for exploitation - overorganized, weak, superstitious, ready for slavery.

2. Protected by Spain: then Monroe. Never had to buy the support of masses, compete in world power politics. Rulers cd. focus energy on exploit's at home. As under Indians, isolation ~~let~~ spared full brunt of world compn, let evolve a substandard social org. Never had to meet modern standards of warfare.

~~They~~ They are part of U.S., receive protection w/o pay'g taxes. Nicar. is one large hacienda, under U.S. wing. Hardly shd. be called a nation.

3. Nuclear stalemate changed that same.

'54, Guatemala, C.I.A. cd. engineer a counter-revolution

'61, Cuba, it cdn't.

From viewpoint of social reform, maybe ~~the~~ if Fidel didn't exist, wd. have to be invented. Has been lip-service before Fidel, - '50 U.N. push for land reform - but takes a real scare to shake people much.

Was some reform in Mexico, '30s esp.; Bolivia after '50; ~~Jamaica~~ Jamaica, stillborn tax reform, on Australian model; & Puerto Rico ... but they don't count, are really parts of Anglo-Am.] Pace has been glacial, if not downright geological. Just bes are dealing w. land, doesn't mean must proceed at geological pace.

Since Fidel has invoked for us principle of the mil'y. frontier or marchland. ~~No~~ No longer need to be on Soviet border to get land reform - Japan, Korea, Taiwan, Burma, India, Malaya, Iran, Italy.

So if Fidel scares us into solid'g mess, may God send us more such enemies.

C. Contrast w. Anglo-Am. in historical dev't.

What have we done right? No chauvinism - res ipse loquitur
Complex - mention only a few.

1. Rejected identity of landownership & governance. Local govt. was integral part of political & democratic process

Rejected huge grants, entail, as counterpart of same. They had no functional rationale, when govt. was supplied by local political process. Distributed land equally. Big land cos. were busily engaged in subdividing, before got raked to death. Desert land that reverted to hacienda idea for iron, but never made it.
Release of sovereignty to local govt.: tax, bond, include unwilling landowners. Necessary counterpart of rejecting hacienda method.

Rejected edu. as mpy. of church. Again, local sovereignty, used local district as tool.

2. Used Ls to L.v. to force public frs., p.w.

E.g. r.v. land grants - incentive to build road.

In L.A., p.w. paid for farm excise, L goes to a few big landowners.

E.g. tax-n. of land.

E.g. settlers who served as buffers vs. Indians.

Squatters given land. Residence & use as basis of ownership grant.

II. Alternative directions for land reform in L.A.

A. Collectivization. Soviet model. Cuba.

Not so radical, in L.A. Less profound a change than Anglo-Americanization. Already collectivized — just as in Czarist Russia ~ in large part.

In Cuba, is reform & Puritanization of old system, rather than a new. Ang-Am. way wd. be much more radical a change.

B. Manorialization. Medieval town model. Mexico.

Ejidos — w-n Eur. countryside before commercial rev. & enclosure movements, w. elements of Indian villages.

Inalienable parcels. Collective ops. Fragmentation of parcels. Mixing of cattle. Object of Anthony Gung's scorn. "Magic of property..."

Mex. farm output has risen — but off Ejidos.

May serve imppt. evolutionary fr., as N.E. town & Manum Village. Plant seeds of local democracy, concept of local community.

But day is done — time to liquidate in Mexico.

Useful elsewhere? You will have better idea of that than I

C. = division French model.

Propty. is regarded as means for distr. equity, not to achieve
best use. } Creates privileged class, — not enough for everyone.
But,

Faith in both courts, eff. & equity.

Still wd. be an improvement over now.

D. Commercialization - Eng. model?

Not an impressive model. Low yields; underused. Eng.
genius is urban — agric. a mess.

L.A. plantations are already commercial, mkt-oriented.
Need more intensive, less exploitation use.

E. Kleingarten model — widespread.

False reform. Tool of tyranny. Part-time plot, to
hold men down, but not absorb their labor.

Ok if goes w. incl. opps. for labor, as cushion.

F. Colonization - universal.

a red herring. All depends on what kind. Culture doesn't change character just by movg. Turner fallacy.

That is speaking of continental migration. There is room for move ~~to~~ from submarg. to good land. But that doesn't mean pushing into remote areas, but dev'g land around capitals.

G. Land taxation - Calif. model.

a success story in grubby black picture.

III.

Pro IVT

"In irrigation districts, assessments were proportioned roughly to the potentialities of the land rather than to its actual stage of development and production. Because of this, few owners of good land in irrigation districts could afford to hold it in low-value crops. Heavy obligations for development increased the drive for large cash incomes to service the loans, to meet district assessments, and to defray other costs. ..."

"The creation of an extensive body of law to govern joint undertakings by means of district units apparently facilitated wide use of that procedure for a variety of purposes. Road districts, reclamation districts, drainage districts, and pest-control districts became common. (Footnote: The earliest district organizations were for reclamation. 45 of these had been formed by 1870. The major development of irrigation districts came later.) Often they were superimposed upon irrigation districts, or vice-versa, in such a way as to place heavy annual charges upon the landholders. These charges had much to do with the highly commercial character of California's agriculture. There was little place for the self-sufficient pioneer farmer, driven only to that degree of commerce necessary to provide groceries and clothes for his family and a few dollars for the maintenance of schools and government. ..."

Murray Benedict, "The Economic & Social Structure of California Agriculture", in "California Agriculture", Claude H. Hutton Ed., UC Press, Berkeley, 1946. p. 402

Lit. on Calif. I.D.s.

Send citations

Mike Embanks, 371 Addison St., Boston Rouge, La.

IV. Transferrable?

Begin w. recognizing squatter rts., (1841).

Distrib. land (1862)

* Then enabling legn. endow locals w. sovereignty.

Not easy. Big change.

Finally - send down best Am. swine. But this is where we come in.

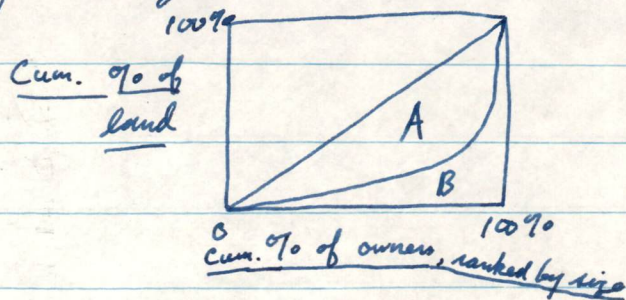
John - ~~50~~ 75 copies by 11 AM

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Meaning of Lorenz Concentration Ratio (LCR):



$$LCR \equiv \frac{A}{A+B}$$

Basic points

- ✓ "Means I didn't incorp. this thought into my talk
Lack local govt. Need enabling legn.; pressure from grass roots. Role of local govt. has bn. filled by: church; ^{encomienda} hacienda; Fr. corps.
Need to reorient what mean by "liberal" or progressive. We may have overdeveloped local; they need what we did in 19th
- ✓ Need for farm towns, to provide leadership for country. Country lumps. Merchants seek, 2 dry kms - - & urban landowners. (Carry back into Eur. hist.)
They begin w. incubus of a servile popn. Hard to evolve just as we did. But they do have our models to follow.
- ✓ Avoid dumping raw mtlb. Keep labor-using stages at home. Cattle-feeding, dairy, tobacco mfr.
- ✓ Flight of capt. Rt. wing govt. doesn't make attractive for investors - rid selves of that stereotype. Antipathy of inert wealth & enterprise.
Lack of common facilities - forces largeness. Lacking: xptn; credit mtlb (hence direct invest., & bldg. own xptn.)
- ✓ Declining terms of trade of primary products - another arg. for mfrs now. Not cap-using, no steel mills & hydros, but fast liquidating
- ✓ Malthus refuted. Despite cheap labor, export land-intensive primary prod. 200 m. pop.
Leapfrog or relative backwardness principle. Doesn't apply. They can't leap over every stage. Gt. & Japan already had good agr., edu., etc.

✓ Why did Arg. drop out of wheat? Reversion to grazing — min. labor share, max. land

Mex., Ejido etc. may have helped ... 45% gain in fm. output in 25 yrs.

Lat. Am. 200 m pop. in 5 b acres, of which 247 m. "arable," ⁷⁰⁰ ~~700~~ ^{some B.S.} ~~of U.S.~~
 U.S. 180 m 26 400 m. "cropland".

L.A. 913 m a used for grazing; 2,500 m. a. in forests (needs clearing)

Is scatter of arable their problem? I doubt it — consider Arg.

59% of area cultivated, cf. 10% for world & 40% for U.S.

95% Arg's fm. exchange is from meat & fm. products. When a nation fails to dev. infry. to that extent, it is not just absence of favorable factors, but presence of negative. Don't rock boat. Don't employ labor.

It won't hurt to tax rich if you do it the right way.

In U.S., fms. beat nomads. Spanish, other way.

✓ Organize statement of what L.A. lacks around one idea: the munici. bond.

Nat. action needed; but local demand needed. E.g. in Italy

✓ de Gasperi didn't act until peasant direct action forced his hand.

Also Zapata; also in U.S. ... squatters always ahead of law.

Is much direct action in L.A., too, but sheer banditry prevails.

Lack Tradition of local action. That is what they must learn. How?

Feeling sense of community — maybe Ejido makes sense, repeats N.E. evolution from town. But goes too far back. Midway City, & W. I. D. better.

✓ U.S. - middle class radicalism

M114

Latin America's Need

U. S. BUSINESS MEN AND THE ACT OF BOGOTÁ

✓ THE sensible policy of taxing vacant land into use instead of taxing men and machines into idleness receives powerful support from an unexpected quarter in the United States. It is one of many recommendations for helping to raise living standards in Latin America which are put forward by the research and policy committee of the Committee for Economic Development. C.E.D. is "a non-profit, non-partisan, non political economic research and education organisation supported by voluntary contributions from business concerns". It is composed of 200 leading businessmen — generally presidents or board chairmen of large industrial corporations — and educators. "All research is to be thoroughly objective in character," a C.E.D. by-law ordains, "and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group". Obeying that directive the research and policy committee — of 50 of C.E.D.'s 200 trustees — could scarcely fail to urge a comparatively radical solution to the land question when considering the problems of south of the border.

✓ The C.E.D. policy statement, *Co-operation for Progress in Latin America** contains as an appendix the text of the Act of Bogotá and offers point by point comment on its provisions. The Act was signed last September by the United States and eighteen of the 20 Latin American republics which together comprise the Organisation of American States (O.A.S.) Cuba voted "No" and the Dominican Republic was not represented.

Of the various Measures for Social Improvement recommended by the Act of Bogota, pride of place is given to the following which are designed to improve living conditions and to secure better use of actual and potential farm land. They would be carried out by an inter-American programme in each country as considered appropriate:-

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

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

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

(c) tax systems and procedures and fiscal policies with a view to assuring equity of taxation and encouraging

* 56pp. \$1.00 from C. E. D., 711 Fifth Avenue, New York, N. Y. and from P. E. P., 16 Queen Anne's Gate, London, S.W. 1.

✓ improved use of land, especially of privately-owned land which is idle

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

"3. The acceleration of the preparation of projects and programmes for:

(a) land reclamation and land settlement, with a view to promoting more widespread ownership and efficient use of land, particularly of unutilised or under-utilised land;

"(b) the increase of the productivity of land already in use; and

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

Among C.E.D.'s comments the following paragraphs are of principal interest:—

"The Latin American farmer also suffers from handicaps in the distribution of his product which cut down the share he gets of the value of the product. In some cases government regulations on agricultural marketing provide means for collusion between public officials and middlemen to achieve a monopoly position and exploit the farmer. Not only do such abuses need to be eliminated but the whole system of distribution needs to be strengthened.

"There is a strong desire for land reform — for broader distribution of land-ownership — in Latin America. The motive for this is not only the desire for more equal distribution of income. It is probably even more the desire for the status and security that in all agrarian countries goes with the ownership of land.

"In many countries of Central and South America large areas of undeveloped lands are still in public ownership and are, therefore, immediately available without compensation. In some cases extensive areas of undeveloped lands are in private ownership which has not developed them for want of capital or of transportation or of demand for the crops for which such lands have been considered suitable. Owners of such lands are often willing to dispose of them or parts of them, for development, at moderate prices.

"In some cases inadequate taxation of unused land permits its owners to hold it idle. Adequate taxation of the land would force it into use, or into sale where it could be acquired for use by small holders . . . (italics added).

"Mere division of land already under cultivation among the rural population would undoubtedly reduce the productivity and income of the people in most cases. The new owners would commonly be less efficient farm operators than the existing managers, and would find it difficult to assemble capital for fertiliser and equipment. In general, settlement and cultivation of idle land has much more promise for the people of Latin America than the division of land already under cultivation.

"If, nevertheless, steps are taken to distribute among small farmers estates now under cultivation they should be accompanied by improvements of agricultural credit and education. Otherwise, the farmer may find himself worse off as an owner than he was as a tenant or hired farmer. Moreover, fair compensation should always be given for land taken over for redistribution. This is not only just; it is also essential to maintain confidence in property, without which capital creation in the private sector is impossible.

"It is unfortunate that in so much discussion 'land reform' has become identified exclusively with the division of existing properties. The term should have a much more positive and broad content. The affirmative goal is to increase the number of people who own and operate farms of efficient size, in an efficient manner and with adequate equipment and working capital. For this goal division of land already in use is never sufficient and, at least in Latin America, where there is so much idle land, it is usually not a major part of the programme.

"The United States has encouraged and assisted land reform — in the broader sense of the term — in many parts of the world, notably Southern Italy, Japan, Taiwan (i.e. Formosa) and Korea. We should support it in Latin America where undertaken as part of a programme that will raise agricultural productivity. Agrarian reform will be a difficult, expensive and slow process. But nothing could do more to increase the stake of the common man in his society and in the economic development of his country."

Dissenting, Mr. Fred C. Foy, (chairman, Koppers Company, Inc.) thought it improper for C.E.D. to take so detailed a position on agrarian reform. The U.S. had little or no experience of the problem as it exists in Latin America. Acidulously he added: "Certainly we are presumptuous when we suggest such a course as taxation for the purpose of forcing unused land into use, or into sale".

The C.E.D. committee would have been on surer ground had it recommended a straightforward tax at a uniform rate on all land, whether used or idle, urban and rural alike. It is a pity, too, that they regard a more diffuse ownership of land as reform. Certainly it would ameliorate present conditions and certainly it is far more sensible to force idle land into use than to break up productive, reasonably efficient large holdings in an arbitrary manner. What farmers need and crave is absolute

security of tenure and tax exemption of their buildings, machinery, income, etc. They, personally, and society at large would prosper more if they were established on a land rent basis, their holdings being recognised for what they are in fact—part of the patrimony of every citizen — and the rent being paid into the public exchequer.

On taxation the C.E.D. publication comments: "The signers of the Act of Bogotá agreed to examine their tax systems, especially with a view to providing additional revenue for the expanded social and economic development programmes. These tax systems also need to be re-examined from the standpoint of their effects on investment, foreign and domestic. In some countries of Latin America personal income taxes are weak and inadequately administered. Taxes on wealth in the form of land are low, but taxes on corporate profits are commonly very high, especially when considered in relation to the need to attract foreign capital and to promote the reinvestment of earnings in successful businesses, foreign and domestic."

The C.E.D. policy statement comments that a major step in encouraging the flow of foreign capital to Latin America would be the bringing of inflation under control. "This is primarily the responsibility of the governments . . . We in the United States should understand the political obstacles . . . they are certainly not unknown here. But we should remind the Latin American governments of the importance of their efforts on a front so vital to the success of our co-operative programme."

North-East Brazil A Latent Volcano

THE *Wall Street Journal* of April 5 reports on Brazil: "Americans lately returned from South America claim the new government of President Janio Quadros seems little worried about famine in the country's north-eastern sector, where thousands are reported starving. Even the threat of Castroism, it's said, is not stirring Latin leaders to adopt U.S. urged land reforms that Washington officials contend might help local food production."

North-east Brazil, which has another Castro-style revolution in the making under the leadership of fiery young Francisco Juliao, is larger than the State of Texas, and is inhabited by 21 million people. Actually, this area has been one of grinding poverty for many decades. But now there is a growing peasant movement led by sympathisers of Fidel Castro and the Communists that is capitalising upon the depressed conditions of the people.

Juliao's theme, constantly repeated to Brazil's peasants, is: "Cuba is free because the great Fidel Castro gave each peasant a rifle and said, 'Democracy is a government that arms the people.' I went there and saw the results. A miracle was performed in Cuba. That miracle can be repeated in Brazil."

CEAS, Colombia, Center for Social Action Studies, local businessmen
outpouring anti-comm. prop. The 'Black Hand',
Orgd. some Colombian Citizens Union, nonpartisan women's League,
(a Colombian LWV?)

Constructive role of local merchants in improving rural orgn.
One of lessons to be learned from I.D.s.

Big Am. Corps. want to help now, too. Are even training
trade unionists. But also causing new inmnts. - drastic, catastrophic
But small flow anyway - \$1 6/8 at peak.

S. Am. revs. have all been palace. Need grassroots.

Colombia. tobacco, & a mpy, in mfr., kept out British plant.

✓ Need to keep processing stage at home, the labor-using stage. Cattle-feeding,
dairy, tobacco mfr.,

(Changing feed-conversion ratios help? No, they argue for shipping the
grain instead of the meat. ~~But~~

But Panama just uses grass, can't ship that. Nor create grain crops,
etc. Range cattle indy. probably one of least democratic

Extremely hi 'lender's risks', capt. risks. won't become good save as
result of stability. Other routes absolutely necy.

Declining terms of trade of primary products. Worldwide, last 15
yrs. argues for more mfr., less "development." argues vs. Malthus; & vs.
public inmnt. (l to vs. I.D.s, currently. Watch that.) Need much small, active
capital now.

Arbenz in Guatemala, 1954.

Panama, cattle are main export, still tied to canal.

Priv. hacienda as govt. Sometimes it is the only nat. govt: Nicaragua, Dom. Rep. under Trujillo. Other countries are collections of them. And U.F.

U.F. can't be criticized for filling a vac.; but probably for discouraging others to fill it.

Cent. Am. countries are big co. towns under genl. wing of U.S.

Panama has higher wages, due to Canal, generates bus., jobs. Hundreds of tax-havens & free-zone ops. there.

U.S. grew from ~~city to country~~ ^{country to city}. Began w. democ. rural instns, brought them to cities.

U.S. business aid & training has mostly been co.-related. Only very recently, concerned re making democ. work.

Peace Corps going to neglected grass roots level. School district, munic., needs enabling legn. to tax, bond, & include forcibly.

Castro panic is lever for democ. reforms. He is really our best friend. It is on fringe of enemy — the military frontier — we get most concern w. reform.

Land Use Adjustments & Land Reform in Latin Am.

Rpt. to Room 10,
Peace Corps Hq.

obvious maladjustments,
Characteristic uses, & desirable adjustments.

1. Low intensity

Grass-fed cattle

Few offsite inputs -- truly "primary" production. Net export of soil fertility.

Truly land-intensive.

Coffee may be exception -- capital intensive?

2. Weakness for suicidal price-umbrellas ^{& cobwebs} -- rubber, coffee. Now sugar.

3. Crops: bananas, sugar, coffee, subsistence, some other (Nic., Brazil)

Land devmt: local govt. lacking, ^{the missing link.} Big estates or corpor. build p.w. The only effective orgs.

See Ec. 117 lecture on land reform etc

See Walter's slides

See intro. & citation in my thesis (& maybe even unfiled notes.)

I bought Slim-twig for kids. Daddy, mama won't let me use it. Why not?
She won't get off. -- is problem in Lat. Am.

Land reform & coops.

Coops. in Mex. work, but farms equal. Fail in Eng.

Districts & coops. Districts have needed teeth.

Land reform & extension

Takes 2 to speak the truth --- Xmts & receivers. Fin. Bureau are receivers. Local orgn. -- Lat. Am. weakens. (will Ejido solve?)

U.S. ^{New Eng.} local orgn. more like Mex. than Spanish. More gov. than gov., but subjugated no Indians, based on deference vs. them. Lack in L. Am. Ejido resembles, ~~but~~ selected ag. village, might dev. into rural commune.

Coop. credit.

Big lack. W/o it, no land mkt. Raiffeisen.

Role of Gov. & I.D. as credit source. Value of land comes from p.w. Builder of p.w. borrows; low i.r.; land buyer repays as ~~property~~ land tax.

Colombia has big govt. steel plant.

A.I.P. commits U.S. to \$206 ~~million~~ in 10 yrs, or \$26/y.

8-62, U.S. joined pact to support coffee.

Colombia has trouble spending authorized aid, bcs. lack detailed plans.

Unbalance will result. Too much big projects, not enough prvt. complementation.

Too much in sick primary export specialties. Another lesson.

Argu.

1. Learn from Calif.
 - a. Good.
 - b. Cautious, bad.

Colombia short of edible oils.

Needed: means to subdivide credit. FHA type.

Colomb. has 10-yr. 'dev. plan'; but vague.

Squatting as a solution.

9-60, Act of Bogota, O.A.S.. Read from it.

Colombia racked w. bloody civil war, Conservative vs. liberal.
after 50 yrs. of seemingly stable democracy. Deterioration.

Panama, Pres. Chirri is sugar & cattle man.

Pol. parties are highly personalist. Dominated by a few wealthy families: de la Guardia, Arosemena, Boyd, Arias, Arias Espinosa. Land & journalism - cf. Chandler of L.A. One encomienda (of Arias?), covers pacific side from

Latin America Faces Big Surplus of Hunger

Land Reform Needed to Keep Pace With Population Growth Makes Few Gains

Rio de Janeiro, Brazil—AP—For years food production has not kept pace with the population growth in Latin America—and the future looks even darker.

The population is 200 million now. In 20 years it is expected to be 360 million.

Authorities agree that splitting up big estates and putting all available land to better use can make a dent in the problem. This is a keystone of the Alliance for Progress program which the United States is backing.

Is land reform getting anywhere?

There has been progress in spots, but in general little has been accomplished so far.

Argentina, once a prime supplier of wheat, has almost dropped out of the world market for this commodity. Brazil, which has replaced Argentina as Latin America's biggest agricultural producer, urgently needs better land utilization.

Mexico Is Notable

Mexico, with a 45% gain in agricultural produce in 25 years, has made notable progress. Venezuela is making some progress.

But land reform is a tremendous problem for Chile, Peru, Bolivia, Ecuador, Colombia and most other Latin American countries.

The United Nations food and agriculture organization estimates that only about 247 million of Latin America's nearly five billion acres are arable. About 913 million acres are used for grazing. About 2.5 billion acres is forest land the rest is unproductive.

Land resources still are large because only about 5% of the land has been brought under cultivation, compared with more than 10% for the world as a whole.

Efficiency Is Low

Farm efficiency is low. There is one tractor for every 750 arable acres compared with one to 106 acres in the United States. The Latin American worker's average output is \$450. The average output is twice that in western Europe and \$3,350 in the United States.

Dr. Hernan Santa Cruz, assistant director of FAO for Latin America, says that in the next 40 years that area must at least triple its food production.

Here are examples of the big problem:

Argentina — Deposed President Arturo Frondizi presented an Agrarian Reform bill in 1958, authorizing the expropriation of land with payment for it. The bill never got out of committee.

The 1961-62 wheat crop was 15% below that of 1954-55. Nonetheless, 95% of Argentina's foreign exchange is still earned through exports of meat and agricultural products.

Dr. Jose Alfredo Martinez de Hoz, minister of agriculture and livestock, has outlined an ambitious program to promote capitalization for farmers and ranchers.

Brazil — Only a fraction of Brazil's 3,288,050 square miles has ever felt the plow. The nation's farm land growth has averaged only 1½% in recent years and is far behind industrial expansion. Fifty-eight plans for land reform have been presented in 12 years, but little has been done.

Eight owners hold 75% of cultivated land. More than 60% of Brazil's 75 million people gain a living—often precarious—from farming.

In the northeast, peasant leagues founded by Francisco

Juliao, a wealthy landowner who professes to admire Fidel Castro, have engaged in bloody clashes with big land owners and authorities.

President Goulart's three year plan will give peasants title to virgin lands that are worked for one agricultural cycle.

Peru — Some Indian farm workers make only a penny a day. Little agricultural development has taken place since Francisco Pizarro of Spain conquered the country in 1475. Most of the arable land is held by a few wealthy owners who oppose reform. A decree of the ruling military junta aims at more equitable distribution and a better deal for farm workers. Some land will be expropriated by the state and other land may be brought directly.

In the Chaupimayo region many farm workers—aided by guerrillas—occupied lands. In Cuzco, about 8,000 farm workers clashed with police. Two were killed and several were wounded.

Chile — A moderate agrarian reform plan is part of a major economic and social overhauling within the framework of the Alliance for Progress. Communists and fellow traveling Socialists have attacked it as "too soft" and demanded outright expropriation.

President Jorge Alessandri plans to expropriate only land not fully used for sale to peasants on easy terms. Special government agencies will give technical aid and long term loans. A government study showed 4% of the landowners controlled 53% of the arable land.

Colombia — Land reform — a year old—faces political opposition, peasant apathy and suffers from lack of trained personnel to administer it. Supporters are optimistic about eventual success. The law authorizes expropriation of private land not fully exploited, and the consolidation of small farms into larger units to support family farming.

The law authorizes establishment of a 120 million dollar bond issue to reimburse owners of expropriated land.

The agriculture reform institute has distributed 100 parcels of land totaling 7,410 acres. The institute says 2,470,000 acres will be acquired during 1963 and negotiations started for three times that figure.

Venezuela—Agrarian reform, although far from complete, is better than in most Latin American countries. One sign of success was a 9% increase in agricultural products in 1962.

The Inter-American bank has approved two loans totaling \$12,700,000 in Alliance for Progress funds to use in agrarian reform. This is part of a four year plan to increase Venezuela's farm output 34%.

US, Argentines to Battle Disease

© New York Times News Service

Washington, D. C. — The United States and Argentina announced Saturday a co-operative program aimed at eliminating foot and mouth disease from Argentine cattle. The disease has barred most Argentine beef from being imported into this country.

Veterinary scientists of both nations will begin a study this month to determine if the disease causing virus can survive in cured beef from cattle that have been vaccinated. A long range program will try to control and eradicate the disease in all of Latin America.

The virus presents little danger to humans. The disease was wiped out in the United States three decades ago, by killing and burying all infected animals.

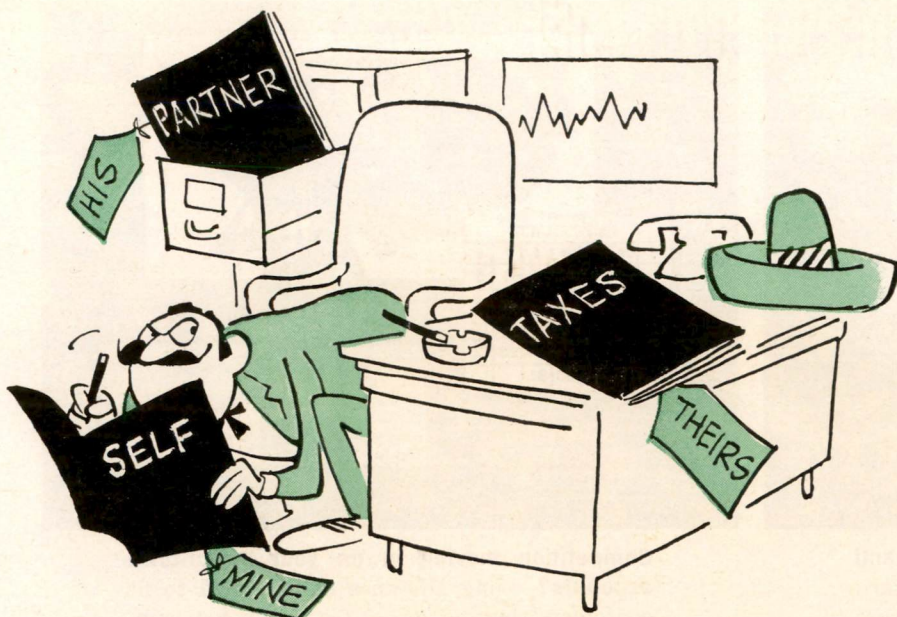
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BUSINESS ABROAD

T-men join the Alliance

U. S. is backing tax reform in Latin America—and giving lessons on collection methods

In most countries tax evasion is a problem; in Latin America it's a way of life, taking an estimated 50% to 60% of potential government revenues.

In Guatemala, for example, half of all known businesses periodically report losses to avoid paying a meager profits tax. In Mexico only 2% of the population pay income taxes. A time-honored Latin joke concerns the businessman who keeps three sets of books: one for himself, one for his partner, and one for the tax collector.

No retreat. Changing this way of life is a formidable—perhaps impossible—task, but it is one that the U. S. feels must be faced if Latin America is to move ahead. To get things going, it is lending tax experts from the Internal Revenue Service to Latin countries to advise

them on collection techniques. More importantly, it is prodding reluctant governments all over Latin America to reform their antiquated tax systems as a condition for receiving U.S. aid under the Alliance for Progress.

Tax reform is one of the cornerstones of the Alliance. Under the self-help provisions of the 1961 Charter of Punta del Este, Latin governments pledged themselves to overhaul taxes in order to raise more money for schools, housing, development projects, land reform, and other Alliance goals. They also agreed to establish more progressive income taxes in order to redistribute the wealth and ease social tensions on the seething continent.

Slow progress. Under U. S. pressure, some of the Latin countries have begun to fulfill these pledges

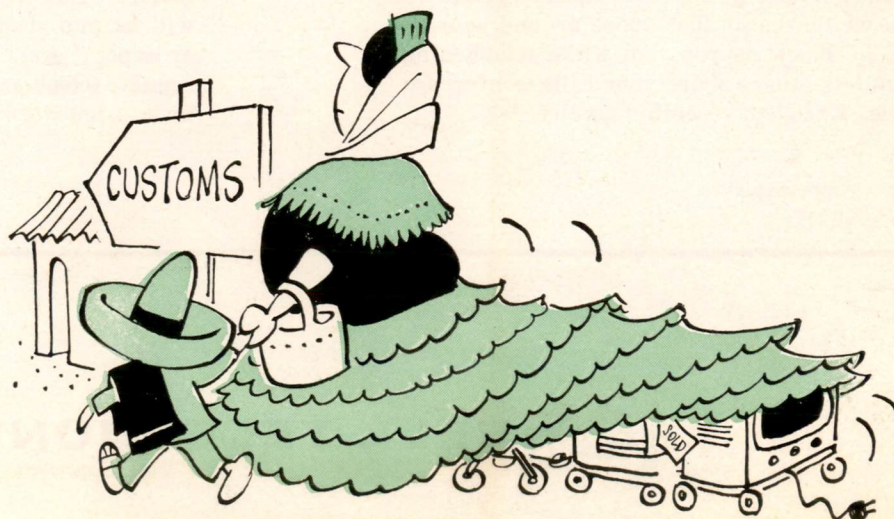
—at least on paper. Last November, for example, Guatemala finally enacted a mild income tax—the last Latin nation to do so. Chile passed Latin America's first penal law against tax evasion, and has even hauled an alleged tax dodger into court (it has yet to obtain a conviction).

When Congress takes up Pres. Kennedy's request for \$1-billion of Alliance aid for fiscal 1964, the Administration will point to such measures—and a long list of proposed tax reforms—as proof that Latin countries are trying to help themselves.

Yanqui joke. But so far, at least, the flurry of new tax legislation is more visible than the increased revenues it is supposed to produce. Latin experts say this is largely due to lack of cooperation by the people, who mistrust the ability of their governments to use funds efficiently and honestly. In Argentina, for example, the national deficit could be halved by eliminating a \$200-million annual loss caused by featherbedding and mismanagement on the state-run railroads.

Says a U. S. businessman with long experience in Latin America: "Latins are convinced that government officials will simply waste their money. They regard this tax reform talk as a very grim Yanqui joke."

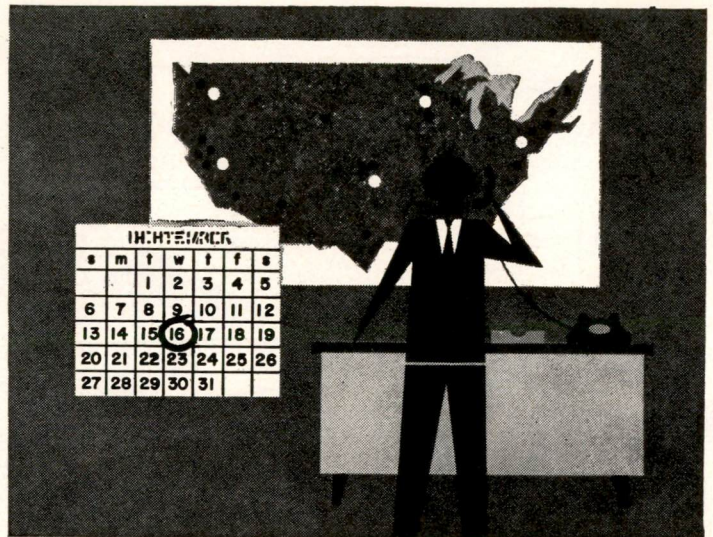
Typical hurdles. This attitude is noted in a recent report to the Joint Economic Committee of Congress by Rep. Martha W. Griffiths (D-Mich.). Latin nations, she warns, may subscribe to tax reform mainly "to show a new efficiency rating scorecard in seeking financial aid." And serious, well-intentioned government efforts, she points out, often run up against problems. The kind of problems that she probably has



Indian women help boost the continent's duty-free international trade



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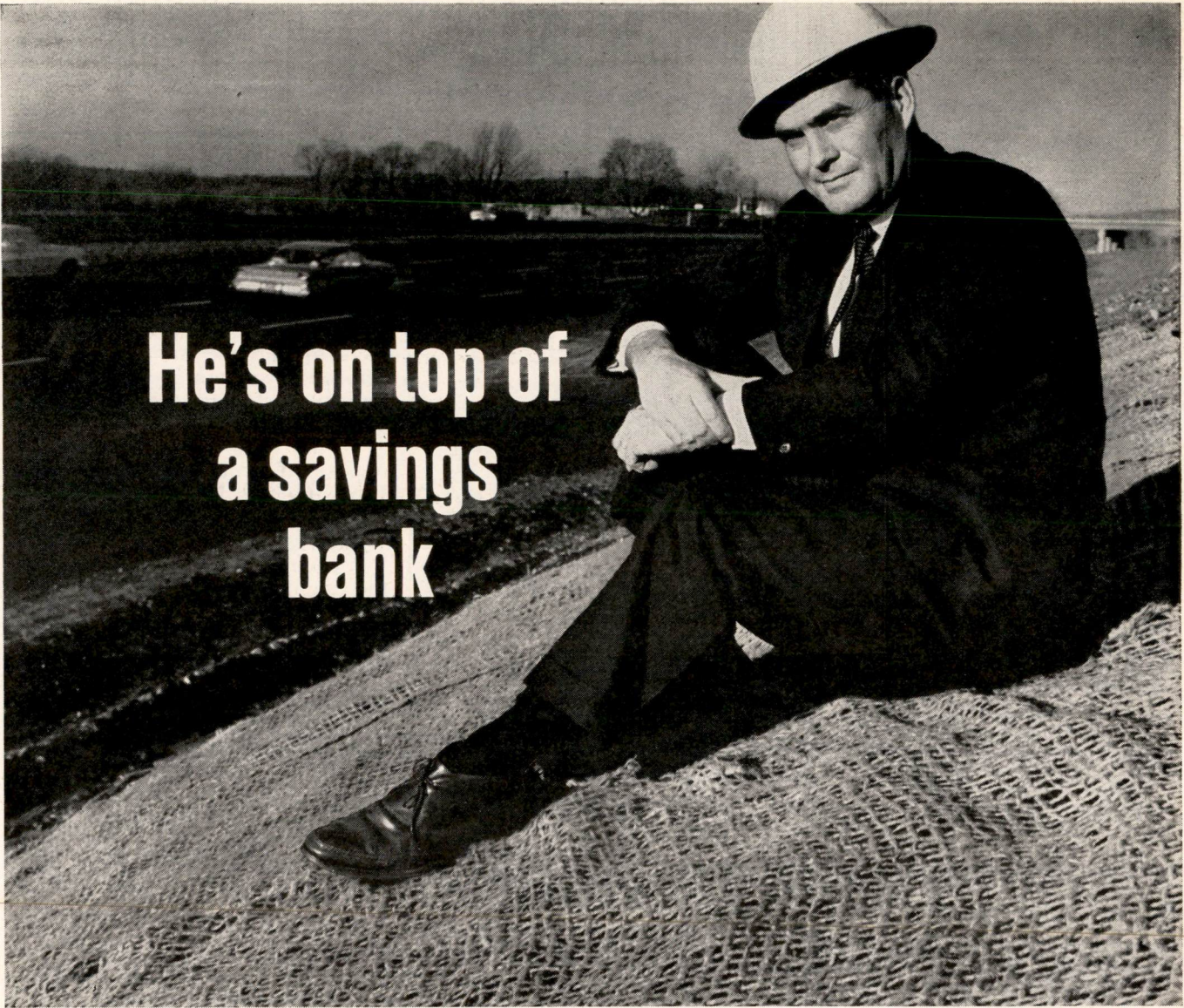
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in mind are something like these:

▪ In Guatemala, businessmen and cotton planters threaten to stop paying all taxes. The reason: proposed new excise and real estate levies to cover growing public deficits. So far, the government has failed even to muster a congressional quorum to consider these "emergency" taxes.

▪ The wealthy "14 families" who dominate El Salvador's economy and supply most of the government's top-level administrative talent charged that 1961 income tax hikes were "punitive." For a time, they refused to serve in the government, and even stopped speaking to the U.S. ambassador.

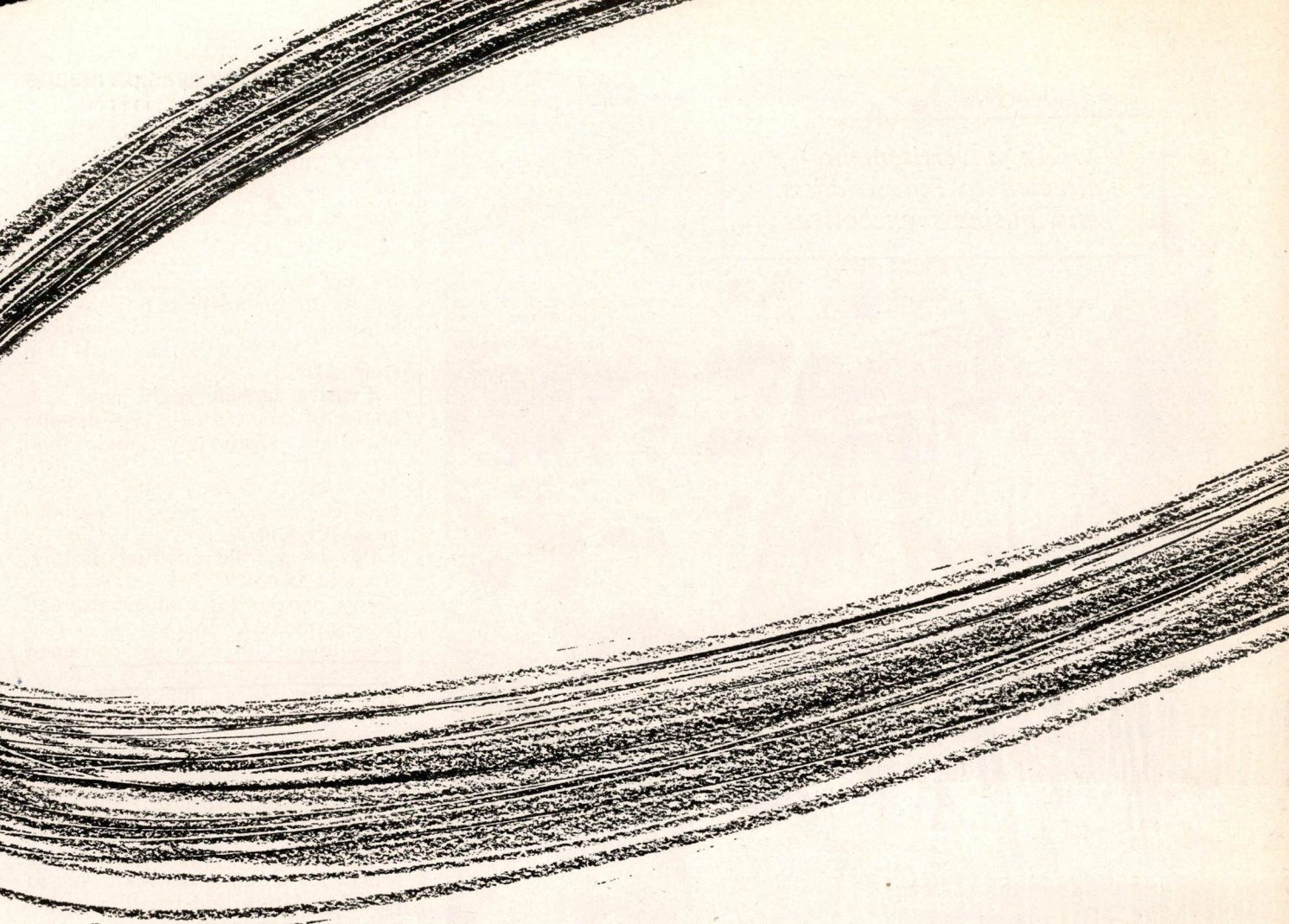
Taxing task. In the face of such opposition, Alliance officials and U.S. Internal Revenue people are wary. Says one Alliance tax expert: "When we send an advisory mission to a country, we have to think about the timing of the next election."

IRS has had a handful of experts on loan to Latin governments during the past year. Now it is assembling a pool of 100 Spanish-speaking experts who can be sent, on invitation, to help Latin tax departments train auditors and tighten up collection systems.

The IRS experts are paid by the U.S. Agency for International Development (AID), which also has its own staff working in the field. But



Government auditors moonlight as accountants for private companies.



3,011 orbits extra.

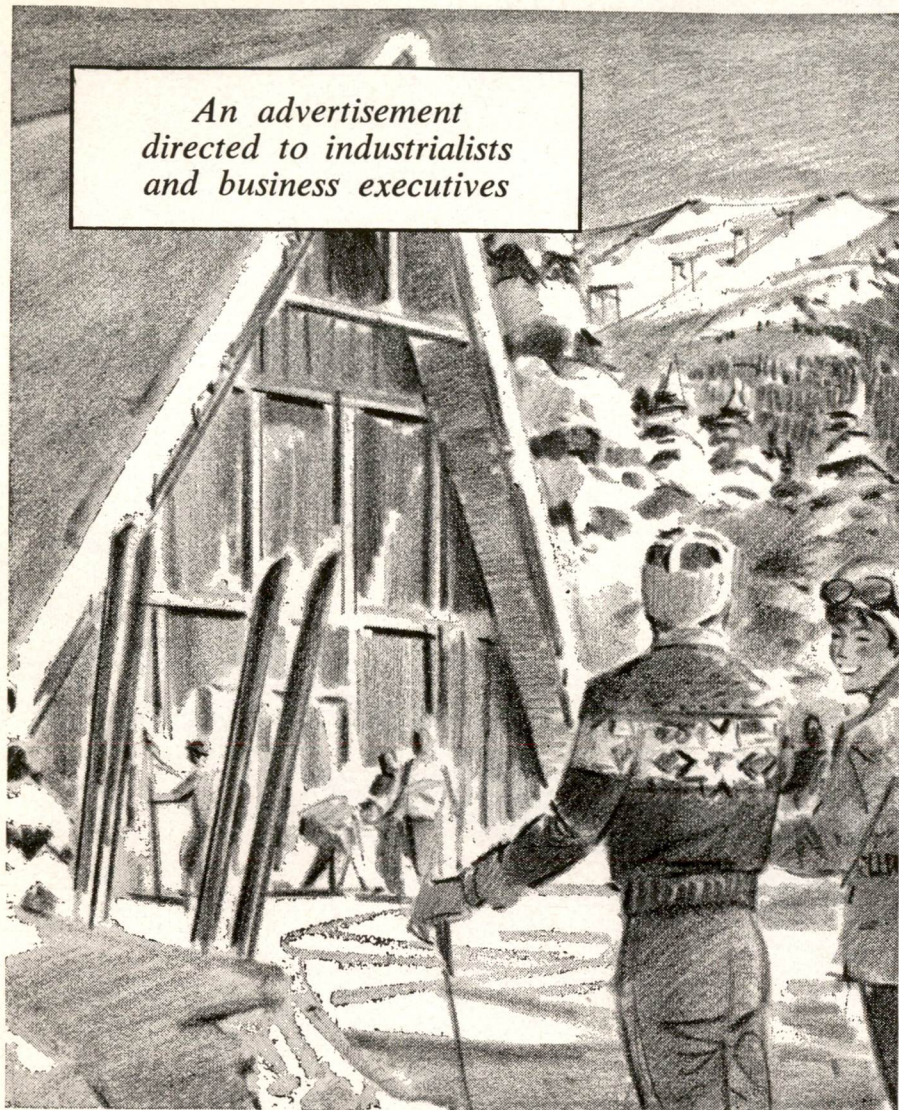
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**Widespread tax evasion means
that U. S. subsidiaries
carry more of tax burden . . .**

Story on page 68

the tax reform campaign is mostly run by the Economic & Social Council of the Organization of American States (OAS), with financial help from AID.

Evasive tactics. Right now, collection of existing taxes is even more important to Latin governments than increased levies. It has been estimated that efficient collection systems could double present revenues in most countries.

Besides public mistrust of government honesty, there are a number of reasons for such widespread tax evasion. An obvious one is that tax auditors all over the continent are underpaid and open to bribery. To eke out a living, they often moonlight as accountants for private companies, where they juggle the accounts they themselves are supposed to audit (cartoon, page 70).

Chile has made some strides in remedying this. With IRS assistance, it has set up the first Latin training school for auditors, and is trying to pass legislation that would give tax officials a bonus over other bureaucrats.

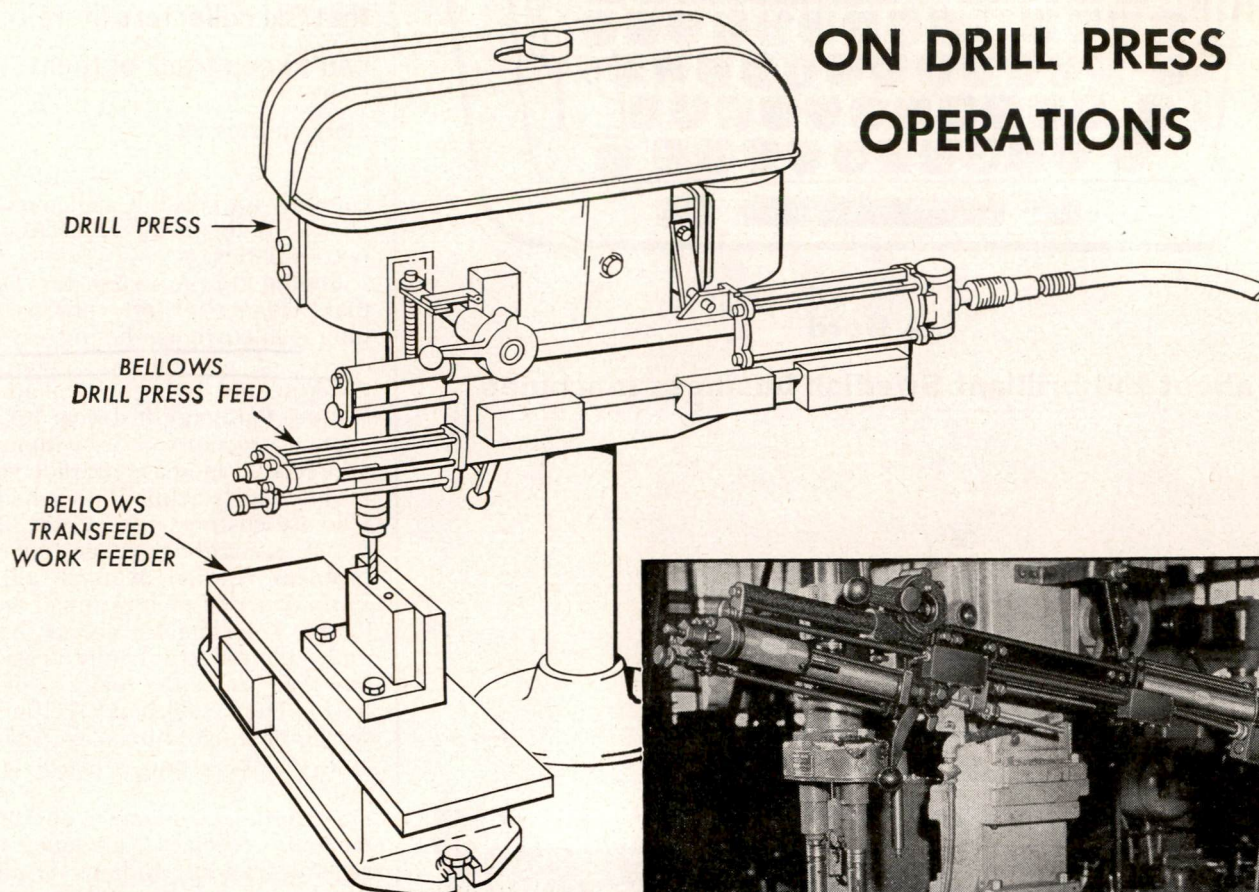
Legal loopholes. Many countries simply don't have the administrative rules to enforce the law. In one country, a prominent lawyer recently declared \$100,000 in income, and blandly deducted \$98,000 for expenses. Tax officials told Alliance experts that they were not permitted to audit the account. But Panama in 1961 changed a law that required proof of intent to defraud before a person could be prosecuted for failing to file a tax return. Last year, the number of returns rose by 20%.

Argentina recently induced 250,000 tax dodgers to confess their past delinquencies by offering to settle their accounts for a fraction of what they really owed. One anticipated result of this program is that the thousands of new names on the tax rolls will boost receipts in future years.

For U. S. companies, widespread tax evasion means that their Latin subsidiaries carry more than their share of the tax burden. Since U. S.-owned companies are vulnerable political targets, they—unlike their Latin-owned competitors—must pay their taxes scrupulously. U. S. companies that contemplate buying into a Latin business must also check

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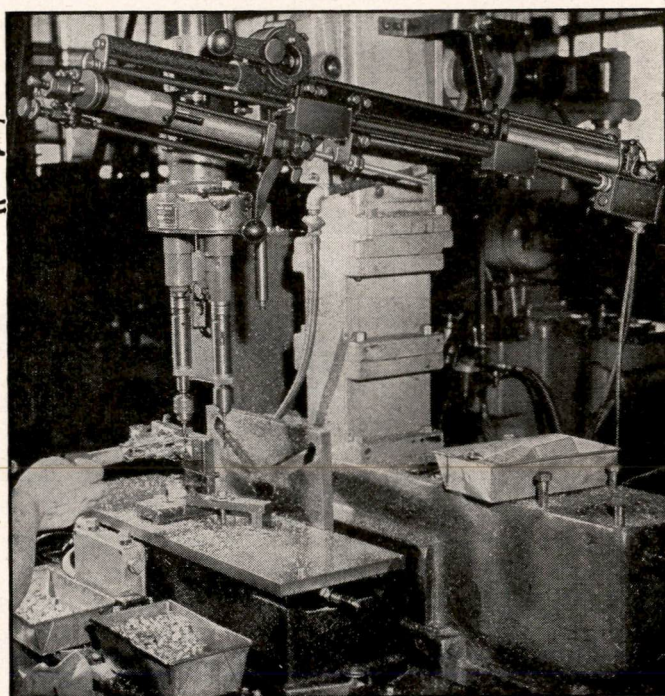
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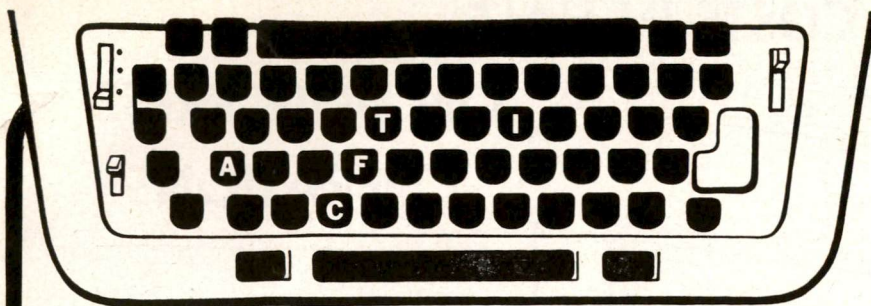
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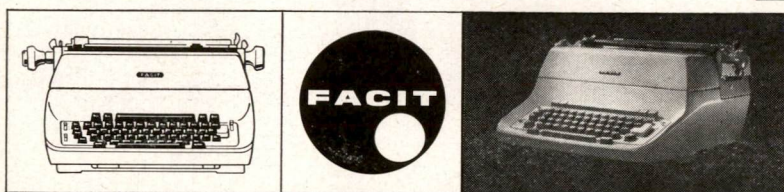
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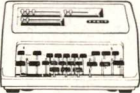
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Ecuador has so many taxes that the collectors literally can't keep track of them . . .

Story on page 68

carefully for possible skeletons in the closet, in the form of accumulated tax liabilities.

Smuggling. A major tax leakage that Alliance experts are trying to plug is in customs, the biggest single source of revenue for some Latin governments. By tightening administration, Paraguay last year hiked its customs receipts 34% without any appreciable increase in trade volume or duty levels, while Bolivia had doubled its customs take since 1959.

But smuggling is an enormous problem. Indian women all over Latin America pick up small fees for toting knickknacks across borders under their skirts. The professionals, however, cause the real loss of revenue. They slipped \$110-million worth of such things as cigarettes and whiskey into Venezuela last year.

With the connivance of Mexican customs officials, smugglers ship several tens of millions of dollars worth of goods annually across the U. S. border into Mexico. Ecuador is a smuggler's paradise, yet the government hesitates to crack down because of unemployment: It would throw 2,000 professional contraband handlers out of work.

Too many taxes. Ecuador has other tax problems that Alliance experts are trying to straighten out. For one thing, it has so many taxes that the collectors literally can't keep track of them. Like other Latin nations, it earmarks so many special taxes for things like government-run railroads, universities, church-building, and the Red Cross, that only 40% of tax revenue actually goes into the government budget.

Ecuador and other countries also farm out tax collection rights to private speculators—an ancient Roman practice. One country assigns the Red Cross a 5% tax on hotel bills, which the Red Cross in turn auctions off to businessmen for collection.

Reluctant rich. Efforts to crack down on tax evaders and improve collection systems have hardly inspired enthusiasm among Latin American taxpayers. But the loudest protests of wealthy and influential Latins have been directed against the soak-the-rich tax reforms that are intended to shake up the economic and social structure of Latin

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America—as well as raise more revenue. Together with the income tax, property levies are the chief instruments of such basic tax reform.

Although much Latin wealth is based on farm land and urban real estate, property taxes on the average account for only 3% to 5% of government revenues, compared with 17% in the U.S. Urban real estate is the great haven for Latin investment capital, yet rental income is not taxable in most countries.

Higher taxes on urban property, experts say, would divert investment into industry, where it's needed more. For farm lands, the theory goes, differential taxes based on land use could force big landowners to sell off some of their unused or poorly cultivated acreage.

But property assessments are out of date; in Peru, the last assessment was made 70 years ago. And in the case of farm land, much acreage in Latin America isn't even on the tax rolls. To remedy this, U.S. aid is now paying for detailed aerial mapping in Chile and other countries, partly for a general resource inventory, but also to pinpoint taxable holdings.

Boomerang? In the process of correcting these age-old tax inequities, however, there are rising fears that the Alliance may be frightening off private investors, and thus defeating its own aim of stimulating economic growth. Last year, the flow of U.S. private capital to Latin America practically dried up, while fears of political instability caused Latins to send money abroad.

Their alarm grew when a conference of high-level alliance tax experts in Santiago, Chile, last December issued a virtual manifesto against the rich. The conference urged higher levies on the "propertied classes"; in the case of foreign capital, it recommended that taxes be put high enough so that foreign companies would pay no taxes at all to their home governments.

Behind this declaration are figures showing that the top 10% of Latins earn 47% of the national income—compared with 29% or less for the wealthiest 10% in the U.S. Alliance experts figure they could skim another 15% off the top brackets in Latin America, and still leave them well off.

But the fact is the rich in Latin America are almost the only source of the private investment that accounts for over 70% of capital formation in the area. Critics of the Alliance fear that by putting too much stress on taxes that will slice the economic pie more evenly, it may only succeed in baking a smaller pie.

Business abroad briefs

West German appliance maker tries to restrict imports of Italian-made refrigerators

The whole idea behind the European Economic Community was to create one integrated market of six nations, with goods and services flowing freely across national boundaries. This has worked well for the past four years—since EEC came into being—partly because the six national economies were booming.

Now, however, some companies are finding themselves with tremendous capacity and a slowdown in incoming orders. They are trying to restrict the freewheeling international competition that the EEC fostered.

Italy's refrigerator industry is the first to be slapped for being too competitive.

Early this month, Bosch, the West German appliance manufacturer, warned that it would refuse to sell household appliances to the Nuernberger Bund if it continued to sell Italian-made refrigerators. The Bund is a wholesale cooperative formed by appliance dealers in the Nuremberg area.

West Germany imports an estimated 100,000 refrigerators from Italy annually (the Italians say the figure is 60,000), domestically produces 1.7-million annually. Though equivalent to a relatively small percentage of over-all German production, the Italian imports—which undersell domestic units—are annoying German manufacturers faced with overcapacity and tough competition at home.

This follows on the heels of EEC approval of a short-term equalizing tariff on the import of Italian refrigerators into France [BW Feb.2'63, p85].

U.S. companies with Common Market subsidiaries fear that more restrictive acts of this kind in more industries may be in the offing as overcapacity hits them.

U. S. businesses operating overseas feel pinch of currency devaluations

Local currency devaluations abroad bit deeply into the 1962 net earnings of some U.S. companies doing business in Latin America and Canada. The damage is just starting to show up as these companies publish their annual financial statements.

The worst impacts came from Canada's 7½% devaluation of the Canadian dollar, and devaluations of assets in Latin America's biggest markets—Brazil, Argentina, and Venezuela.

The rubber industry, which has invested over \$608-million abroad [BW Nov.17'62,p104], presents a good example of what these devaluations have meant to U.S. business:

- Goodyear Tire & Rubber Co., largest U.S. rubber company overseas, last year lost some \$10.6-million through devaluation despite record sales. Over \$9.4-million of this was charged off net income, with the rest coming out of a special reserve set up for just such contingencies. The book value of Goodyear's foreign investments runs over \$241-million.

- Firestone Tire & Rubber Co. had a loss of more than \$9.9-million. Some \$3.2-million came out of net earnings, the remainder from a special reserve fund. Firestone's overseas investments of \$198-million make it the second largest U.S. rubber company abroad.

Other U.S. rubber companies—U.S. Rubber, Goodrich, and General Tire—weren't hit so hard by devaluation, partly because they have less of a stake overseas.

Latin^{Am.} countries, or Ibero-Am.

Malthus no problem. Idle resources. One hears of race vs. popn. Dubious relevance elsewhere, certainly not in Ibero-Am.

Tax systems. Tax things for moving, or standing still. Then trade, for moving, so they stand still.

Colombia: R.C. Crist. & U.N., on inversion of settlement: interior hillside, grazed valleys.

Upper classes ready to leave, home for. immigrants. Apres moi attitude. Middle classes the hope, are more committed to the country

Minifundia & latifundia. Consolidation vs. equalizing. Implication of unequal rural.

Intersperse anecdotes, personal stories

Urban as well as rural

Not feudalism. Insult to feudalism, which was a much more effective system. Cadastre, Demesday Books, lacking in Ib. Am. Survey lacking - e.g. in Spanish U.S. still. A gang of Spanish adventurers pirates lording it over an ignorant native popn.

Never forced to compete in modern world by Monroe Doctrine shields them

^{intolerant}
Peculiar fanatical brand of Spanish Xianity, forged in battles vs.

Moors, rationalized complete subjection of the enemy. Unlike Gu. frontier Markers, subjects were also Christians, Moors weren't. Neither were Indians. Also, based on ~~the~~ grazing & mining w. contempt by sedentary ag. Reinforced by easy dominance over decadent Indians. Caribbean shepherds, nomads, some ways like central Asians --

Huns, Magyars, Turks & Mungols. Review The Mesta. & hist. notes.

System of the grandes -- hacendados, etc, check terms ...
means of admin.

Green Desert. attitude to land. Read from Octopus

Not enough wars. Squabbles, but unusually peaceful continent.
No pressure, no need for aristos to court support of lower.
Great land reforms found in S. Korea, Taiwan, Italy Japan,
Iran, ^{Egypt} India, Burma, Malaya... where danger is hi. Even Italy, just window dressing.
Castro is good. If didn't exist we might want to invent him.

First need - cadastre. Not a 10 yr. project. Get busy.

Deficit fund? ^{The great panacea?} Already have it.
P.w? Same, but too much capt.
Use land already have. Turn capt. fast.
And create more

Income tax? Problem w. big landowners is they aren't earning enough income. Oversaving? They're big consumers, living on capt.

Any success stories?

Calif. How was it done? Counties & L.D.s.

18er-Am., no tradition of local self-govt. Need nat. land tax. Or feudal levies, same counterpart. Or a Homestead Act to plant the seeds of local govt., create a majority of yeomen to take over local govt.

Tax evasion? Here, a problem. There, a way of life. Need simple, understandable, enforceable tax.

Land tax raises rev. - & makes land reform cheaper.

No tradition of honest bureaucracy. Fashion to belittle puritan ethic, but might do much good down there. Also, pay bureaucrats more - moonlighting common, induced by tax auditors.

Taxes almost voluntary - for the powerful. Only Chile has law making evasion a penal offense. Guatem. threatening tax strikes. All is personal - it's not what you owe, but who you know. In personam problem. Many names not on tax rolls. Need cadastral approach - make taxn. objective.

Excise taxes biggest kind. Customs a major one, like U.S. in 19th.

But unlike us, never had a public domain, land sales for rev. Land never an article of commerce.

Emador uses publicans

Early, Lat. Am. property taxes ^{comprise} ~~take~~ 3-5% revs., cf. 17% in U.S.

Aerial mapping getting started w. U.S. aid

Peace Corps

June 1, A.M.

Ag. extension & Coops., in Colombia & Panama, in their work.

Send outline to Prof. Hammond, Author, Peace Hall, before talk,
for mimeo & distribn. to Trainees.

Push Districts as best form of coop for same purposes.

Calif. experience.

They are highly motivated. Can absorb much info.; less anal.

Political fate of Ag. Ext. in U.S. For. Bureau. Harding.

Peace Corps

We ~~depend~~^{rely} on mkt. But works if units divisible. Land not.

In time. Can't buy a year at a time.

No credit system. Poor can't buy land, even if put to better use.

Cap. fmtr. Land a leakage.

✓ Read description of the Calif. free spender from Octopus and W.F. Cash; & Vehlers, invision competitive spending aspects. The mous in Eur., to prove the Build up the type, give a name, the ~~house~~, prodigal provincial is on good, etc. high-sollen, ^{home} meta-economicus, abuse it all.

Capl. requires care, attn. to detail, ^{close daily supervision} a certain small mindedness that the big spender finds contemptible, illiberal. Mending Wall.

Hacendado. Land requires no care

✓ ✓ Sports like to gamble at the card table — pure gambling; or in politics. But not in business — takes too much work. Not that he und. nely dislike work, but it's degrading.

✓ Know them by their status symbols. Am. by his tractor, barn, or blue ceramic silo. Latin by his land. Not his care of land. That is mean, laborious, & degrading, fit for ^{cheap} pig-farmers & ^{bookkeepers}. But his appropriation of land — grand, military, & uplifting. Liberal, magnificent

Peace Corps

How create capt?

Prt. saving needs.

Taxing. Tax what? Not capt. Not labor. Then land.

Not just fm. land. Much talk of tax's ag. to form capt. Tax
all land.

Canal Zone to ~~Panama~~ Colombia.

Dr. Aquilino Baez, an ambitious politician, attacks U.S. It is not just Communists who stir up feeling vs. U.S. Xenophobia has been the circus to divert masses from fundamental reform for a long time.

Poetic justice if radical left takes over? Hardly. Bcs. the very rich can flee to U.S., where they have big investments. Losers, either way, are men of good will, good conscience, middle-class democratic motives. Winners are the knaves, charlatans, & adventurers.

Panama, [C.R. & Honduras] big rural squattings movement, unorganized, but effective. Parásitos. Govt. now recognizing & formalizing many titles. Unused lands taken from gov. haciendas. 45% cultd. land is occupied by parásitos!; in Panama. W/o any aid money, etc.

Land subdivision is more radical change than collectivizing, & requires more capital — e.g. roads. And more local taxes. And produces more output.

Pan. has smallest popn. of Lat. Am.

Plans get stifled by Hamiltonians. Actual pioneering done by squatters.

Colombia in midst of land reform program, begun in '62. Exprop. gov. land not fully exploited. Comp. owners w. \$120m bond issue, for ~~2.5 m.a.~~ ~~ca. \$50m~~. But only 7,000 a. moved so far. Plans 2.5 m.a. in '68, and double for 7m.

Mexico has led farm output

UNIVERSITY OF WISCONSIN - MILWAUKEE

March 15, 1963

TO: Professors Applebaum
Becker
Egerer
Gaffney ✓
Gottlieb
Luchek
Patterson
Schenker
Toscano
Yotopoulos

Crane (Political Science)
Howard (Anthropology)

FROM: The Ad Hoc Committee for Peace Corps Affairs (Bivens, chairman, Egerer and Yotopoulos) about Area Studies and American Studies for Peace Corps Training Group during April and May.

As most of you know, the Committee which the Economics Department designated to contact Mr. Shea to indicate our interest in the Peace Corps, and the contribution which economics might have for future Peace Corps groups has very quickly had to accept the responsibility for making curriculum suggestions for the next Peace Corps group to come to the UW-M. This group will be in training to go to Colombia and Panama, their technical areas being Cooperatives (Bivens involved here but Institute for International Cooperative Training, Madison, is coordinator) and Agricultural Extension. While it seems that this is a broader function than that for which our committee was constituted, there was an urgent necessity for responding to the request to supply topics and people for the economic phases of the Area studies and American studies portions of the curriculum for this next group.

The Peace Corps trainees to go to Colombia and Panama will be in training during April and May. It will be the responsibility of the Coordinator for these respective areas to contact you to specify rates of remuneration and specific responsibilities as well as the specific dates on which you will lecture. The Coordinator for Area Studies is Bob Howard, Anthropology Department, and the Coordinator for the American Studies group is Wilder Crane, Political Science.

In addition to being a broader function than we originally were asked to perform, we would have preferred if we had known more in advance that we were going to have to fill this portion of the curriculum and that we would have had more time to talk about it, preferably in a departmental meeting. However, we did not know that we would be asked to supply the Area Studies portion until Thursday, March 7, and knew only slightly before that we would be supplying the lectures in the American Studies. Therefore, there may be doubt in the minds of some of you as to the content we are suggesting, the structure of it, or other matters. However, we hope that in light of the very limited time which we had to design this, that the matter will be at least moderately acceptable to everyone concerned. There have been some changes made; I hope that they are satisfactory

We have attempted to spread the load so far as the extra burden of preparation is concerned, as well as trying to make it possible for several to participate and to have a fairly balanced amount of time within the total which is allocated to us. The following are the topics, the amount of time and the persons we are suggesting.

AREA STUDIES

<u>Topic</u>	<u>Person</u>	<u>Lecture Time</u>
Latin American Economic Ideologies	Yotopoulos	One hour
Introduction to the Economics of Under-development	Yotopoulos	Two hours
Briefing on the Economies of Colombia and Panama	Gottlieb	Two hours
Economic Demography	Gottlieb	One hour
Trade Unionism in Latin America: a Comparison with North American Trade Unionism	Luchek	Two hours
Latin American Trade Arrangements	Egerer	Two hours
Land Use Adjustments and Land Reform in Latin America	Gaffney	Two hours
Monetary Policy	Patterson	One hour

AMERICAN STUDIES

<u>Topic</u>	<u>Person</u>	<u>Lecture Time</u>
Meaning of the Market Economy I, II	Applebaum and Votopoulos	Three hours
The Problems of U. S. Capitalism	Schenker	Two hours
Performance of U. S. Capitalism	Toscano	Two hours

May we suggest that those of you in these two areas consider exchange of outlines with others in the respective area to help achieve integration.

Poor Flocking to Lima Slums Pose Explosive Political Issue

300,000 Living There Are Largely Illiterate and Can't Vote — Reds Haven't Tried to Take Hold.

This is another in a series of articles by a Post-Dispatch team investigating Communist infiltration in South America.

By **TOM YARBROUGH**

A Staff Correspondent of the Post-Dispatch.

LIMA, Peru, Feb. 7.

ON SANDY FLATLANDS and brown hills around the fringes of Lima live more than 300,000 persons, as wretched reminders of a population problem that may become political and therefore explosive.

Other large cities in South America are ringed by rapidly growing slums, but the slums here have some characteristics all their own. They are built almost entirely of brick and therefore have a more permanent look than the usual run of shantytowns. Brick is cheap here and more abundant than bamboo or lumber.

Lima's slums also are more orderly than others and conform to a pattern of streets because some planning, both governmental and private, has gone into them. They appear to be cleaner, with less odor of garbage. The reason soon becomes apparent—here it hardly ever rains and hot sunshine quickly dries up garbage, minimizing the smell.

THE WORLD-WIDE MOVEMENT from the land to the cities accelerated in Peru about five years ago and the rate is still on the rise. Thousands of families figure they could not be worse off than they are and decide to take their chances where others had improved their lot.

Communists have not tried to take hold of these people. The slum dwellers have been regarded as a great politically neutral mass, largely illiterate, near the bottom level of society. The ability to read and write is a requisite for voting in this country.

However, the slum dwellers have shown a talent for organization, a knowledge of what combined action can do. They have formed associations and then invaded a piece of land, simply taking over. Sometimes it has been government land and, in that case, the result was not too explosive.

ON A STRETCH of desert-like land near Lima a swarm of

ECUADORIAN INDIANS' REVOLT OVER WAGES REPORTED QUELLED

QUITO, Feb. 7 (AP).

ABOUT 2000 Ecuadorian Indians rebelled yesterday, but the Government said it had the situation in hand. The Indians, herdsmen and agricultural workers, demanded more pay from the big landowners of the Andean province of Chimborazo.

The Government moved soldiers into the area after the Indians, armed mainly with spears, beat a police official and two of his men.

A Government official in the Interior Ministry said the Indians took up positions in the hills but that some had returned home.

invaders descended by night without violence and with hardly a sound and laid pebbles in lines to mark out the property they were thereby calling their own. They stayed on and built a forlorn community they called "The City of God."

More modern poor are moving into subdivisions only one cut above the slum level and still in the slum neighborhoods. These developments are tailored to the market with inexpensive paving, sewers, street lights, water and electricity, on small lots for

Continued on Page 6, Col. 8.

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JOSEPH PULITZER

April 10, 1907

Leaders from the People

Protecting All Workers

Every state has workmen's compensation programs, or industrial accident insurance. The programs provide protection for workers who are injured on the job, and is intended to guarantee prompt medical care and cash benefits. In the event of fatal injury, benefits are also paid to dependents. The cost of the program is carried by the employer as part of the expense of production, and is administered by the state agency.

Doesn't this sound like something every employer would want for his workers? Yet many gainfully employed workers in the state of Missouri are not receiving these benefits, and many are probably not even aware that such a program exists, and therefore see the financial loss as inevitable.

Workmen's compensation laws as they apply to private employers are either compulsory or elective. Missouri law says that the employer is permitted to accept or reject the provisions for the compensation of work injuries, whereas in some states the employer must comply with the provisions. If the employer elects not to be subject to the law, however, he loses the common law defenses of assumed risk of the employment, negligence of fellow servants, and contributory negligence.

Missouri's law exempts employers who employ fewer than 11 employees. Yet these small companies need this protection since the employee is usually not provided with formal safety programs or financial resources to protect the worker. If the employer is not covered under the act, the employee may be unable to obtain compensation unless he sues for damages.

Therefore, I see two objectives towards which we should strive if we want protection for all gainfully

For More Than

President Kennedy's program the balance of payments problem the outflow of gold is as no omits as for what it includes suggest a return to high tariffs. He does not suggest trenchment in foreign aid. gest anything remotely like trols over trade and foreign

Rather the President proposed series of moderate measures entitled to full co-operation and the people. Surely no can legitimately object to a 1948 restriction of \$100 to bring in duty-free from abroad in the armed forces, considered Kennedy rescinded the Eisenhower dependents, can legitimately his foreign purchases as a saving his family at home.

In the long run, maintenance of payments is going of the nation than is asked sage itself. Three objectives Kennedy emphasized in last message are directly pertinent progress toward those goals only to our domestic economy in the world economy.

In part, the payments over three years is a consequence recession, and of national years to reach an acceptable economic growth. This is imperative to take serious measures aimed at "expanding productive capacity at a rate to the vigor and vitality of Unless we do better than at making full use of our correcting our balance of ties will prove exceptional

Vital to an accelerated the expansion and modern ductive plant. While European generous American aid, the most modern and efficient plants, much of ours have and costly to operate. This important the tax measures promised in the economic new incentives for investment equipment. He proposes to reduce loss by closing some improving tax compliance

Finally, it is essential, improve its competitive position that we avoid "unsound workments," by which is meant justified by rising productivity. Mr. Kennedy's economic too much attention, but While he rejected the idea can be achieved only by the ment and a slack economy conviction that inflation, upon the weak, is now the balance of payments crisis of the international economic world." Price stability is future as accelerating the growth and rapidly modern tive plant.

The balance of payments exist in a vacuum, and so run will require more than measures. The best approach other economic problems

SECTION C WEDNESDAY, FEBRUARY 15, 1961

Land Reform Drags in Bolivia But It Marks First Step Out Of Semi-Slavery for 2,000,000

Peasant No Longer Kneels and
Kisses Landlord's Hand — Country
Far Ahead of Neighbors in That Pro-
gram Is Actually Law.

This is another of a series of articles by a Post-Dispatch team investigating Communist infiltration in South America.

By TOM YARBROUGH

A Staff Correspondent of the Post-Dispatch.

LA PAZ, Bolivia, Feb. 14.

BOLIVIA IS ahead of other South American countries in land reform, but even so it has made only a beginning.

Nearly eight years after the setting up of an agrarian reform program by presidential decree, the process of changing peasants into self-sufficient farmers is proving to be slow and painful and the country's agricultural production is woefully low.

What is perhaps more important, however, is that a start has been made. More than 2,000,000 persons, largely Indian, have made the first step out of a semi-slavery in which they labored for a mere subsistence. These people constitute about two-thirds of the population.

Bolivia is ahead of other countries in that this program is law, albeit a consequence of the revolution of 1952, whereas other countries are struggling to get something along similar lines enacted by legislators. The revolutionary method is faster, but it is one thing to decree a major reform of this kind and another thing to carry it out.

The initial shock has not yet worn off and the managers of the reform are still working back from the situation in which national agricultural production was reduced by half when the reform program had been in effect only two years.

Under the old semi-feudal system, the farm worker was paid no money at all, but merely allowed to work a small parcel of land.

THE GUIDE lines have been set. They provide that the land shall belong to those who work it and that no single owner shall be permitted to hold a large estate. Peasants who worked as sharecroppers were declared legal owners, but the procedure of actually giving them title to the land is subject to the law's delay and even a sweeping revolution has not wiped out the red tape of bureaucracy.

Assignment of titles to new owners has speeded up remarkably in the last year. In 1955 the number of families given title to land under the program was fewer than 3000. By 1959, the year's total was more than 12,000, but in the following year it jumped past 47,000. The number of titles assigned was even greater. This total jumped from about 18,000 in 1959 to more than 85,000 in 1960.

If the peasant's farm production still leaves giant steps to be taken in the future, his spiritual well-being has been much improved already. He has been given all the rights of Bolivian citizenship, including the right to vote, even if he cannot read or write. Instead of kneeling and kissing his landlord's hand, he stands up and shakes hands with his fellow citizens. President Victor Paz Estenssoro took note of those changes in an interview with two Post-Dispatch reporters. He also observed that more and

more families are getting sewing machines, bicycles and even transistor radios. Statistically, however, these are only a dot.

ONE UNFORTUNATE circumstance is that downtrodden people who have been saved from exploitation on the hacienda now find themselves the victims of exploitation by their own local political leaders.

The new era has brought with it a greater interest in education on the part of the government as well as those in dire need of schooling.

Until 1951, Bolivia had fewer than 2000 rural schools with fewer than 50,000 pupils. By the end of 1959, there were nearly 4500 rural schools and nearly 160,000 pupils.

Establishment of a well-ordered agriculture has been retarded by the major emphasis on tin mining and other mineral extraction. Although the present government has expressed determination to get mining on its feet economically, it is equally intent on a great rise in production of goods.

Social improvement for its own sake has been put far down the list of national priorities under a reasoning that if economic improvement is brought about, the other will follow naturally. In a country that has been underdeveloped for many generations, the raising of living standards has to be a slow process. One of the immediate objectives of those pushing the agrarian reform program is a guarantee of law and order and respect for established authority.

A lack of these can easily get out of hand because the campesinos who were given civil rights in the revolution of 1952 also were given rifles.

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Lima Slums

Continued From Page One.

the do-it-yourself home-builder.

The Government of Peru has shown a direct interest in the poor of the slums and their plight. Most of the interest thus far is embodied in paper and ink, however — plans and proposed legislation. The government ~~has~~ provided some technical help for "associations" that struck the first blow for themselves.

Practically all assistance proposed from any sector has been based on repayment with interest. Some United States money is being made available in the form of loans to help building and loan associations get started.

A United States official with uneasy eyes on developments said, "We are in a race to arrive at solutions through ways we choose or have them arrived at by some other way. My guess is that we have about three years in which to work."

Corps-men's task, speak w.
authority on topics of which you
really know very little.

If learn nothing else this a.m.,
~~Will give demonstration~~
hope you will get some idea of that
art.

Central America closes ranks

Pres. Kennedy will find a new and friendlier economic and political climate in latest Common Market

With Pres. Kennedy soon to arrive by jet for a two-day conference with Central America's six presidents, Costa Ricans this week were busy sprucing up their somewhat out-of-the-way but pleasant capital of San Jose.

On a grander scale, the tropical countries that used to be labeled the "banana republics" have been sprucing up their economies for some time. Bananas and coffee still are the mainstay. But diversified industry, ranging from chemicals to light bulbs, has begun trickling in from the U. S. and Europe to speed the region's traditionally lazy economic pace. And, putting aside old border disputes and national rivalry as much as possible, the countries have cast their future in a new framework—the Central American Common Market (map).

Step in right direction. This new market is a long way from Europe's in size; even if Panama finally joins, the region will boast only 14-million people, a gross national product of \$4-billion annually (double Peru's), and a 5% to 6% growth rate.

But this is enough of an accomplishment in Latin America's troubled history for Kennedy to make a point of it during his San Jose visit. Alongside the Alliance for Progress' lagging progress, it looks, in fact, mighty good.

Kennedy's interest. The Central Americans will have a sympathetic listener in Kennedy when they ask for more U. S. aid for a regional economic program prepared by the new Central American Bank for Economic Integration (backed by \$16-million in capital from the five countries).

Not all of Kennedy's interest in the area is economic. Memories of the avowedly Communist regime in Guatemala nine years ago are fresh, and the Panama Canal, though of lesser importance today, remains a

key defense outpost for the U. S. So Kennedy is sure to urge the countries to crack down harder on the flow of Cuban-trained subversives (page 54). Instead of clamping down on Castro agents in their own back yards, Central American presidents have been calling for what is not likely to happen—a new invasion of Cuba.

I. Progress for alliance

Within the past 18 months, five countries—Guatemala, El Salvador, Costa Rica, Honduras, and Nicaragua—have signed treaties that will wipe away all internal tariffs and erect a common outside tariff wall by 1966. Tariffs have already been eliminated on 70% of the region's internal trade.

Barring a violent political up-

heaval, most observers believe that Central America will achieve its goal of economic union on schedule. Political union—a century-old dream—might then be the next step. But few people expect it in the foreseeable future, despite such gestures as recent agreement of the Common Market members to set up a Central American Supreme Court and a joint defense council.

Yankees moving in. The vivid demonstration of progress is in the influx of U. S. industries to get in on the ground floor of the new Common Market. Favored tariff treatment will be given certain "integrated industries"—in effect, a regional monopoly—on the theory that the group of nations can't support more than one of a kind.

Critics suggest that this may merely perpetuate inefficient, high-cost operations. But the opportunity looks attractive to foreign companies and investors.

In industry, Esso and Shell are putting up a \$25-million oil refinery in El Salvador, to work with an \$8-million section of an Esso petrochemical project. The other half of Esso's project, called Fertica, is a \$7-million nitrogenous fertilizer plant being built in Costa Rica with participation by local investors.

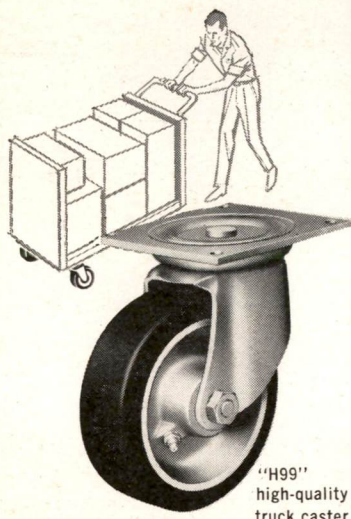
Phelps Dodge Corp. will build a \$3.7-million copper wire factory in El Salvador in cooperation with the government's Institute of Industrial Development. In the same country, Philips of Holland and Westinghouse Electric Corp. are planning plants to make light bulbs and appliances, and a subsidiary of Canadian Javelin is reopening a gold and silver mine.

Hercules Powder Co. and Pennsalt Chemicals Corp. plan to make caustic soda, chlorine, and insecticides in Nicaragua, and General Mills, Inc., plans a flour mill there. California Standard recently started



San Jose, Costa Rica, scene of next week's meeting among chiefs of state, shows modern touches alongside the old.



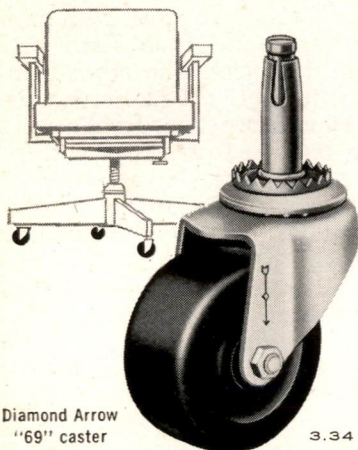


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up a refinery in Guatemala, where General Tire & Rubber Co. already has a tire plant in operation, with local investors. Evans Products Co. plans a pilot plant for plywood in Honduras.

In marketing, Sears, Roebuck & Co. plans to use its Costa Rican store as the base for expansion into all the Central American capitals. American Broadcasting Co., in partnership with local stations, has set up a regional TV network using taped programs, and it plans live telecasts to the entire region within three years. The volume of regional advertising jumped 75% in the past year.

On the edges. Panama, not a Common Market nation, is also getting some new industry. Dow Chemical Co. plans a chemical plant. Continental Oil Co., National Bulk Carriers, Inc., and British Ultramar put a \$30-million refinery on stream last year.

Nor is the interest in Central American investment confined to U.S. and European groups. Mexican businessmen have put up a brewery in Honduras and a plant in Guatemala to make steel office equipment; Mexico's Atoyac textile company plans a textile mill in Guatemala.

Mexicans expect that, once the last bottleneck in the Pan American Highway has been opened, they can beat U.S. competition in exporting many consumer products to Central America.

The Pan Am Highway is the main traffic artery, but loans from the U.S. and the World Bank have financed 20,000 mi. of paved roads and another 10,000 mi. of passable but unpaved roads. Local truckers expect to haul 300,000 tons this year, compared with 98,000 in 1956.

II. Troubled agriculture

Despite the influx of industry, Central America is still basically an agricultural region, depending excessively on a few products.

Coffee accounts for more than half the export earnings of El Salvador, Guatemala, and Costa Rica. The economy of Honduras is dominated by bananas and coffee, that of Nicaragua by cotton and coffee. A drop in coffee prices has cost Central America an estimated \$590-million in export revenue potential in the past five years, but the loss has been partly offset by expansion of other farm exports.

All the countries are boosting cattle-raising and exports of meat to the U.S. In Panama, cattle is now a \$100-million-a-year business, second

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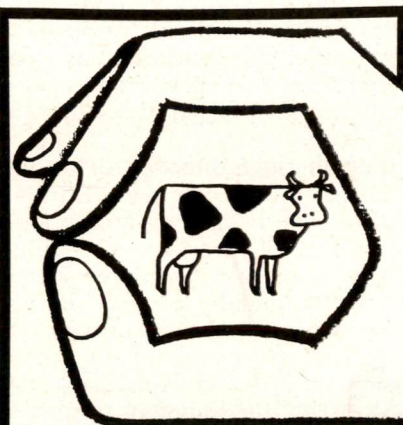
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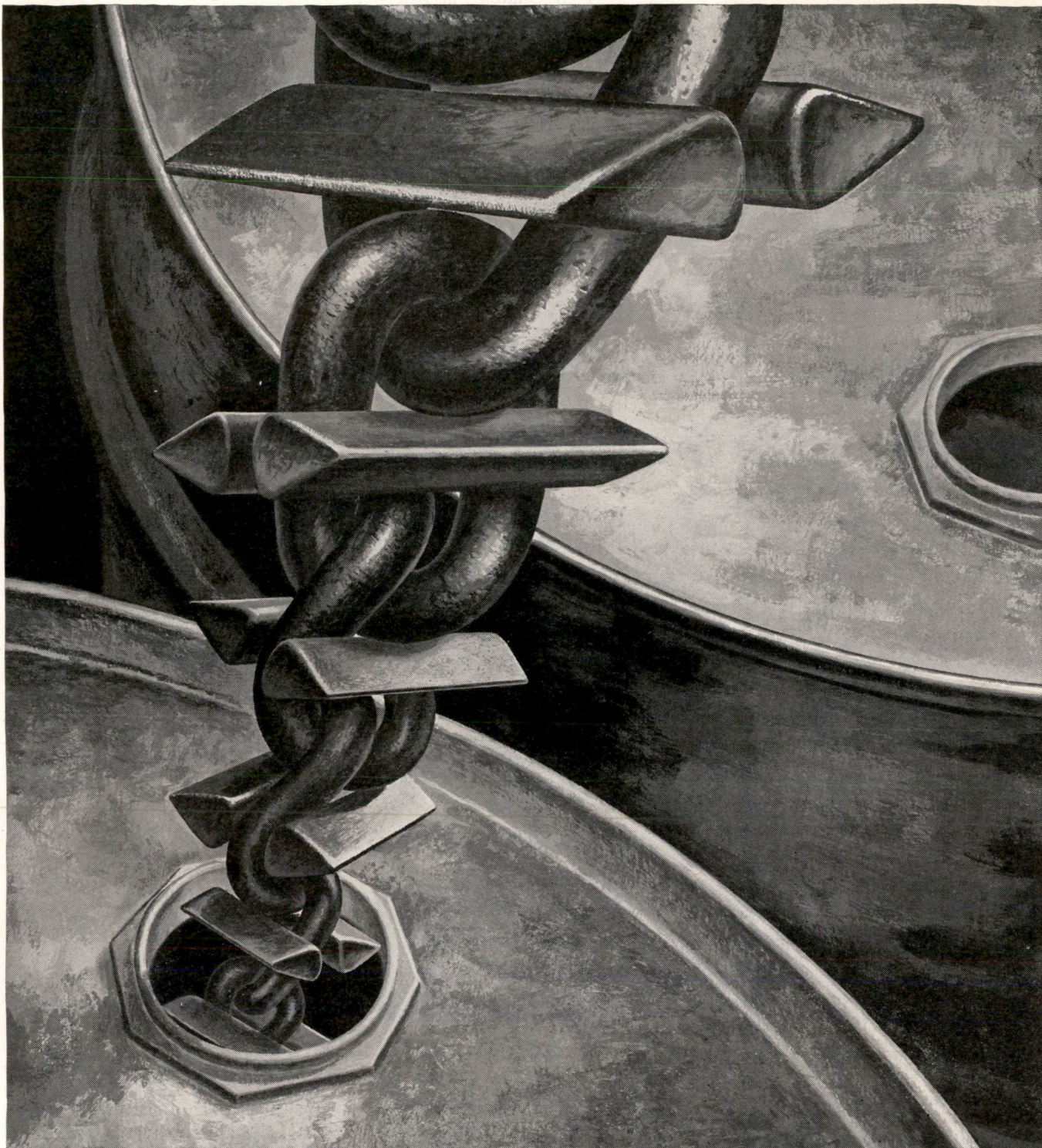


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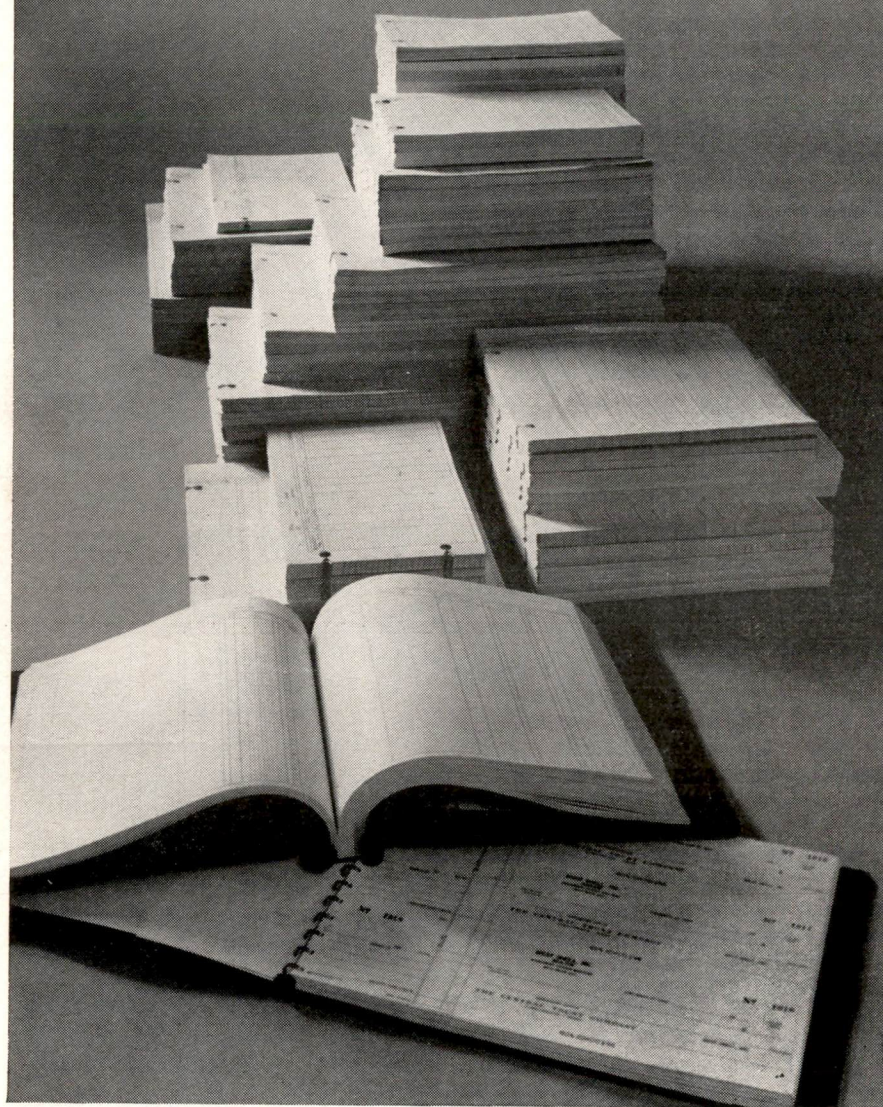
3 FACTORIES: York, Pa. — West Burlington, Iowa — Union City, Calif. — WAREHOUSES: Medford, Mass. — Atlanta, Ga. — Dallas, Texas — Chicago, Ill. — Portland, Ore. — Seattle, Wash. — Los Angeles, Calif.

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only in economic importance to the Panama Canal.

Central American countries have also started shipping melons and other fresh fruits to U. S. markets by air.

United Fruit Co. The single most important economic influence in the region as a whole is the United Fruit Co. In Costa Rica and Honduras, this company's exports alone provide 30% to 40% of total foreign exchange earnings.

Since the seizure of its Cuban holdings by the Castro regime, United Fruit has been trying to forestall future expropriations by breaking up its banana lands and giving its schools and hospitals to the governments. But it is running into resistance on both counts.

The company is criticized by labor unions when it sells banana land to small independent producers under five-year contracts to buy the bananas; the unions fear the little men will pay lower wages. And Central American governments balk at accepting community buildings as a gift; they don't want to take on the cost of maintaining them.

United Fruit is also faced by an outbreak of the Panama disease on its plantations and by increasing competition from Ecuador.

III. Political lull

All economic plans, of course, could still be upset by any outbreak of political turmoil in Central America, where revolutions and palace fighting are little short of a tradition. Actually, the region is unusually tranquil at the moment.

Pres. Villeda Morales is rounding out a five-year term in Honduras; Pres. Ydigoras, a six-year term in Guatemala. Pres. Orlich took office in democratic Costa Rica after a free election last year; his two predecessors served their full terms in office.

Storm warnings. Political trouble could be brewing, though.

The Somoza brothers, Luis (picture, page 52) and Anastasio, will still wield the real power in Nicaragua despite election of Rene Schick as puppet president to succeed Luis in a virtual one-party election last month. The Somoza family has run Nicaragua as a private hacienda for more than 30 years. Washington hopes the Somozas will gradually liberalize their regime, but anti-Somoza critics are pessimistic.

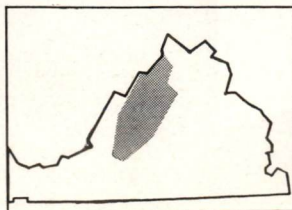
From Mexico, Guatemala's leftist ex-Pres. Juan Arevalo announced he will return to run for president this year, in defiance of Ydigoras' threat to arrest him. Arevalo claims to be anti-Communist, but his government



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Pres. Luis Somoza of Nicaragua will yield the office but not the real power.

paved the way for the Red-infiltrated regime of Jacobo Arbenz, who in turn was overthrown by a coup engineered by the U. S. Central Intelligence Agency in 1954.

What then? If Arevalo should return and be elected—and if the army let him take office—the U. S. would be faced with the problem of what attitude to take toward his government.

The U. S. has a long history of intervention in Central America, including its part in Panama's break-away from Colombia at the turn of the century and the Marines' fruitless pursuit of guerrilla leader Augusto Sandino in Nicaragua in 1927-31. Central Americans still are sensitive about anything that looks like pressure from the U. S.

Touchy Panama. Most sensitive of all are the Panamanians, whose economy is heavily dependent on the business and jobs generated by the Panama Canal and on the hundreds of tax-haven and free-zone operations set up in their country by the U. S. and other foreign companies.

Panama feels handicapped, too, by the wage inflation caused by the Canal operations, making it difficult for Panama to join the Central American Common Market.

Panama is now agitating for a bigger share of the Canal's \$60-million annual tolls; treaties of 1903 and 1955 give a flat \$1.9-million. It also wants clearer sovereignty over the Canal Zone and closer equality in wages between Panamanian and U. S. employees of the Canal. Until these issues are settled, anti-American feeling will continue to build up in Panama. **End**

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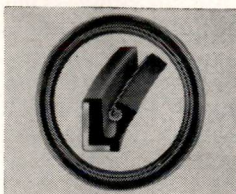
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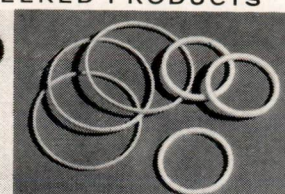
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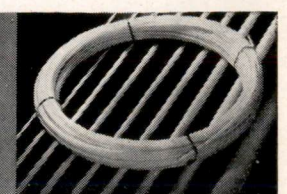
Precision engineered **BOOT SEALS** for ball joint sealing on suspension systems requiring long warranty protection



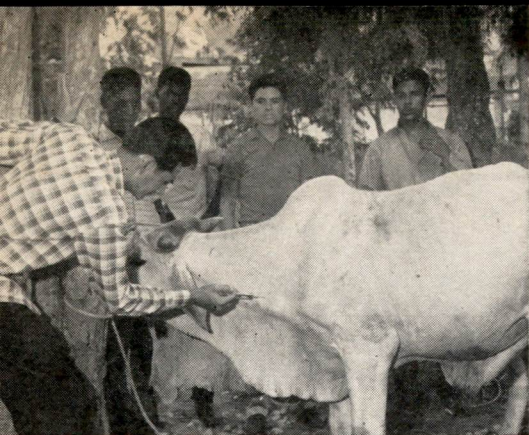
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Venezuela's Community Action Institute trains farm leaders.



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Back home at San Francisco de Yare, graduates organize a housing project.



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U.S. business fights Latin American Reds

Corporations with south-of-the-border interests are helping local businessmen organize to counter Communism in the Good Neighbor republics

U.S. companies are mobilizing to combat Communist and Castro-inspired subversion in Latin America.

To spearhead the battle, they are enlisting the help of Latin businessmen in "civic action" programs aimed at promoting the image of a democratic society as against the competing Communist model. The programs range from simple anti-Communist propaganda to training of democratic labor leaders and community development on a national scale.

In Venezuela, U. S. oil and mining companies are putting \$1-million into a countrywide organization that's trying to build self-government in farm villages by training local leaders (pictures). And Sears, Roebuck & Co., Pepsi-Cola Co., Price, Waterhouse & Co., and others are supporting a private peace corps called Accion, set up and staffed by young U. S. university graduates.

In Mexico, J. Walter Thompson, McCann-Erickson, and other advertising agencies organized the publicity for a business-sponsored campaign that renovated 10,000 public schools with contributions from Sherwin-Williams Co., Eastman Kodak Co., Coca-Cola Co., and others.

In Chile, Braden Copper Corp. is contributing to the Rural Education Institute, which has trained more than 6,000 peasants to set up community development programs.

In Buenos Aires, the Alliance for Liberty & Progress helped organize Argentine students who recently played a part in ousting the leftist rector of Buenos Aires University.

Radical shift. Similar business groups all over Latin America are getting financial and organizational help from U. S. firms. Not all of the aid is new. For years, Creole Petroleum Corp. in Venezuela and United Fruit Co. in Central America have been deeply involved in housing, education, and agricultural and technical training. The Rockefellers have been supporting rural education,

agricultural research, and similar programs for more than a decade through the American International Assn. and the IBEC Research Institute.

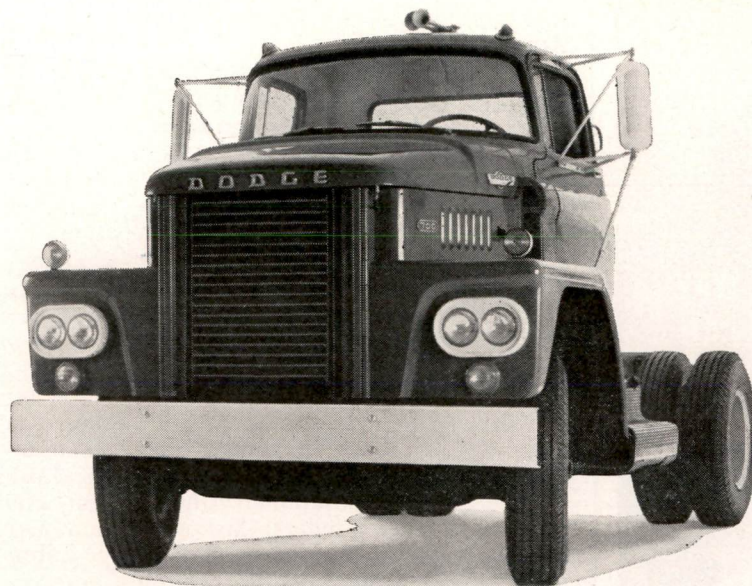
But up to a year or two ago, most of this activity was related to company business, or in the field of traditional philanthropy. Now, U. S. companies are putting money and organizational talent to work toward a frankly political objective: presenting democracy and free enterprise as more attractive than the Communist system.

This is a different thing from partisan politics, of course; U. S. companies aren't taking sides in any local political contests. And it's a far cry from the era when big companies simply changed governments to suit their tastes in Latin America.

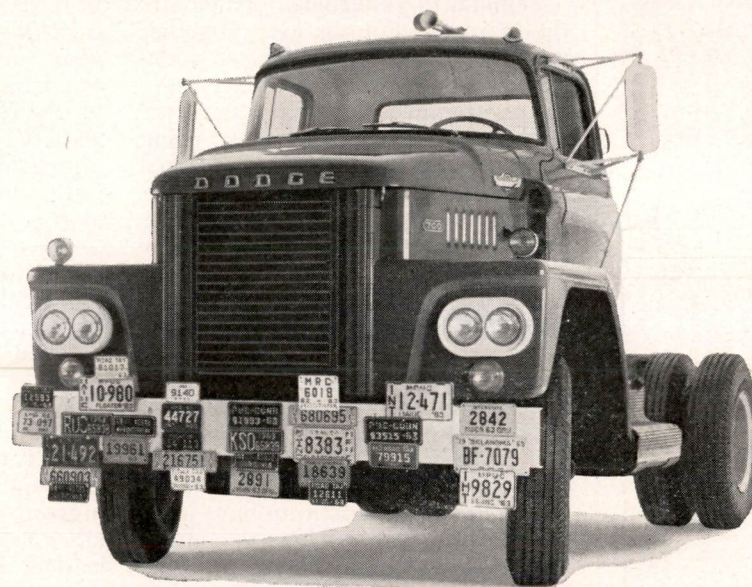
Still, it's a radical shift from the cautious political neutrality of U. S. business in Latin America in recent years. Some of the programs sponsored by U. S. companies and their Latin counterparts are getting co-operation from governments and even from free labor unions.

Panic. The man immediately responsible for all this, of course, is Fidel Castro. When the 1961 Bay of Pigs fiasco shocked both U. S. and Latin businessmen into the realization that the system of free enterprise itself was in danger in Latin America, many of them panicked. Their reaction was to set up organizations such as the Center for Social Action Studies (CEAS) in Colombia—a faintly cloak-and-daggerish group of local businessmen that started pouring out anti-Communist propaganda.

Some of these efforts backfired. CEAS, for instance, stirred up a storm of criticism and became known as the "Black Hand." Since then, however, with some financial support and advice from U. S. companies, CEAS has organized a series of more successful programs—such as the Colombian Citizens' Union—



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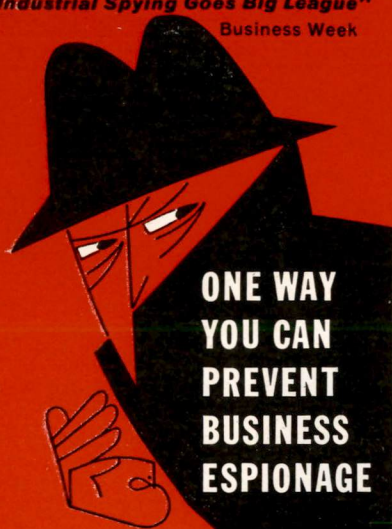
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U. S. aid. Most of these groups are getting help from U. S. companies—either financial or in the form of advice. U. S. companies generally prefer to remain in the background, but many are urging their Latin managers to help form civic action groups.

In Mexico, for example, the Assn. for National Understanding is headed by the president of Cummins of Mexico, and its rural section by the local head of Ralston Purina Co.

Some U. S. backing comes from organizations such as the Business Council for International Understanding (BCIU), which last year sent U. S. executives to Santo Domingo to advise on operation of the factories and farms taken over by the Dominican government from former dictator Trujillo.

Seminar in Venezuela. Last month, the Creole Foundation, together with the Eugenio Mendoza Foundation and the Venezuelan Executives Assn., organized a seminar in Venezuela to push the idea of using corporate funds and organizational talent for civic action programs. Representatives from Kidder, Peabody & Co., Chemical Bank New York Trust Co., and institutions such as Ford Foundation attended.

Among other things, the seminar heard an account by Catholic educators of an organization that is getting local business financing to provide board and lodging for non-Communist students at Caracas' leftist-dominated Pedagogical Institute. Graduates of the institute have used their positions as teachers to convert some Caracas high schools into virtual armed subversive camps, but the hope is that the non-Communist students will provide a counter-influence.

Grass roots government. If U. S. company money is going into such sensitive political schemes in Latin America, it's not publicly known. In any case, U. S. business financing of civic action programs releases more local company funds for use by Latin American businessmen who have no inhibitions about political activity.

The biggest single chunk of U. S. corporate money going into civic action in Latin America is the \$1-million put up last year by the Venezuelan subsidiaries of Standard Oil Co. (N. J.), Gulf Oil Corp., U. S. Steel Corp., and Bethlehem Steel Corp., together with Cia. Shell de Venezuela, to finance the Venezuelan Institute of Community Action. IVAC's

aim is to build self-government at the grass roots, where it never existed before.

IVAC's strategy is to bring "natural leaders" from rural sections into seven-week training courses in state capitals, where they are taught such things as farming methods, animal care, carpentry, sewing, and sanitation.

They are also taught how to conduct a meeting. Then they are sent home to organize community activities—anything from building latrines to starting a consumer co-op. It is hoped that eventually the villagers will learn that they can solve their own problems and exert political pressure from the bottom up to get what they need from state and national governments.

Labor program. Another big program in Latin America, designed to meet Communism head-on in an even more critical area, is getting help from both U. S. business and U. S. labor. This is the American Institute for Free Labor Development, which is bringing democratic trade unionists from Latin America to the U. S. for training as labor leaders. The institute has also aided in organizing training centers in six Latin countries and is planning two more.

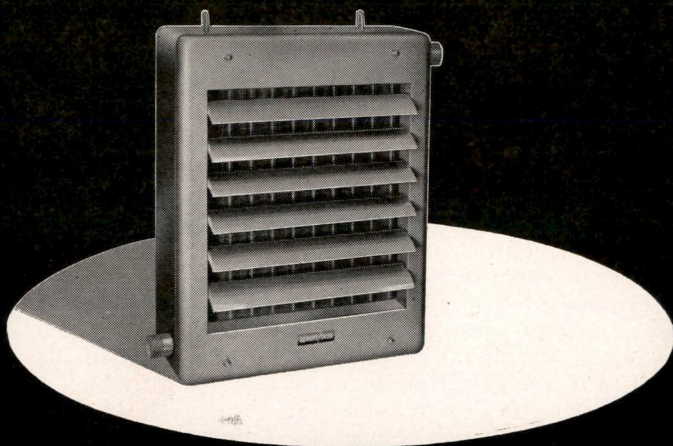
The object is to strengthen free labor in Latin America, in competition with Communist trade unions, by upgrading the professional competence of democratic labor leaders. J. Peter Grace, president of W. R. Grace & Co., is the institute's board chairman, and George Meany, head of AFL-CIO, is its president.

Actually, there are some misgivings on both sides of this business-labor equation. Many Latin labor leaders are reluctant to have anything to do with an organization that's helped by companies they have long been denouncing as "imperialists." And many U. S. businessmen with operations in Latin America are unenthusiastic about strengthening the labor unions they have to bargain with.

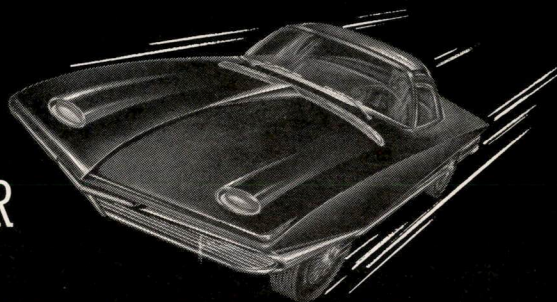
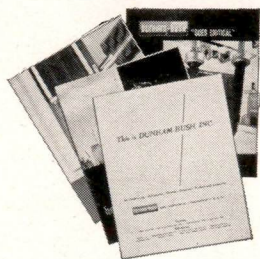
Still, the effort is showing concrete results. Graduates of Colombia's training center, for example, have broken the grip of Marxists on one of the country's labor federations.

Risks. There are risks in all these programs, of course. IVAC, for example, could backfire if politicians tried to take it over. Other kinds of political activity by businessmen in Latin America could set dangerous precedents, too—such as the prolonged advertising boycott by Venezuelan and U. S. companies of Caracas' leftist El Nacional, Venezuela's biggest newspaper. **End**

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France: Planned expansion outspeeds itself

Over the past few years, France's economy has been regarded by many European and U. S. officials as proof that intelligent economic planning can guarantee impressive economic expansion. Today, the French economy seems to be proving that too rapid expansion leads straight to inflation—confirming the fears voiced a year ago by some French officials and businessmen [BW Jan. 13 '62, p. 52].

The French postwar method of economic planning isn't very radical. What it amounts to is a series of meetings between government and industry, who attempt to set realistic economic goals. Government has much to say, through nationalized industry and via credit control, but private industry isn't bound by the planned goals.

What's more important, French planning includes no control over wages and prices. As a result, steadily rising prices and wages (chart, left) have more than wiped out the advantages given to the franc by the 1958 devaluation. This wage-price spiral is still unchecked: The news from France this week is dominated by reports of mounting labor strife (page 123).

Gaullist policy. It is not merely France's loose type of economic planning that is under fire, but also Gaullist economic policy. Pres. de Gaulle's Fifth Republic was set up

in 1958 along with a major plan for economic reform. And de Gaulle needs an expanding home economy, free from inflation, to seek his political and military goals in Europe. This may explain why the General—against the advice of his Minister of Labor—decided to draft striking miners. French prices and wages are running ahead of other European countries, and this is beginning to hurt French exports.

To be sure, France's economy still presents a lusty picture. After the 1958-59 pause in expansion, during which the economic reform plan took hold, gross national product has been growing at an annual average of 5%. Last year, industrial production (chart, right) still registered a hefty 6.7% increase, though it was less booming than in previous years.

It is this heady expansion—now sopping up imports in excess of exports—that has brought on inflation. Until this year industrialists, both nationalized and private, have quickly met almost every pay demand to keep production humming. Now their attitude is changing.

Steel cutback. Officials in the key sector of steel may be tipping off what is in the cards. Last year French steel production was off some 2%, unlike the general trend. The industry was under competitive pressure even in its home market, especially from British steel producers. Finally, the industry decided it would have to cut 8% off its planned production goals.

It's not clear yet whether this cutback will spread to other basic industries. Investment plans of steel have always been more ambitious than in other sectors.

French exports are undeniably losing their competitive qualities. Efforts to keep prices stable have not been able to prevent the dulling of France's price edge at a time when rising costs at home have squeezed profit margins.

Role of exports. Much of France's recent economic expansion has come through exports, and the nation's economists are now keeping a close eye on the sagging trade figures. In December, for the first time in two years, the trade balance was in the red as a result of a downtrend that started in July. For the full year, imports rose 12.5%, while exports went up only 10.2%.

The trade deficit hasn't kept

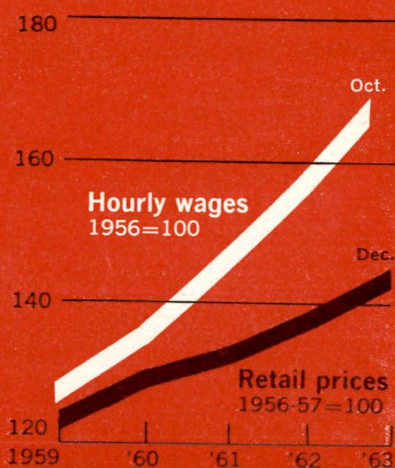
France from piling up a payments surplus, running at an annual \$1.5-billion. But this surplus stems from foreign funds being invested in France, which also add to inflationary pressures.

French officials aren't standing by idly, of course. Their first move, early this month, was a rather timid step toward limiting short-term credit; for some time, credit has been expanding far more rapidly than the pace of business. The government is also trying to drive down retail food prices by importing food on a large scale, a step that France hasn't needed for years. Finally, there is the tightening of the government wage policy, which is causing the new social explosion.

Tougher labor. The labor unions no longer seem willing to give the government room for maneuver. In the nationalized industries, the unions are out to catch up with the scales paid in private industry—nearly all unions in the present squabbles are in the nationalized sector.

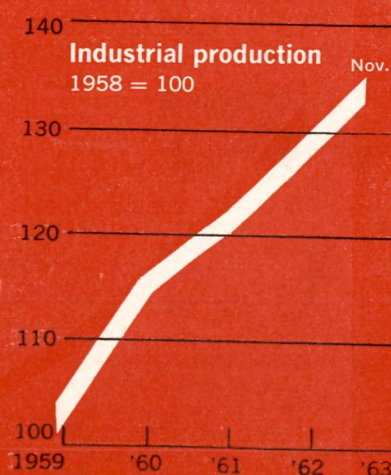
Many economists feel that France's economic troubles tend to prove that the planning method, though sensible and worthwhile, has been overrated by both French and foreign observers. They argue that it is impossible to plan economic output without having any control over wages and prices.

Can France contain inflation . . .



Data: French Ministry of Labor

. . . without braking expansion?



Data: IMF

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Latin America

South of the border, the climate is charged with revolution—as in Brazil (picture), other trouble spots

The region is moving away from U.S., toward socialism and neutralism

Business investment is drying up as the risks continue to mount

The potential is still there—but can it be realized amid the turmoil?

Latin America today is heading for its worst troubles ever.

Grassroots revolution—social, economic, and political—is replacing the old treadmill of palace revolts and economic stagnation. And time is running out: If Latin America doesn't come to grips with its manifold problems within a few years, it may turn to radical solutions—a course that could threaten the U.S. directly.

In any case, the U.S. is no longer the dominant force it used to be south of the border, though it is still an important influence. Its role is changing fast.

The Cuban example shows what can happen—a Communist-run country only 90 miles offshore. This is not a pretty scene to be repeated elsewhere in Latin America. But like gusts of dry wind before the storm, revolutionary currents are eddying across the region.

Violence. Latin American people no longer believe hollow promises of political, social, and economic improvement. They are demanding accomplishments.

All too frequently, violence is their weapon. Bloody revolts rock Vene-

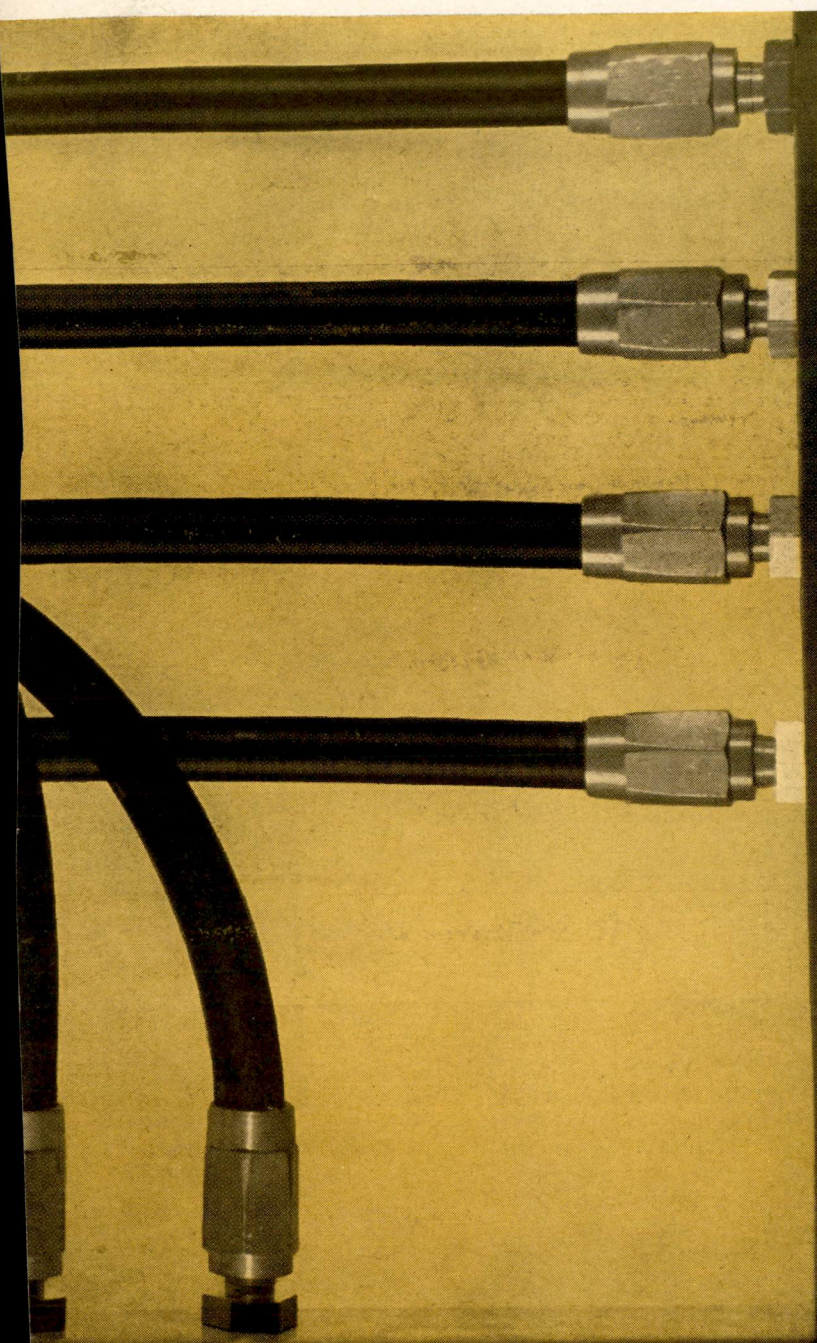
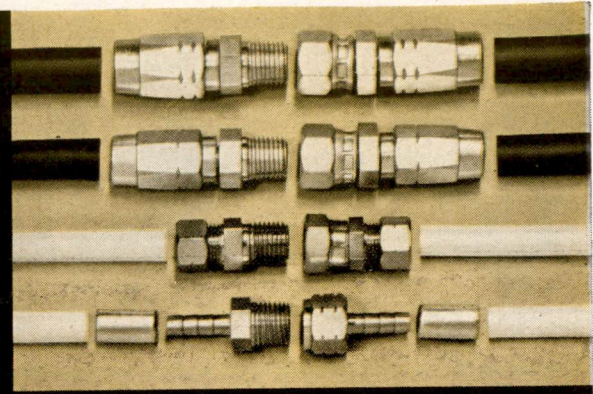
zuela, the military use tanks to stage coups in Buenos Aires and Lima, women riot in Rio de Janeiro over food shortages, and guerrillas maneuver in the hills of Guatemala. Referring to the Latin American ferment, Pres. Kennedy has said that "history has removed for governments the margin of safety between the peaceful revolution and the violent revolution."

One top U.S. diplomat compares the ferment in Latin America today with the situation in Czarist Russia in the period just before the Bolshevik revolution.

Through the projected \$20-billion in aid from the Alliance for Progress, the U.S. is trying to channel the Latin revolution to peaceful purposes. But after more than a year's efforts, the results appear minimal, in terms of stark problems: exploding population, lagging economic growth, unstable political institutions, impoverished masses.

"By the year 2000," warns an official of the United Nations Economic Commission for Latin America (ECLA), "there will be 500-million people in the region. These countries are going to develop—by cap-



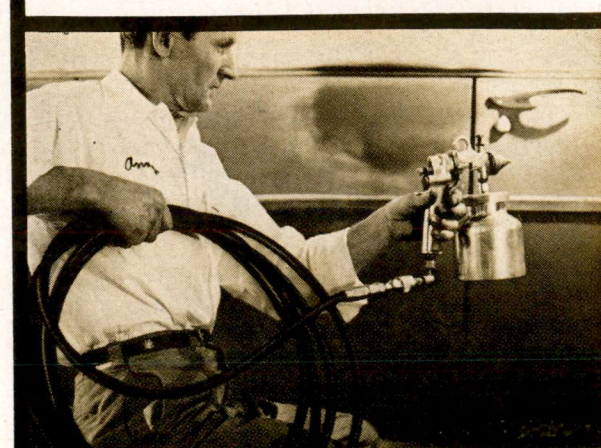


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italism or by some other system. Latin America will be decisive for the West."

New view. Is this merely the old Latin American story in new dress? Talk to people throughout the region, from high officials to peasants, and you know there's a fundamental difference today.

The palace revolt is not out of style, any more than it was 10 or 20 years ago. But pressure for change from the bottom up is new, and growing fast.

This pressure is generating reaction in the form of military takeovers in Argentina and Peru, rightist movements like that of Gov. Carlos Lacorda in Brazil. One victim probably will be the hopes for democracy in much of Latin America.

Outcries against "yanqui" and other foreign capital are an old story. But now, increasingly, Latin governments respond to local outcries by squeezing foreign companies with heavier taxes, tougher regulations, and the further threat of expropriation.

When U.S. influence was dominant in the area, such actions could be held in check. But now the "colossus of the north," as Latin Americans call it, looks less colossal—partly because the Soviet Union and Communist China seem to loom larger.

Washington now hardly mentions the Monroe Doctrine, for lack of a stick big enough to enforce it unilaterally. Instead, the U. S. is trying, with little success, to get collective action by American states against Cuba.

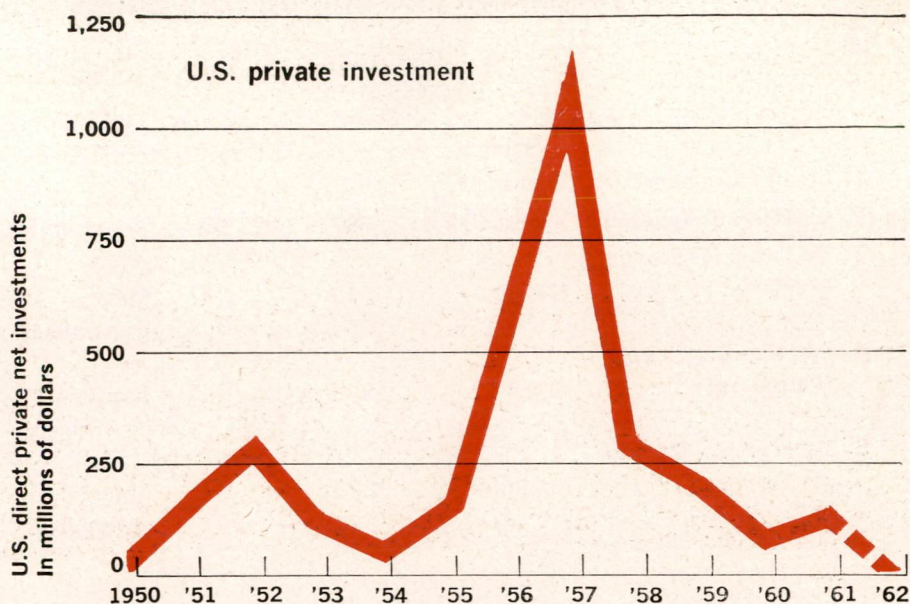
Currents. Latin America's troubles are not all of a piece. Bolivia is woefully backward; Brazil, backward in places but potentially rich. Mexico is almost a major exception to any rule for Latin America, a country three-quarters of the way through a social and economic revolution that has developed some political maturity.

Viewing the whole Latin American scene, though, foreign investors are given to gloom. A U. S. businessman in Argentina, one of the more advanced Latin countries, says: "I've always been optimistic about the future of this country, but I'm beginning to get cold feet."

Over-all, this is the Latin American picture:

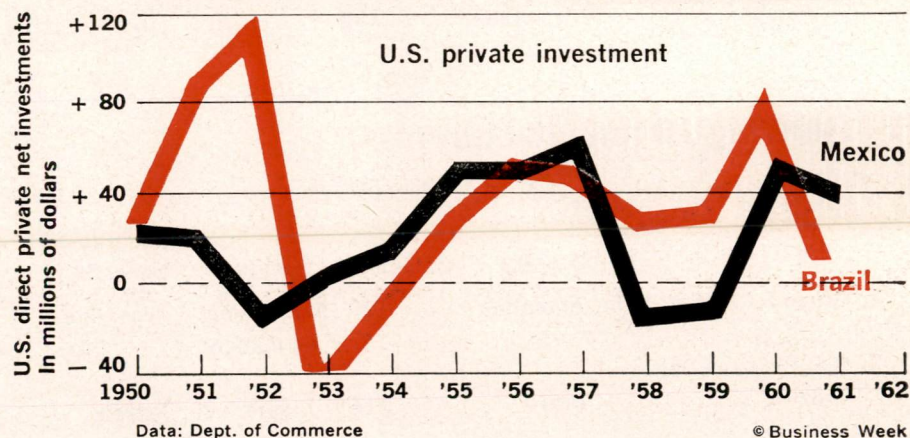
■ **Most observers don't see any immediate prospect of Castro-style revolutions.** Since the Cuban overthrow, the only serious attempts elsewhere have taken place in Venezuela this year—and have been crushed. Says an Argentine observer: "The main attraction of Castroism in

Investment in Latin America loses its charm



The local climate is the key:

In turbulent Brazil, new U.S. capital slows to a trickle but in calmer Mexico, it holds up pretty well



Data: Dept. of Commerce

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Latin America is that it is a form of opposition to the U. S."

■ **The trend in most countries is toward socialism and neutralism.** In Chile, there's a chance that a "popular front" of leftwing Socialists and Communists will win the next election in 1964. Brazil already is following an "independent" policy of closer ties with the Soviet bloc. Peruvian-type military coups may temporarily reverse this trend—but even some of the military in Latin America take on a socialistic tinge. "Nasserite" officers, with growing influence in Peru and other countries, could take over and push state-directed social and economic reform.

■ **Investors are hedging bets and sending their money to the U. S. and Western Europe—away from Latin America.** The flow of new U. S. pri-

vate capital has practically dried up. A businessman in Caracas estimates that Venezuelans are sending two-thirds of their money abroad, and explains: "Latin Americans have lost confidence. They used to feel that whoever occupied the palace, life would go on much as before. But since Castro, they are no longer sure."

Bystander. The hard lesson in all this—and the one that's difficult to swallow—is that the U. S. is virtually a bystander to a threatening revolution. Where Washington, by force or cajoling, used to give direction to Latin America's growth, today it is more on the sidelines—suggesting, sometimes even imploring, but rarely directing, as it gives economic aid to one country after another.

At Punta del Este last January,

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Latin America's big 10 oil and mining companies . . .

	Country	Est. 1961 gross sales [U.S.\$ millions]	Products	Majority ownership
1. Creole Petroleum Corp.	Venezuela	993	Oil	U. S.
2. Cia. Shell de Venezuela	Venezuela	697	Oil	British-Dutch
3. Petroleos Mexicanos [Pemex]	Mexico	515	Oil	Mexican government
4. Petroleo Brasileiro [Petrobras]	Brazil	348	Oil	Brazilian government
5. Yacimientos Petroliferos Fiscales [YPF]	Argentina	273	Oil	Argentine government
6. International Petroleum Co., Ltd.	Venezuela, Peru, Colombia	259*	Oil	U. S.
7. Chile Exploration Co.	Chile	160	Copper	U. S.
8. Mene Grande Oil Co.	Venezuela	140	Oil	U. S.
9. Braden Copper Co.	Chile	103	Copper	U. S.
10. Esso Petrolera Argentina	Argentina	100	Oil	U. S.

*1960 figure

. . . and big 10 manufacturers

	Country	Est. 1961 gross sales [U.S.\$ millions]	Products	Majority ownership
1. Grupo S.I.A.M. di Tella	Argentina	128	Autos, elec. equipment	Argentine
2. Cia. Cigarros Souza Cruz	Brazil	116	Cigarettes	British
3. Industrias Reunidas F. Matarazzo	Brazil	100	Chemicals, foods	Brazilian
4. Cia. Siderurgica Nacional	Brazil	97	Steel	Brazilian government
5. Industrias Kaiser Argentina	Argentina	95	Autos	Argentine
6. Willys Overland do Brasil	Brazil	83	Autos	Brazilian
7. Cia. Swift de la Plata	Argentina	76	Meats	U. S.
8. Volkswagen do Brasil	Brazil	72	Autos	German
9. Fevre y Basset-Chrysler Argentina	Argentina	68	Autos	Argentine
10. Altos Hornos de Mexico	Mexico	64	Steel	Mexican government

major Latin countries lined up against U.S. efforts to exclude Castro's Cuba from the fairly ineffectual but venerable Organization of American States. The U.S. was able to muster a majority only by purchasing the vote of tiny, dictator-run Haiti with promises of continued aid.

1.

Business in a vise

Until a few short years ago, Latin America was the new mecca for U. S. investment. Oil companies laid out more than a billion dollars for concessions in Venezuela, and flocked into Argentina. Kaiser and Willys-Overland put up automobile manufacturing plants in Argentina and Brazil. The auto industry buildup became the biggest factor in Brazil's recent industrial growth, creating an entire new class of highly skilled and highly paid workers.

Sears, Roebuck & Co. spread a chain of retail stores across Latin America. Deltec, S.A., dealing in securities, sent hundreds of stock salesmen into Brazil's interior to sell Willys stock shares door-to-door. U.S. investors put big money into copper in Peru, sulphur in Mexico, iron in Venezuela, and hundreds of manufacturing plants in every corner of the continent.

Dried up. Now all this has changed. Direct U. S. private investment in Latin America tumbled from a peak of \$1.2-billion (including oil) in 1957 to \$140-million last year. Most of that was in the first half of 1961; the flow practically stopped in the second half—after failure of the Cuban invasion signaled the decline of U. S. ability to shape the course of events in the hemisphere.

Now oil companies in Venezuela are taking capital out of the country, not bringing it in. Kennecott Copper Corp. and Anaconda Co. shied away from a contemplated \$400-million investment in Chilean copper, after the government backed off from submitting to the Chilean Congress, as politically unfeasible, a bill to limit taxes on copper companies for 20 years to the present high rates.

Most new manufacturing investment is by companies that are "locked in" by present investments,

\$24,245,500 of INDUSTRY GROWTH AIN'T HAY!

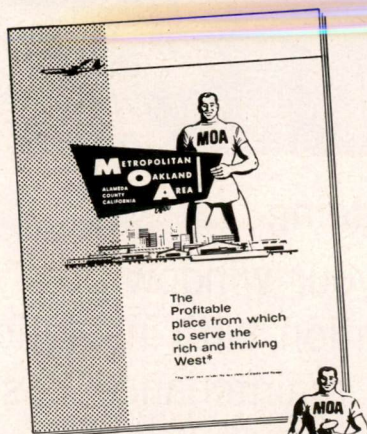
In the first half of 1962, the Metropolitan Oakland Area—Alameda County, California—gained \$24,245,500 in industrial growth. This included 36 new industries locating here and 80 expansions of existing ones.

Almost any county or city can persuade an industry to locate within its borders, but when existing industries *expand*—that's proof the community really has something.

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Good indication of the worth of the Metropolitan Oakland Area—Alameda County, California—is the fact that General Motors is building an assembly plant on 416 acres for its Buick-Oldsmobile-Pontiac division. This big plant will be in production in time for the 1964 models.

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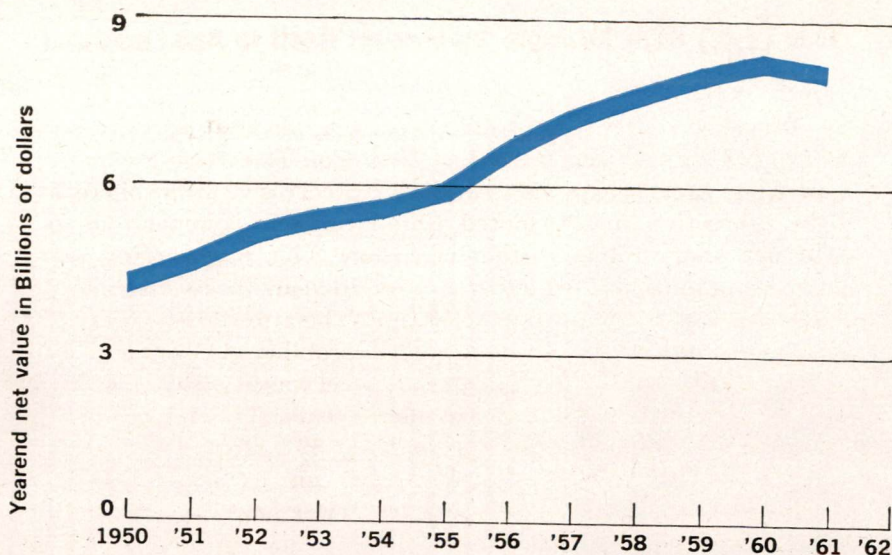
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UNION CITY	RURAL ALAMEDA COUNTY	

U.S. private investment in Latin America: Its value levels off



Data: Dept. of Commerce

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or forced by new government regulations—restricting certain imports, for example—either to build a plant or get out of the market. This is the case in Argentina, where U.S. companies are going ahead with auto manufacturing projects.

The steep decline in private capital inflow is a blow to the Alliance for Progress, which counted on private investment to supply one-third of the foreign funds needed by Latin America in the next 10 years.

Uncertainty. There are various reasons for the higher oil taxes in Venezuela, exchange controls and expropriation of U.S. utilities in Brazil, import curbs in Colombia. Part of the trouble can be traced to a slowdown in economic growth because of sagging prices for coffee and other export commodities. But, basically, what frightens off U.S. investors is political instability, and a leftward swing in politics.

U.S. businessmen are accustomed to doing business under shifting political regimes in Latin America. A veteran in Argentina says: "Our plans aren't affected by day-to-day political crises; we're here for the long haul." Yet he admits he's beginning to get worried. A colleague explains why: "U.S. business can operate in Latin America under almost any set of rules—but we have to know what the rules are going to be."

Esso Standard Oil and other U.S. companies, for example, attracted by investment incentives in the Dominican Republic, are planning new plants there. But most of them won't

put any hard cash into that tense country until they see the outcome of proposed general elections.

Climate of agitation

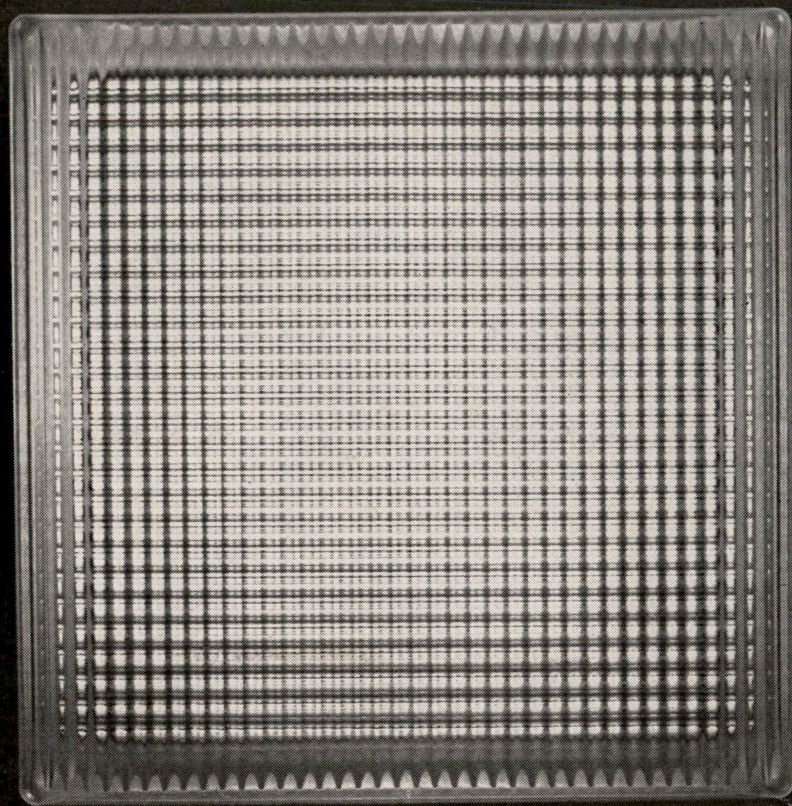
U.S. business is operating in Latin America today in a climate of agitation against foreign capital and, more and more, against the system of private enterprise itself.

Often, hostility to foreign capital comes not only from leftists but also

businessmen. In Brazil, a leading industrialist subsidized a Communist campaign—including student demonstrations—against American Can Co. when it proposed a new plant there. Opposition by Colombia's tobacco monopoly kept machinery for a plant of British-American Tobacco Co. standing on the docks in England for two years, and finally killed the project.

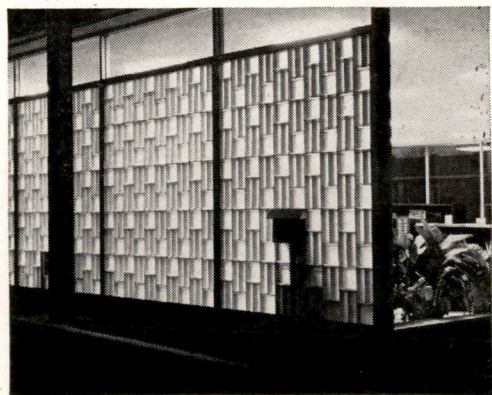
Case of Brazil. Feeling against foreign capital and in favor of government intervention in the economy runs highest in Brazil. State governments have seized several U.S.-owned utilities, and the central government is now negotiating a takeover of all foreign-owned utilities, valued at more than \$1-billion. The mines ministry has virtually halted new foreign mining development, and takeovers are threatened in telecommunications and air transport.

Leftists, backed by some industrialists, rammed through Congress a law drastically limiting profits remittances; this will severely curb foreign investment. A bill toning

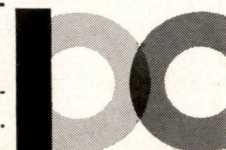


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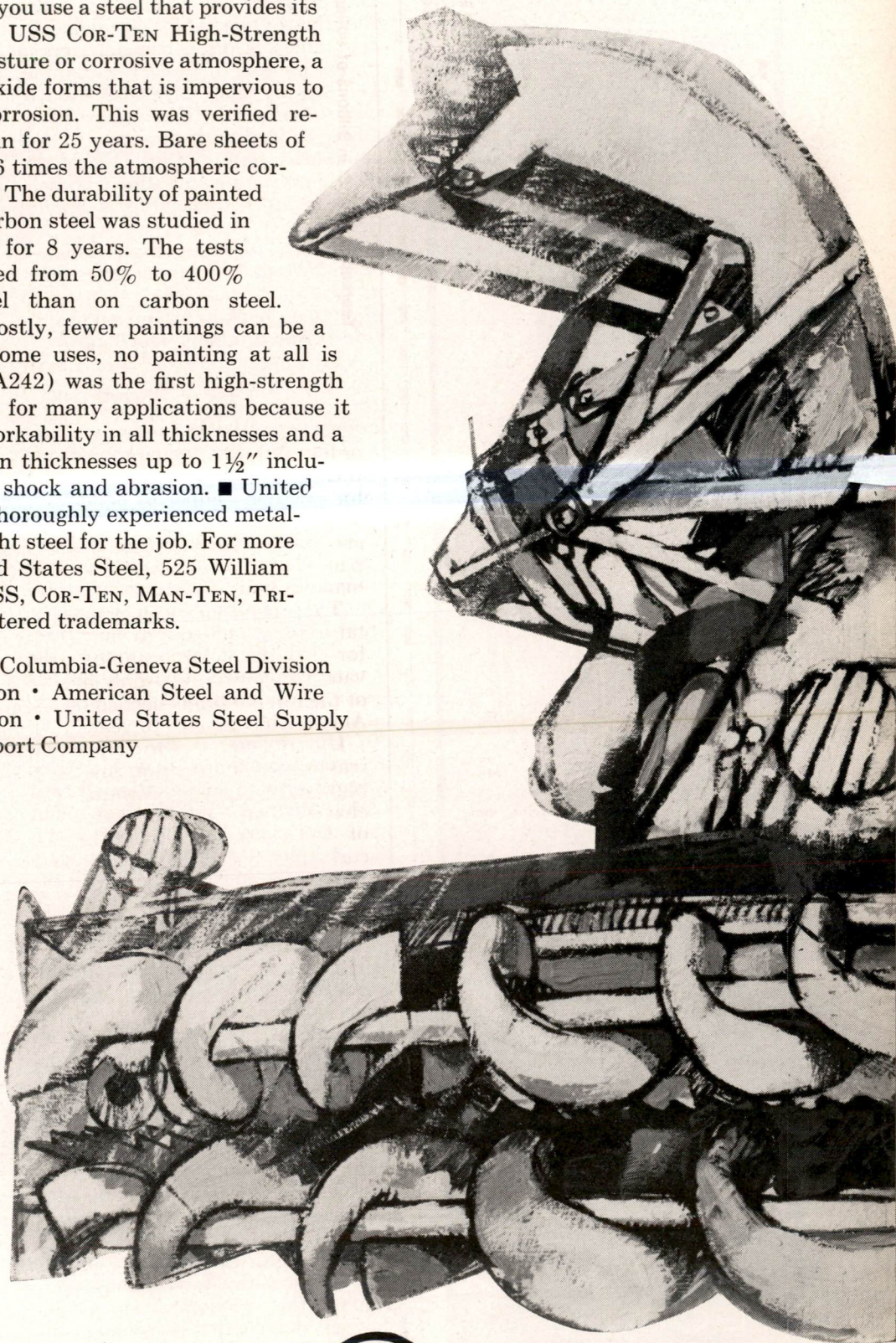
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Strength Spectrum of USS Structural Steels	Min. yield point psi
A-7 Carbon Structural Steel.....	33,000
A-36 Carbon Structural Steel (9% extra strength, weldability).....	36,000
A-440 USS MAN-TEN Steel (High strength, toughness).....	50,000
A-441 USS TRI-TEN Low Alloy Steel (High strength, weldability and toughness).....	50,000
A-242 USS COR-TEN Low Alloy Steel (High strength, corrosion resistance, weldability).....	50,000
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USS "T-1" and "T-1" type A Construc- tional Alloy Steels (Ultra high strength, resistance to impact abrasion, atmospheric corrosion resistance, weldability).....	100,000*

*Min. yield strength



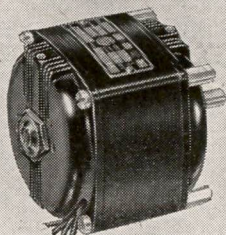
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down some provisions is still pending—but meantime foreign capital inflow has practically stopped.

Concentrated. There are some reasons, of course, for the widespread bias against private enterprise—both national and foreign—in Latin America. Ownership of domestic companies is often concentrated in a wealthy few. In Chile, for example, 11 banking and industrial groups, with interlocked directorships liberally sprinkled with senators, control companies representing 71% of domestic corporate investment. Small-investor stock ownership is limited in scale.

Owners, receiving high profits—often 25% to 35% on net investment in manufacturing—are reluctant to plow them back in expansion to provide better products, more jobs.

A growing number of Latin American companies, it's true, have progressive management, good labor relations, tens of thousands of shareholders. But the image of private enterprise created by the tightly held, old-style companies prevails.

Complaints. Foreign companies draw other types of complaints. Latins charge U.S. oil and mining companies with "taking away our resources"—ignoring the fact that the "resources" would never have been developed if it weren't for the foreign companies. Local employees resent top salaries paid to U.S. management and technical personnel, often in dollars. A Brazilian businessman complains that big U.S. companies with subsidiaries all over Latin America "rotate their plant managers every two or three years, like diplomats"—with managers never coming in close touch with the local community.

Beyond these specific gripes, the sheer volume of foreign investment can generate political resentment when it looms too large in a country's economy. Some observers put the "saturation point" at 25% to 30% of the total. Brazil, where foreign investment has accounted for 23% of private capital formation in recent years, may be near this point.

Local links. U.S. companies are taking some steps to offset this resentment. One way is to link up with local partners, either as minority or majority shareholders. In most countries, though, that means joining with the wealthy few already controlling the economy; stock exchanges don't exist in some countries, and in most others the market is thin.

In Mexico, where the government encourages mixed ventures, many U.S. companies now have local partners. Mexicans are majority



In Venezuela's oilfields, high taxes and price curbs squeeze U. S. companies.

shareholders in affiliates of such companies as Chrysler, Celanese, Goodrich, and American Metal Climax. Last year, Union Carbide Corp. floated locally a public stock issue for a new company.

Some U.S. companies are also moving local personnel into top positions. Creole Petroleum Corp. now has four Venezuelan directors. Creole and other oil companies are providing scholarships to train more Venezuelan engineers and geologists—but with only a handful being graduated annually, it will take years to replace more than 1,000 foreign engineers now employed.

Divided. Not all U.S. companies are enthusiastic about such moves. Many say Latin American investors want profits paid out in dividends, not plowed back into the business.

Attitudes on local autonomy in decision-making vary widely. An official of Willys-Overland do Brasil, which has a majority of Brazilian capital, says: "This is a Brazilian company, run in Brazil, not from Toledo—and its management thinks like Brazilians." But the manager of a west coast mining company insists: "This is a subsidiary, and the management represents the parent company. I don't see how we could tell stockholders we were turning over control to an autonomous local management."

Squeeze on profits

In addition to, and partly because of, the growing hostility to foreign capital, U.S. companies in Latin

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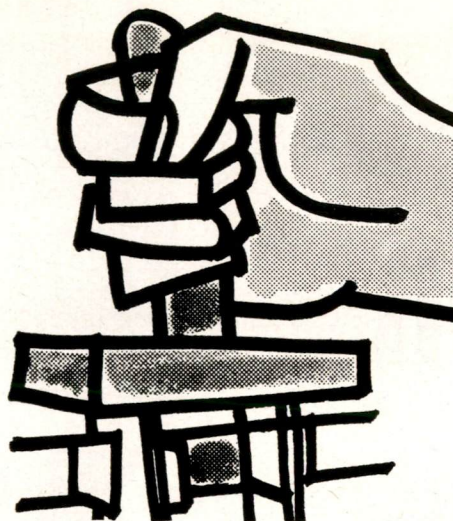
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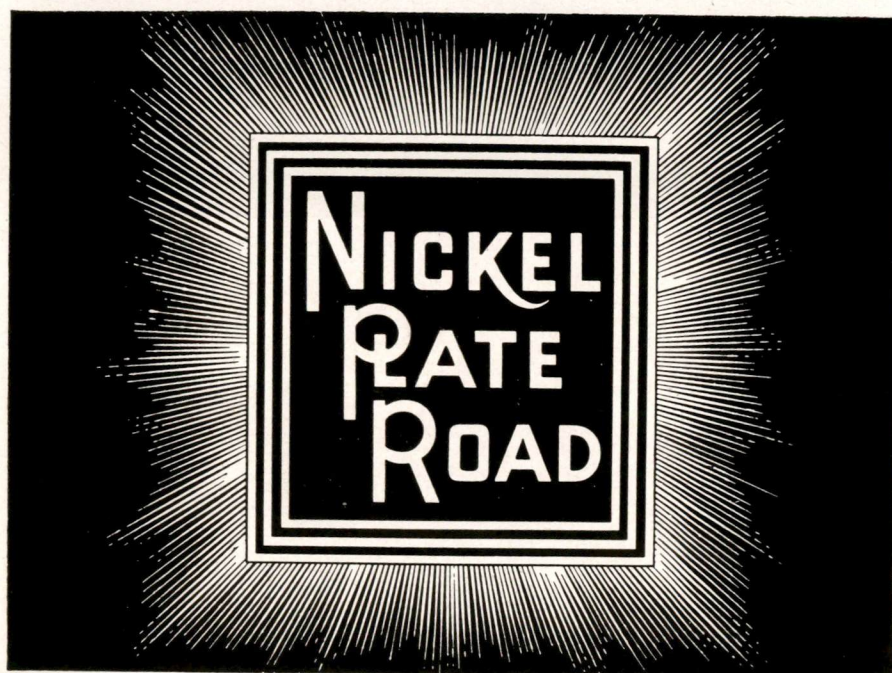
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America face a series of profit problems.

Recent takeovers of U.S.-owned utilities in Mexico, Colombia, and Brazil result basically from a squeeze on profits that stems from low, government-fixed rates.

Low profits, in turn, mean that utilities cannot invest in expanded and improved service. The outcome is government purchase or expropriation.

Taxes. Taxes add to the burden. Venezuela has boosted its taxes on U.S. oil companies to 65% of net income in recent years, and limited the prices at which they can sell their oil.

Chile imposed a new tax on copper companies last year to meet government payrolls, despite a 1955 law providing that no new taxes would be applied. Kennecott's Chilean subsidiary paid taxes of 82% on 1961 income.

Money stringency. Shortages of foreign exchange and restrictions on profit remittances are a severe problem. Payments on Chile's foreign commercial indebtedness have been virtually halted since last year end because of a dollar shortage and uncertainty as to official exchange policies.

The head of one U.S. company in Santiago says: “I'm sending twice-weekly reports to the home office saying I just don't know what the official policy is on exchange. They think I'm lying down on the job.”

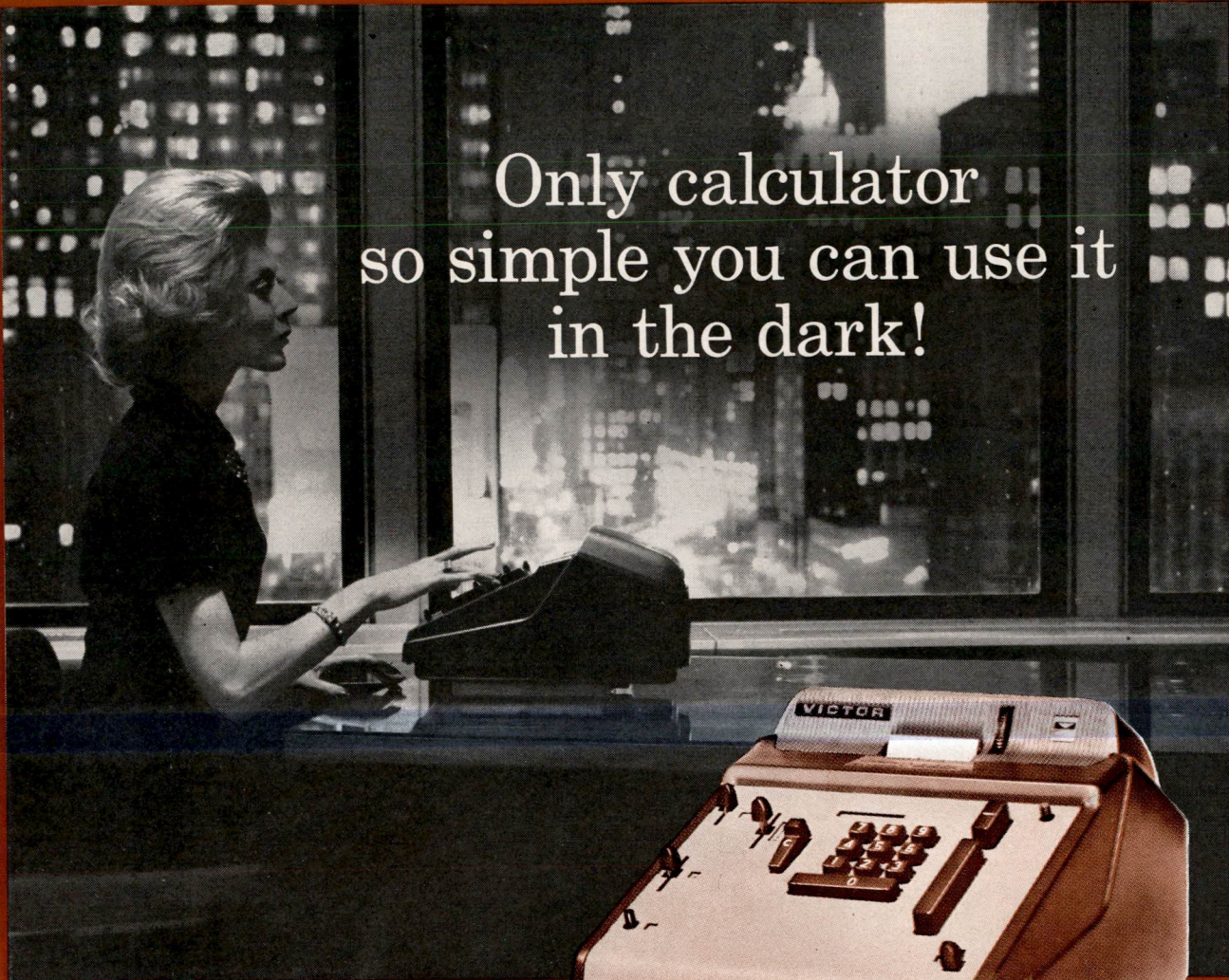
U.S. companies building plants in Latin America usually put their dollars into machinery and equipment, and borrow working capital locally to reduce the risk of exchange controls and currency devaluation. But this aggravates the chronic shortage of credit, brings rising resentment.

The credit shortage is so severe that Argentine companies have been financing capital investments with short-term bank loans. In credit-short Colombia, U.S. companies are remitting dollars to their subsidiaries to use as working capital.

Alluring. Despite these risks, U.S. investment will continue to flow into some parts of Latin America this year. The reason is that the area is a growing market, with a pent-up demand for some products.

To meet unsatisfied demand for automobiles, for example, auto makers in Brazil are plowing back profits to expand production. “Nobody knows yet just how big the automobile market here is,” says an executive of one U.S. auto manufacturer in Brazil. In Argentina, the bulk of an expected \$308-million foreign investment this year will go

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into automobile plants, protected from outside competition by import restrictions, and selling locally produced compacts at skyhigh prices of \$5,000 or more.

Over-all, the Economic Commission for Latin America puts the combined Latin American market for autos at 1.8-million vehicles a year by 1975.

2.

An economic cure?

The trouble is that while Latin American economies are growing to meet this pent-up demand, they're not growing fast enough. In 1957, gross national product increased at an average 7% rate in Latin America; by last year this rate of increase had dropped to an estimated 4%. At the same time the average population growth rate has speeded up to around 2.9% annually.

This squeeze has brought the rate of economic growth per capita down to little more than 1%—far too scanty to improve the living standards of impoverished peasants and workers, and at the same time pro-

vide a margin for new investment.

Brazil's growth rate, which has been running around 6% annually, this year may fall behind the population increase of 3.1%.

Diminished earnings. One basic problem is the deterioration in terms of trade in recent years. Latin American economies are caught between declining prices of agricultural commodities and minerals they export, and rising prices of manufactured imports. Though the volume of exports increases, dollar earnings of Latin American countries from coffee alone fell from \$1,950-million in 1956 to \$1,380-million last year.

By one calculation, the average price of Latin American exports to the U.S. fell 20% from 1953 to 1961, while prices of U.S. exports rose 10%.

The accumulated price drop was equivalent to a cut of \$1.4-billion in Latin export earnings last year—more than the total aid funds received by Latin America for the year.

Flight of capital. Another problem is the continuing flight of capital, resulting from inflation and fears of political instability. Estimates of the amount of Latin American capital in the U.S., Switzerland, and elsewhere range from \$5-billion up to two or three times that figure.

The outflow from Venezuela alone was calculated at \$150-million last year, and from Mexico, \$125-million. Wealthy investors account for most of the capital flow, but in Brazil even

small family savings are going into purchase of dollars.

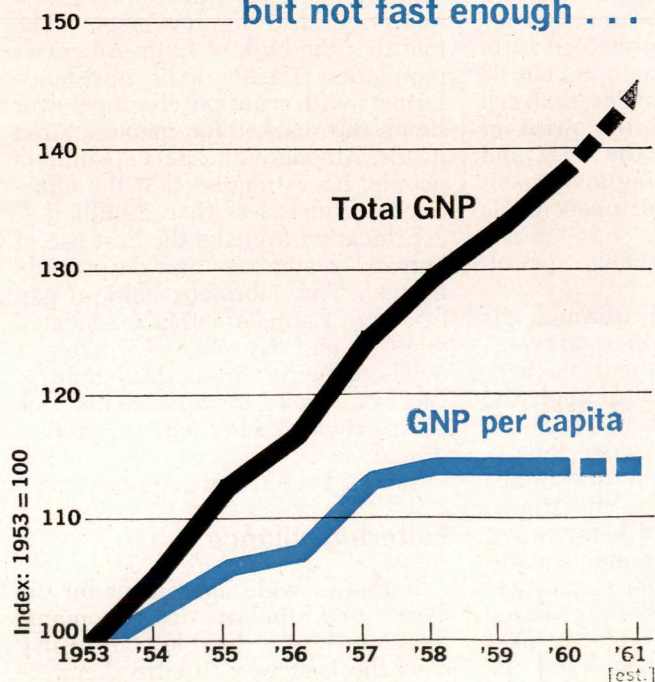
State-run. A host of problems derive from the basic fact that Latin American countries have never had really free economies. One form that government intervention takes is the operation of a vast array of government enterprises. Mexico's Pemex, Brazil's Petrobras, and Argentina's YPF are state-run oil monopolies. Several other countries have their own oil companies. Government steel plants such as Colombia's Paz del Rio and Brazil's Volta Redonda account for most of Latin America's steelmaking capacity.

Most railroads, and many electric power plants and airlines are government-owned. Other government enterprises range from a truck factory in Brazil to tin mines in Bolivia—and even a chain of hotels and beach resorts in Venezuela.

Many of these ventures are operating deeply in the red. Argentina's railroads, for example, will lose some \$200-million this year—half the entire national budget deficit. Argentina has sold off some government companies set up by former dictator Juan Peron. But in most countries the trend is toward more government ownership—in Brazil, the government now accounts for 40% of all capital investment.

Burden of controls. Besides direct government ownership, government controls—often brought about by pressures from businessmen themselves—result in economic distor-

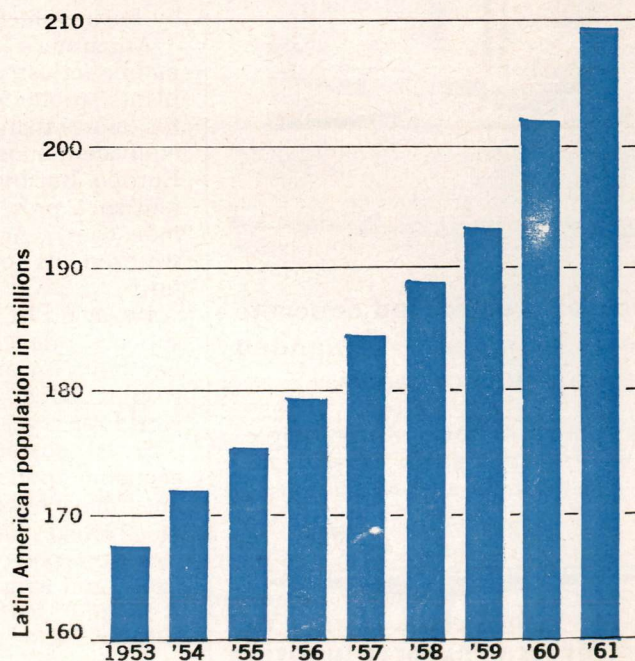
Economic growth is fast— but not fast enough . . .



Data: ECLA, United Nations, Business Week

BUSINESS WEEK September 22, 1962

. . . to keep pace with population



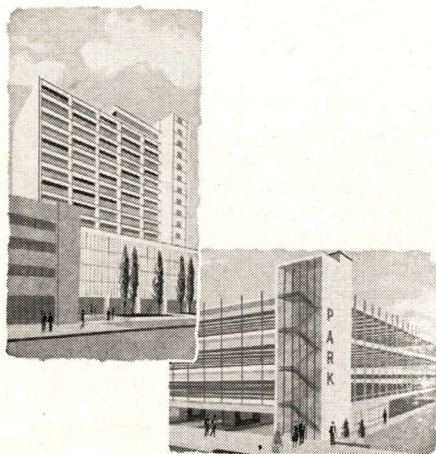
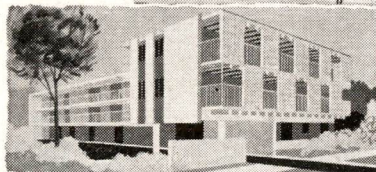
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SPECIAL REPORT 171

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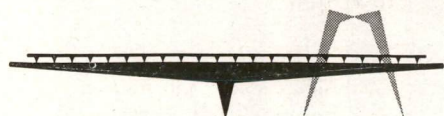
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Latin America's economic bind: Still buying dear — but selling cheaper

115

Index of prices for Latin American foreign trade — 1953 = 100

105

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1955

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'57

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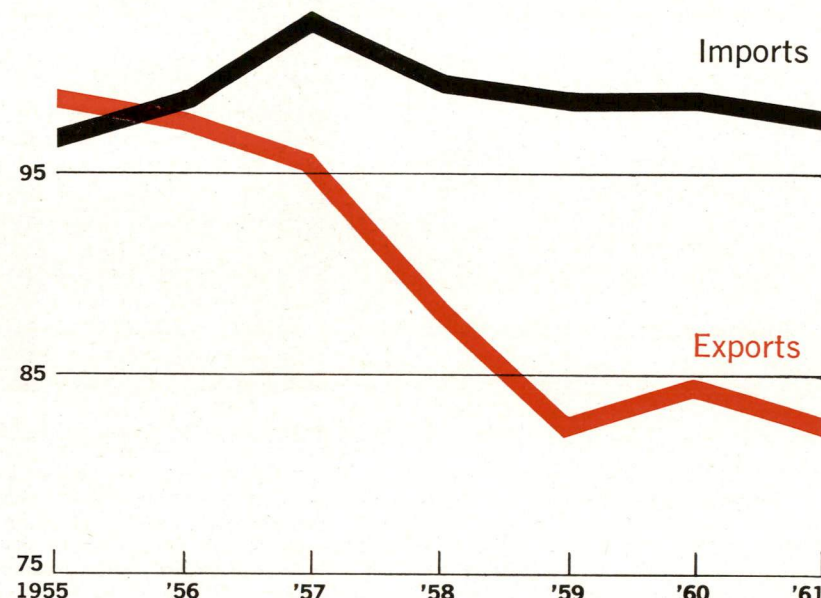
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Data: Int'l Monetary Fund

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tions and misallocation of private resources.

A good part of Latin America's industry is inefficient and uneconomic—protected from foreign competition by high tariffs and import curbs, and from internal competition by monopolies and pressures exerted by businessmen on governments.

Argentina's highly protected automobile industry, for example, has 22 plants, producing vehicles that sell for more than twice the price of equivalent models in the U.S. and Europe. But by diverting investment into such protected but uneconomic industries, Argentina has nearly wrecked its once-thriving agriculture.

By contrast Brazil, through its support prices for coffee growers, has built up an enormous stock of surplus coffee—enough to supply the world for a year.

Social obstacles. To develop its economic potential, Latin America must make a tremendous investment in "social overhead"—highways, electric power, communications, dams, and irrigation. These are now economic bottlenecks—in Mexico City and Rio, for example, it takes years to get a telephone—and the cost of eliminating them runs high.

Electric power alone will require an investment of \$13-billion in the next 10 years.

The social structure itself is an obstacle to economic progress. Semi-feudal landowners prefer to collect rents from tenants who use age-old farming methods, rather than invest in agricultural improvements. The fact that the bulk of Latin America's population is made up of subsistence farmers with scant purchasing power limits the market for manufactured goods. Among Venezuela's 7-million people, it's estimated that the effective market is less than 2-million.

Education to make the best use of human resources is desperately needed. The enormous cultural gap between Latin America's educated minority and the mass of workers is nowhere better dramatized than in Rio, where elegant apartments look down on flickering votive candles placed on Copacabana beach by followers of primitive macumba rites.

Faltering alliance

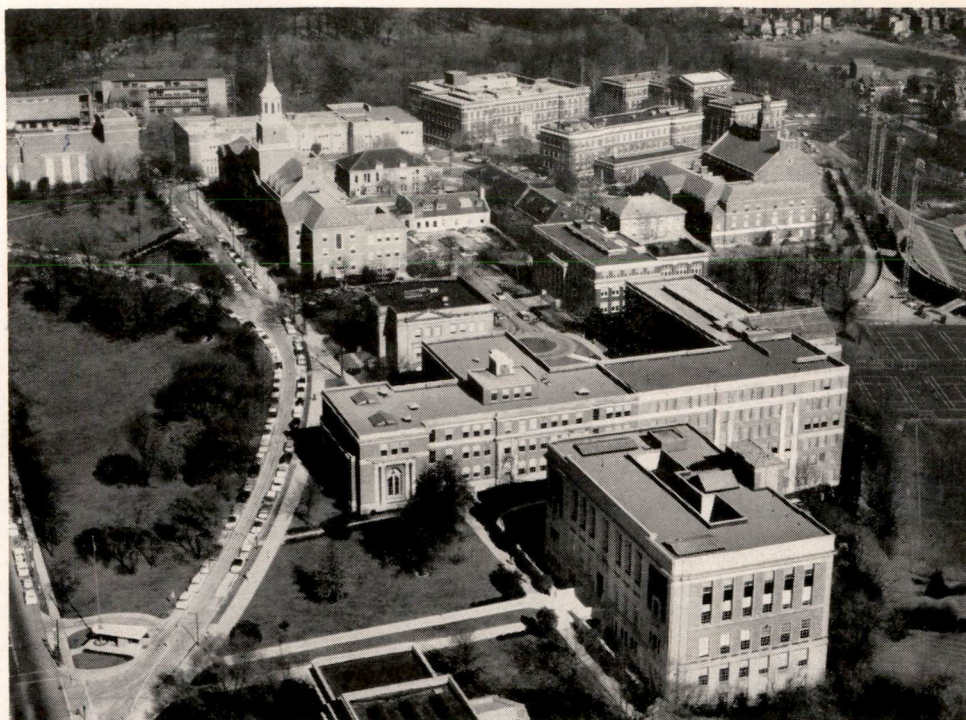
If there's wide agreement on the causes of Latin America's economic ills, there's considerable controversy over the best way to cure them.

Throughout Latin America, to-

Compare the advantages of Cincinnati

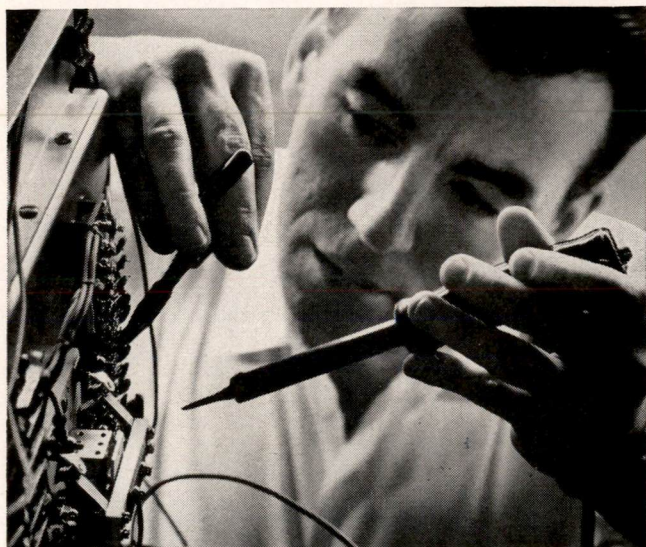
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BASE MAP COPYRIGHT BY THE H. M. GOUSHA* CO.



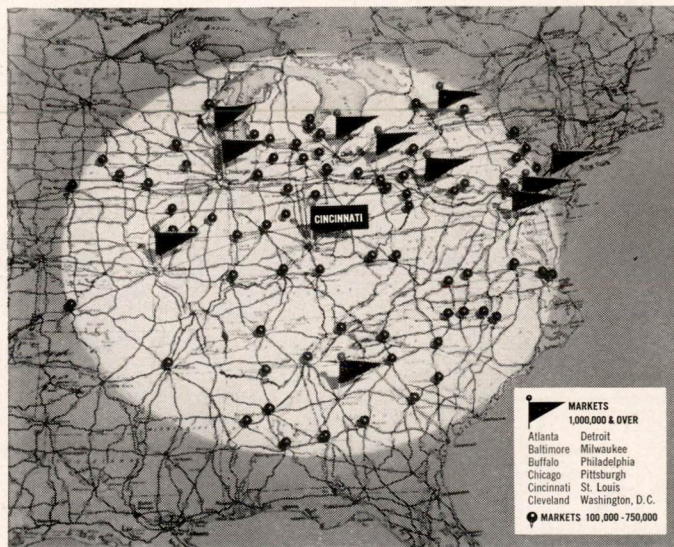
Compare the people here. People in this area are unusually solid, straight-thinking, with made-in-America ideas. Most were born here, own their own homes. They still take the craftsman's pride in doing a good day's work. This is reflected in the stability and responsibility of labor here, in the record of industrial harmony in this area of diversified industry.

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Powerhouse for Latin industry

Poverty and political unrest are only two chapters in the Latin American story. Another vital part—helped by U.S. private capital, and dramatic in its growth—is industrialization to diversify the economies of countries long dependent on one or two minerals and crops.

Most concentrated area of industrial expansion is a narrow belt (map), now spotted with hundreds of chemical, textile, auto, steel, and electronic plants. This industrial "heartland" stretches 1,200 miles from Belo Horizonte in Brazil, through Sao Paulo, Brazil's business capital, and Montevideo in Uruguay, to European-looking Buenos Aires. Three of its cities are in the multimillion population class: Rio de Janeiro, Sao Paulo, and Buenos Aires—which, with 6-million people, makes up nearly one-third of Argentina's population.

Blessed by a temperate climate, fairly good transportation, plentiful resources and skilled Italian and German workers, this booming area has no counterpart in Latin America; its closest rival is Mexico City and Monterrey, taken together.

The area stands to gain greatly if the Latin American Free Trade Assn. (LAFTA) lowers tariff barriers between Argentina and Brazil, as well as Uruguay and its other six members. It could then form the basis for a flourishing industry.

Brazil's Chicago. The industrial powerhouse of the area, and of Latin America, is Sao Paulo,

a businesslike city that reminds you of Chicago. Last year, it turned out 64,000 automobiles and 91,000 trucks. It bristles with plants making machine tools, appliances, construction machinery, chemicals, electrical equipment, foods, pharmaceuticals. It's moving now into manufacture of heavy industrial equipment; a new General Electric plant at neighboring Campinas will make some of the heavy turbines for Brazil's giant Urubupunga hydroelectric project.

The impoverished, backward Northeast [BW May 12 '62, p58] is only half Brazil's story. Sao Paulo is the other half. Sao Paulo state accounts for 32% of Brazil's national income, provides half the federal government's tax revenues, has just completed a \$700-million, four-year development plan.

A special breed of highly independent businessmen—some of them sons of immigrants with such names as Matarazzo, Pignatari, Martinelli—has made Sao Paulo what it is. A Brazilian official admits ruefully: "The Paulistas' sense of private enterprise is so strong it survives even government attempts to assist it."

U.S. companies also play a big role in Sao Paulo's development. About 100 of them have affiliates in the area: Willys-Overland in autos; General Motors, Ford, and International Harvester in trucks; Du Pont in chemicals; LeTourneau Westinghouse in construction machinery, and others. Brazilian companies also manufacture products under U.S. licenses.

Building up. Argentina, too, is industrializing rapidly. Former dictator Juan Peron channeled its agricultural export earnings into industry to win a following of urban workers. Now the country has put up its first steel plant, and a rash of automobile plants is springing up.

A group of U.S. companies headed by Cities Service and Continental Oil is now putting up a \$70-million petrochemical complex at Rosario. Other U.S. interests range from Deere & Co. in tractors and farm machinery to Remington Rand in typewriters and office machines.

day's economic orthodoxy is the doctrine of government planning evolved since 1948 by the U.N.'s Economic Commission for Latin America (ECLA), headed by Argentine economist Raul Prebisch. Prebisch emphasizes what the economists call the "structural" obstacles to economic development—unfavorable terms of trade with industrial countries, land tenure and tax systems, concentrations of economic power, inflation resulting from ups and downs in export earnings.

Prebisch therefore calls for government planning, with a system of incentives, as "the only way to utilize fully the enormous potentialities of private initiative."

The Alliance for Progress follows ECLA's approach, stressing central planning and government-to-government assistance. It emphasizes fiscal, agrarian, and social reforms as a basis for development.

More conservative economists, and many businessmen both in the U.S. and Latin America, disagree with all this. They point out that the Alliance approach will increase government intervention in Latin economies. This, they argue, will only compound the basic difficulty—the lack of any really free economies in Latin America. Besides this, agrarian and tax reform may frighten off investors. The result could be a further reduction in private investment, which was expected to contribute about two-thirds of all domestic investment and one-third of foreign investment in Latin American countries under the 10-year Alliance program.

Double aim. In the Charter of Punta del Este, which set up the Alliance, the U.S. made two major commitments on the economic side:

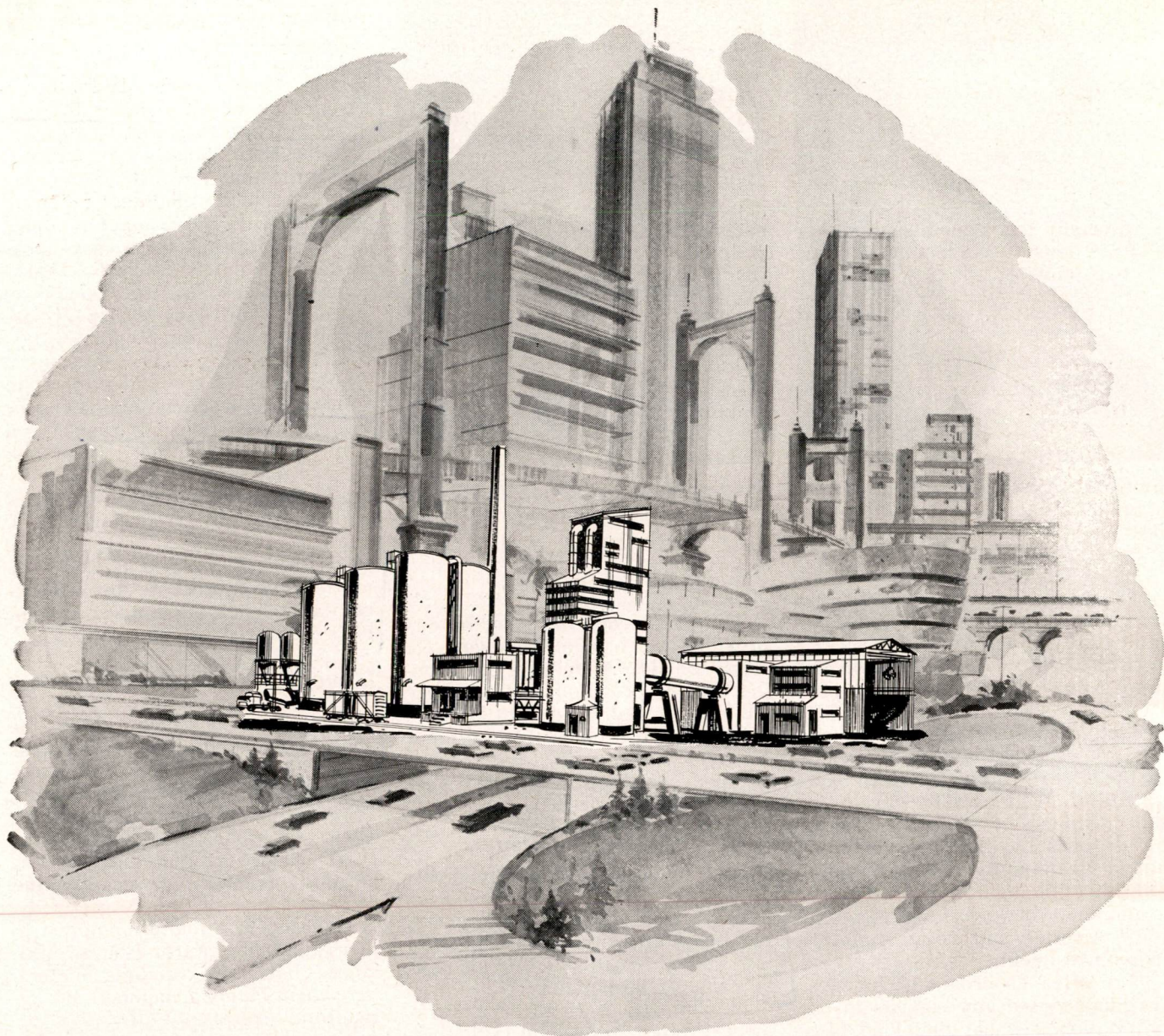
- To support international agreements on market stabilization for Latin American export commodities—a reversal of previous U.S. policy.

- To supply the major part of an estimated \$20-billion in foreign financing needed for Latin American economic development over the next 10 years.

The first major step in carrying out the first of these aims is the world coffee pact negotiated last month in New York. Abandoning its former opposition to world market-regulating schemes, the U.S. is participating in the pact. The agreement may serve as a model for later accords on cacao and other Latin American products.

More wanted. To encourage exports of Latin American manufactured goods, Prebisch and others are now calling for further, one-sided





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Edwin M. Martin, Assistant Secretary of State for Inter-American Affairs, carries out U.S. policy in hemisphere.



Teodoro Moscoso, Alliance for Progress chief, coordinates efforts to improve living standards in Latin America.

concessions from the U.S. and other industrial countries.

In Santiago, a top ECLA official argues that Alliance aid won't provide Latin America with the dollars needed for capital goods imports. He suggests preferential treatment by the U.S. for Latin American manufactured goods, on the model of the treatment of African manufactured goods by the European Economic Community. This, he contends, would amount, in practice, to a guarantee of U.S. investments in Latin America, and would stimulate more investment.

"No leftist government," he says, "is going to see any benefits in expropriation if it has that kind of a market in the U.S."

Bogged down. Financial aid under the Alliance, meanwhile, has bogged down in bureaucratic inertia at both the U.S. and Latin American ends of the pipeline. Of more than \$1-billion committed in the first year of the Alliance, only a small part has actually been disbursed.

There are a number of reasons for the slowdown.

"Basically, the trouble is that the U.S. just hasn't learned yet the techniques of development aid," says a U.S. official in Colombia. He points out that this is a new field—the Marshall Plan in Europe consisted essentially of providing balance-of-payments assistance for reconstruction.

In Europe, the economic foundations and knowhow already existed, he adds, "but in Latin America, we are trying to create these things all at the same time."

The Latin countries, too, haven't provided much of a framework for Alliance aid. Long-term development plans prepared by Colombia, Chile, and Bolivia are little more than sets of economic projections. To put them into effect will require detailed, project-by-project engineering studies for highways, dams, irrigation systems, and other installations.

Lack of such detailed plans holds up progress. Colombian officials admit they are having trouble in spending pesos on development projects fast enough to qualify for aid dollars already authorized.

In Chile there is bitter, government-inspired criticism of U.S. slowness in disbursing aid. As a result, the U.S. has eased its requirement for approval of individual development projects before aid money is released. A \$40-million aid package is being advanced directly to the government development corporation for projects to be worked out later.

Balance-of-payments support, instead of development, is likely to siphon off substantial aid money. Of the funds authorized in the first year of the Alliance, around \$400-million went for export refinancing or straight balance-of-payments support loans.

On the U.S. side, too much responsibility for aid programs is left to specialists, unequipped to devise coherent, over-all plans. "Any aid man here," says a U.S. official in one Latin country, "will tell you what the country needs more of, from hogs to classrooms—depending on

his specialty." What's lacking is priorities to yield greatest results with funds available.

One specialist wanted \$80-million put in African palm plantations in Colombia, to ease its edible oil shortage. But that was headed off.

Showcases. Some U.S. officials now urge that the Alliance, instead of scattering development funds all around, could get a greater impact by concentrating on a few areas as development "showcases." Washington's plans for the Dominican Republic [BW Aug. 18'62, p47] are pointing in that direction.

Now, the U.S. is concentrating a whole series of new aid projects in Colombia: investment guarantees for private U.S. housing projects; a joint U.S.-Latin American private industrial venture underwritten by the U.S. government; possible stock underwriting by the World Bank and International Finance Corp. Meanwhile, the World Bank is trying to enlist European governments in a consortium to finance Colombia's 10-year development plan.

Moves for integration

One promising development is the strengthening of economic relations among the Latin American countries themselves.

This includes the creation of the Latin American Free Trade Assn. (LAFTA), whose nine members are currently negotiating a second round of trade concessions in Mexico City. Last year's first round amounted to little more than putting on a multilateral basis the existing bilateral agreements among members on agricultural exports.

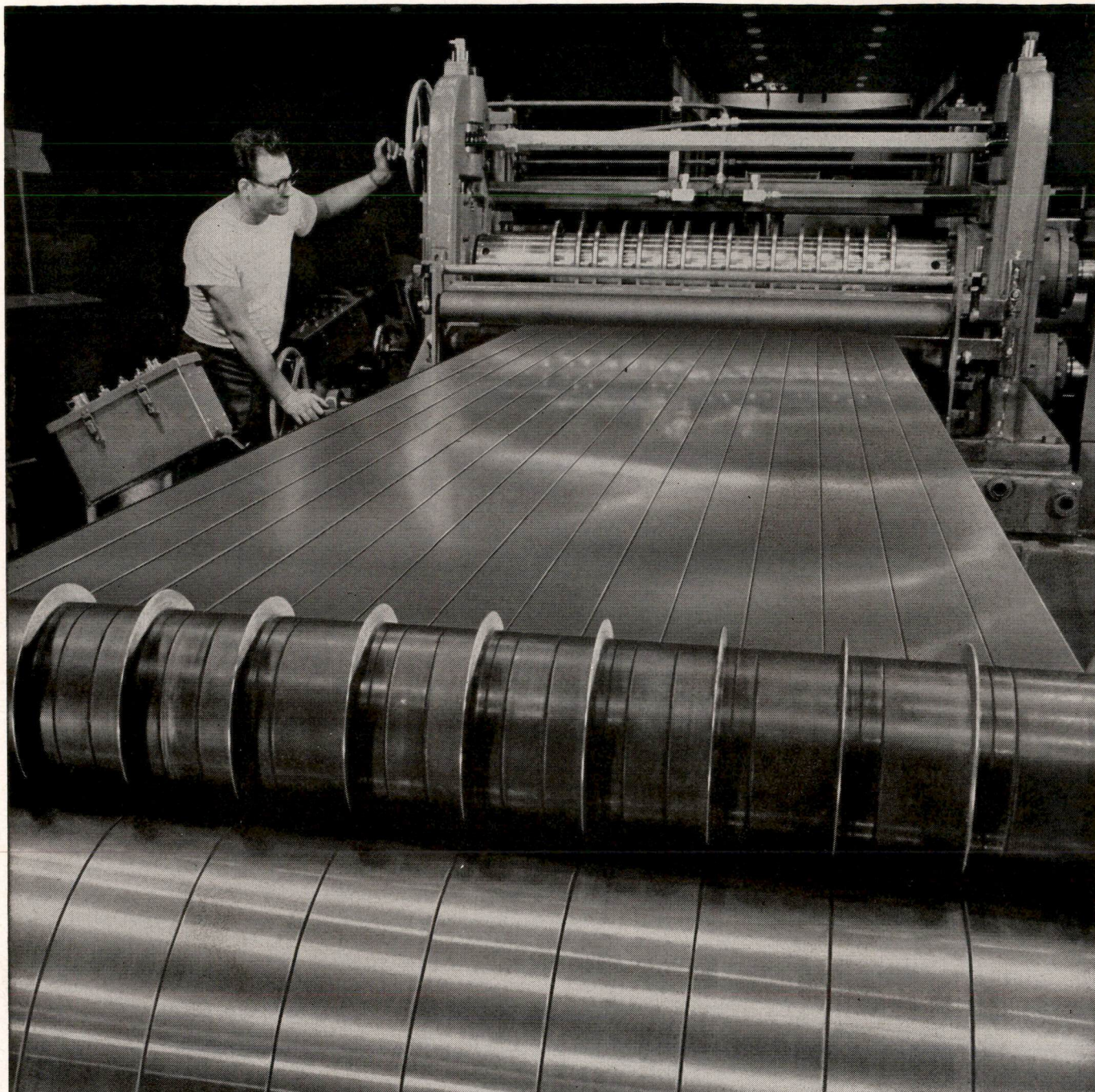
Nevertheless, there are signs that LAFTA may eventually stimulate an important volume of trade, and enable Latin countries to supply each other with goods now imported from the U.S. and Europe. Some straws in the wind:

- Brazil's Cia. Vale do Rio Doce recently contracted to supply Argentina's Sociedad Mixta Siderurgica with 150,000 to 300,000 tons of iron ore per year, under LAFTA duty exemptions.

- Chile is importing cotton from Mexico, Brazil, and Peru instead of the U.S., is building a plant to double paper output and plans to triple its cellulose capacity to export to LAFTA countries.

- As a result of LAFTA concessions, Remington Rand is importing typewriters from its Brazilian plant into Chile, other products from its Argentine plant into Brazil.

Smaller version. The little Central American Common Market, which



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has already gone a long way toward integrating economies of countries in that area, took in Costa Rica as a fifth member in July. Phelps Dodge plans to put up a copper wire factory in El Salvador, partly financed by the new Central American Bank of Economic Integration.

3.

Political turmoil



The economic obstacles that Latin America must overcome to break out of its economic doldrums are formidable. But in the long run the success of Latin American hopes depends even more on a political foundation. Can the countries of the area achieve the political stability needed for quick and orderly development, or will they bog down in recurring crises or revolutionary adventures?

Politically, Latin America has always been an unstable region at best, with most of its countries alternating between brief periods of representative government and long periods of dictatorship. In the last year—despite earlier signs of progress—its political situation has taken a turn for the worse.

Year of troubles. A few years ago, Latin America appeared to have entered a new era of democratic government, when such dictators as Argentina's Juan Peron and Venezuela's Marcos Perez Jimenez were thrown out and replaced by civilian regimes. When the charter of the Alliance for Progress was signed in August last year, only three old-style dictatorships remained—in Paraguay, Haiti, and Nicaragua.

The ink on the charter was hardly dry, however, when the resignation of Brazilian Pres. Janio Quadros and a threatened military clash there threw Latin America's biggest country into a political crisis from which it hasn't yet recovered.

Since then, the armed forces have toppled presidents in Ecuador, Argentina, and Peru, while only direct U.S. intervention prevented a military coup in the Dominican Republic. Venezuela has had two bloody revolts this year, involving both Communists and marine garrisons. Other governments are harassed by serious rioting, even guerrilla activ-

ity. Cuba has moved openly into the Communist camp.

Patchwork. Today's political map of Latin America is a patchwork of varied regimes.

Even in countries that hold freely contested elections, democracy is often restricted. In Brazil, literacy tests bar a big part of the rural population from voting. Political parties are practically devoid of principles and program; they operate like big-city machines in the U.S., dispensing patronage and favors. During the past three years, the Venezuelan government has been forced by terrorist activities to curtail civil rights.

Double threat. In the turmoil of the past year or so, two developments stand out that bring into question Latin America's political future:

- The shift of Argentina and Peru from democratic to military-dominated governments—along with threats to other regimes from both right and left—has raised doubts as to the stability of democratic regimes.

- The Cuban revolution has added a new ingredient to Latin American politics—the possibility of extreme leftist government as an alternative to democracy.

Not immediate. So far, this is only a possibility and, to most observers, the threat of a Castro-style revolution outside Cuba is not immediate. Besides the unsuccessful leftist insurrections in Venezuela, attempted guerrilla uprisings in Ecuador and Peru have been easily put down. A few small guerrilla bands still remaining in Venezuela and Guatemala are making no headway.

The Communists themselves aren't making any important gains numerically. But they are extending their influence through alliances and infiltration of other parties. In return for Communist support, Pres. Joao Goulart of Brazil handed them control of that country's biggest labor organization. A legislative coalition with Venezuela's second-biggest party has served as a shield for Communist subversion during the past two years. In Argentina, Communists are infiltrating Peronist unions.

Leftward drift. Even with no revolution in the offing, however, there's a steady drift throughout the hemisphere toward the left in domestic politics, toward neutralism in international affairs.

Those close to the situation in many Latin American capitals echo these words of a Lima observer: "A mass of undefined opinion, leftist but not consciously Communist, has developed in Latin America. People are neutral in the struggle between

East and West—they feel that Latin America has gotten nothing in return for its past cooperation with the U.S., and they don't feel repelled by Soviet actions in Hungary and Berlin, which are far away. This mass of opinion could eventually be attracted to Communism, but it hasn't yet."

It's this leftward swing that may bring a "popular front" of socialists and Communists to power in Chile's 1964 elections. The same shift shows up in Brazil in seizure of foreign companies and efforts to curb foreign investment, in renewed diplomatic relations and closer trade ties with the Soviet bloc, in Pres. Goulart's acceptance of Communist support.

Blows to U. S. hopes

Faced by this prevailing leftward swing, the strategy of the present Administration in the U.S. is not to try to halt it completely, but to endeavor to direct it into democratic and peaceful channels through the Alliance for Progress.

As vehicles for this "peaceful revolution," the Administration pinned its best hopes on the political parties of the "democratic left"—a group of moderate leftist parties including Pres. Romulo Betancourt's Accion Democratica in Venezuela, APRA in Peru, Liberacion Nacional in Costa Rica, Partido Liberal in Honduras, Partido Revolucionario in the Dominican Republic, and others.

These parties, with reform programs roughly equivalent to a Latin American New Deal, looked made-to-order for the Alliance. They had built up a broad popular support among peasants, workers, and the middle class that seemed a guarantee of political stability. Under the Kennedy Administration, leaders of the democratic left such as former Pres. Jose Figueres of Costa Rica and Gov. Luis Munoz Marin of Puerto Rico have virtually become unofficial White House advisers.

Crumbling support. APRA's poor showing in last June's elections in Peru, with the military coup that followed, dealt a rude blow to these hopes. But it was not the first blow. Venezuela's Accion Democratica has split twice in the past two years. Betancourt's labor and peasant support is crumbling, and his shaky regime is practically paralyzed in the face of violent leftist opposition.

What's more, such parties as Accion Democratica and APRA have lost their appeal to the new generation of Marxist-oriented youth emerging from the universities (page 180).

The decline in strength and prestige of traditional political parties



leaves the U.S., in some countries, hard put to find democratic leaders to support. A split in Argentina's once-great Radical Party paved the way for a military coup, despite massive U.S. aid to former Pres. Frondizi. Now Argentine parties are reduced to impotent bickering.

One of the few growing demo-

cratic parties in Latin America is Chile's Christian Democratic Party—whose appeal is strongly leftist.

Military politics

The resurgence of militarism in Latin America is partly a reaction to the leftist trend. It was because of

Brazilian Pres. Goulart's leftist ties that military officers tried to keep him from office last year. Military men forced the governments of Ecuador and Argentina to break relations with Cuba this year.

There are only a handful of Latin American countries today where the military keep out of politics—Mex-

ico, Uruguay, Chile, and Colombia. Costa Rica eliminated the problem by abolishing its army.

New-style. There are significant differences, though, between old-style military dictatorship—which still survives in Paraguay—and the new military regimes in Argentina and Peru. Both of these, so far, avoid repressive measures and hold out at least a promise of new elections.

Many younger officers in Latin America want the military to stay out of politics. But at least in Argentina and Peru, a growing number would have the armed forces carry out a Nasser-style nationalist revolution. In Peru, leftists have the ear of some “Nasserite” officers, ranging up to the rank of colonel and grouped around the Center of High Military Studies.

In Argentina, some officers favor social reforms to build mass support for a military regime—possibly with fascist overtones. Col. Juan Guevara, former army chief of operations who is now in hiding, called for a revolution to replace the “capitalist and materialist order” with one that would be based on “God, fatherland, family, militia.”

Blaming U.S. Though the U.S.

Latin universities: schools of agitation

Scratch a Latin American student, and as often as not you'll find a political agitator.

Politicking is a student tradition throughout the area, and students a force to be reckoned with. Student agitation, in fact, is one of the causes of Latin American political instability. You can find examples almost anywhere.

Just last month, politically motivated student riots forced Panama to close its university and secondary schools. Last June, Colombia shut down universities after students attacked the Capitol in Bogota, and Brazil called out troops to eject students occupying the Ministry of Education. The rector of Mexico's national university accused college agitators of trying to set up a “soviet.”

Earlier in the year, rioting students in Guatemala brought on a serious government crisis by rallying opposition to Pres. Miguel Ydigoras Fuentes and demanding his resignation.

Political focus. University students, as the best-organized segment of Latin America's small educated elite, wield influence out of all proportion to their numbers. For that reason, political parties focus their organizing efforts on the campuses—often using 40-year-old “students” to recruit party members and form student pressure groups.

University elections are usually fought on strictly party lines. Marxism is the new political orthodoxy among Latin American students and, more and more, Marxists are coming out on top in student

elections. At Lima's ancient San Marcos University, for example, the student federation is now run by Communists and “Fidelistas.”

Student politicking aggravates the perennial problem of the poor quality of education in universities that train future leaders. Part of this problem is lack of funds: Most universities can't pay full-time professors. But much of it is due to the fact that students prefer politics to studying. Professors at Venezuela's Central University in Caracas complain that they can't maintain discipline because students who fail organize protest strikes.

Open door. It was the “university reform” movement, starting in Argentina in 1918, that opened the door to political agitation by giving students a voice in running Latin American universities.

The movement is still spreading. The Brazilian students who occupied the Ministry of Education demanded, and got, one-third of the seats on university councils. In Mexico and Colombia, leftist students are agitating for “autonomy”—a privileged status that has given some Latin American universities immunity from intervention by police and troops, as virtual extraterritorial enclaves.

Armed camp. Venezuela's Central University in Caracas, with 20,000 students, is one of these. The Communists' success in using it as a base for subversion and terrorism explains why they are eager for “reform” and autonomy in other countries.

Communist professors—the head of the journalism school, for one—are active proselytizers among students. Leftist students who control the university have converted it into a virtual armed camp, keeping caches of guns, bombs, and ammunition on campus.

Several times in the past two years, sharpshooters firing from university buildings have killed troops and police posted outside the campus. Rioters burned the U.S. ambassador's car on campus. Last January, they opened up with machine guns on a government helicopter flying overhead.

From their campus haven, students lead street riots in Caracas, launch guerrilla attacks in the countryside. They are believed to stage armed robberies “to get money for the revolution.” Some students and professors sought for subversive activities live on campus to avoid arrest. The school may also be a refuge for nonstudent terrorists who have gunned down a score of Caracas policemen during the past year.



Mexican students demonstrate over Berlin wall



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suspended relations with Peru after the July military coup—to show opposition to military rule—this country is likely to get part of the blame for any military meddling in politics. That's because of U.S. military aid to Latin armies and the presence of U.S. military missions in close contact with Latin officers.

There's a widely held belief in Latin America that the U.S. has two Latin policies: the State Dept.'s, favoring civilian rule; and the Pentagon's, encouraging military takeovers. This charge was heard again in Buenos Aires during the military coup last March.

Now U.S. military aid has shifted emphasis from hemisphere defense to fighting internal subversion. Critics—in Congress and Latin America—fear this will identify the U.S. more closely than ever with Latin military men.

New political patterns

If the "democratic left" is faltering and the military growing restive, is there any hope for stable democracy in Latin America? Not all of the region, fortunately, is plagued by military meddling and political instability—which go hand in hand.

Uruguay, Chile, and Costa Rica have developed traditions of representative democracy and civilian rule.

Two other countries have achieved political stability under their own formulas of "guided democracy," and a third seems headed that way:

- Mexico's Institutional Revolutionary Party (PRI) has run that country for 40 years under a benevolent party dictatorship. It throws a few scattered local and congressional elections to the opposition as consolation prizes, but real issues are fought out inside PRI.

- Bolivia's National Revolutionary Movement—like Mexico's PRI, the heir of a profound social revolution—may be evolving a similar one-party rule.

- Colombia straitjacketed the fierce rivalry between its Liberal and Conservative parties through another form of limited democracy—a 1957 agreement that for a period of 16 years gives the presidency alternately to each party, divides the Congress evenly between them.

Mexico's growth. Today, Mexico is in better shape than any other Latin American country. That's due mainly to its long period of political stability, following a revolution that broke up the old feudal agricultural system and created a strong middle class.

Over the past two decades, Mexico's growth rate has averaged 6% a year. Some Mexican economists think it is nearing an economic "take-off."

Mexico has a "mixed" economy, with government ownership or control of oil, railroads, electric power, basic petrochemicals, and some other enterprises. Farmland runs the gamut from private ownership to collectives. Control of mining companies is being shifted from foreign to Mexican private investors, and the government pressures other foreign investors to take on local partners.

Yet U.S. investment continues to flow in. Though the government oil monopoly, Pemex, has been a sacred cow in Mexican politics ever since expropriation of foreign oil companies in 1938, Pauley Petroleum, Inc., operates profitably in Mexico under a contract with Pemex. Du Pont is going into partnership with Pemex in a tetraethyl lead plant. U.S. auto makers are preparing to put tens of millions of dollars into manufacturing plants in Mexico.

Best hope. In the long run, some observers think, Mexico's brand of mixed economy—along with its independent foreign policy—is about the best the U.S. can hope for in Latin America.

Now that the first flush of enthusiasm over the Alliance for Progress has waned, U.S. aid and diplomatic officials in Latin America are beginning to take a more realistic look at its possibilities. One sums it up this way:

"There's not much you can do about changing another country—unless it's a colony. Actually, there are only two models of society for Latin America to look to—the U.S. and Russia—and we can't assume that ours has the greater appeal. It may be that neither the U.S. nor the Soviet model suits Latin America, if Cuba's troubles are any indication. Latin America will have to develop its own society out of its own traditions—but hasn't found it yet."

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International outlook Continued

Back to Big Two talks over Berlin's future

Pres. Kennedy is taking up Premier Khrushchev's proposal for new talks on Berlin at the ambassadorial level.

Kennedy is in no mood to offer new concessions. But he is interested in probing Soviet intentions—even at the risk of irritating France's Pres. de Gaulle and West Germany's Chancellor Adenauer.

All along, de Gaulle and Adenauer have taken the view that any deal on Berlin would be bad so long as Moscow refuses to agree to German reunification. Kennedy nonetheless has sought an interim agreement.

Since the rift with de Gaulle, Kennedy is more interested than ever in bilateral dickering with Khrushchev. He feels that when it comes to big East-West issues, only the two big powers can settle anything.

If carried very far, this line of thinking obviously could hurt the Western Alliance even further. But it also might provide a useful warning to West Europe—and de Gaulle in particular—not to strain relations with the U.S. too far.

Khrushchev's initiative in proposing the exploratory talks may partially explain his agreement to pull some of his troops out of Cuba. Kennedy made it clear to him earlier that the chances for useful negotiations on anything were dim so long as large numbers of Soviet troops remained in Cuba.

Trouble brews in democratic Santo Domingo

Juan Bosch took office this week as the Dominican Republic's first elected president in 38 years—and the latest addition to Latin America's "democratic leftist" ranks.

But Washington is worried that Bosch may lack the finesse of Venezuela's Pres. Betancourt (page 64) in handling the ticklish Dominican situation. He already is alienating businessmen, and even trade unions, by his proposal for a "revolutionary constitution." The constitution would prohibit operations of U.S.-owned sugar companies, severely regulate land ownership, and force all trades into one labor union.

Balancing act

Bosch's dilemma—how to balance off the need for social reform against the demand for new investment—is basic to Latin America.

Successful politicians of the democratic left such as Betancourt and former Pres. Jose Figueres of Costa Rica have moved cautiously on reforms. By contrast, Peru's leftist APRA party has been kept from power for more than three decades because of its bitter feud with the army and Peru's wealthy families.

Now it's feared that Bosch may be making the same mistakes as APRA.

Mexican leader will tour Eastern Europe

Washington is taking in stride Mexican Pres. Adolfo Lopez Mateos' planned visit to Poland and Yugoslavia this spring—the first by any Latin American chief of state to the Soviet bloc. (Poland's Premier Gomulka may come to Mexico and the U.S. next week.)

The trip is viewed as a sop to Mexico's vociferous left. It would partly offset Mexico's vote in the Organization of American States in favor of the Cuban blockade last October. It also may be a hedge against leftist opposition in elections late this year.

Of course, the trip will reinforce Mexico's "independent" pose in the cold war. But actually, Mexico is quietly cooperating in U.S. efforts to tighten up on travel and trade between Cuba and the rest of Latin America.

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International outlook BW

March 2, 1963

**NATO probably
won't share
atomic weapons...**

The Administration's attempt to work out some form of joint NATO control over nuclear weapons may prove to be an impossible task.

The problem is to find an attractive enough formula for such a joint force, based on the Polaris missile, to keep the European countries from swinging toward France's go-it-alone approach. Pres. de Gaulle already has dealt France out of any multinational scheme.

The formula, of course, would involve our surrendering some control over NATO's nuclear weapons.

This week in Paris, U.S. special envoy Livingston T. Merchant explained in broad terms what kind of joint nuclear force Washington has in mind. And Merchant apparently indicated that while U.S. thinking is open-minded on many points, it remains firm on one basic issue: Washington will not simply turn over to Europeans complete control over the use of a NATO nuclear force.

In other words, Pres. Kennedy is willing to share control over such a force, but he wants a say—in effect, a veto—over its use. This obviously won't satisfy those NATO members who insist there should be an independent nuclear force in Europe, though linked through NATO with the U.S. nuclear deterrent.

**... when costs
are so high**

This tricky issue of whose finger is on the trigger isn't the only problem standing in the way of a NATO nuclear force.

No one has yet come up with firm figures on the costs involved. Once this is done, most NATO members will opt out.

By using surface missile-carrying ships, instead of Polaris submarines, NATO could lower costs. But this also would cut into the military effectiveness of the deterrent.

The task of setting up a jointly controlled system is doubly difficult because of the division among NATO members over whether such a force should exist at all.

It's no secret that Washington is pushing the scheme for political reasons. Then there's always the danger that the Administration will promise its NATO allies something in the nuclear field that Congress won't support.

On the European side, the problem isn't just the French. It now seems that the British want to go further with European control than the U.S. is willing to go.

Then you have Scandinavian NATO members who were quite willing to let Washington go on holding its nuclear monopoly.

**... and EEC
is in ferment**

Boil it all down, and the prospect is for a sort of military status quo in NATO, paralleling the lack of progress in building an economic partnership between U.S. and Western Europe.

Indeed, it becomes increasingly obvious that no new military formula can be worked out between the U.S. and its European allies until Western Europe itself shakes down politically (page 28). And this may take years during which NATO will have to get along as best it can.

Man with a formula to stop Castroism

Venezuela's Betancourt has blunted the Communist drive to take power

The U.S. is desperately looking for Latin American political leaders with a formula for stopping the spread of Castroism and Communism.

One man with stopping power is Venezuela's Pres. Romulo Betancourt, hailed by Pres. Kennedy as "the great enemy of the Communists in this hemisphere." Not long ago, Cuban Communist leader Blas Roca said: "If the Communists can seize Venezuela's oil, all America will go up in flames." Betancourt has blunted the Communist drive to seize control of his oil-rich country—Castro's top target in Latin America—through use of guerrillas and terrorism. Now he appears likely to be the first democratically elected president ever to finish a full term of office in Venezuela.

During the effusive reception given Betancourt during a state visit to Washington last week, Kennedy described him as a "liberal progressive" statesman who is "all that we admire in a political leader." Kennedy, in fact, was endorsing the "democratic leftist" movements of Latin America, in which Betancourt is a leading figure, as the possible answer to Castro.

Efficient machine. Betancourt's weapon against the Communists is a smooth-running political machine, the Accion Democratica (AD) party. It controls most of the country's labor unions and peasant leagues, and draws considerable middle-class support. With AD's backing, the durable Betancourt has managed to survive four years of terrorism, guerrilla fighting, schisms in his own party, attempted assassinations, and



The man: One of the few Latin leaders to build a grassroots following, Romulo Betancourt enjoys the backing of labor, peasant, and middle-class groups.



The challenge: Communist tactics to unseat Betancourt include terrorist acts such as the burning of this Sears, Roebuck warehouse outside Caracas.



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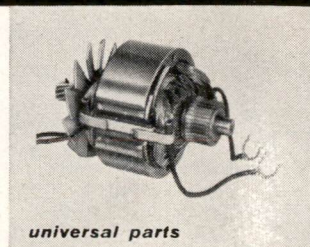
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bloody insurrections of both the right and the left.

Now there are signs that Venezuela's Communists may be preparing to write off as a failure their terrorist campaign, which recently included the hijacking of a Venezuelan ship, the theft of famous French paintings, and the burning of a \$4-million Sears, Roebuck warehouse. Businessmen, encouraged by Betancourt's survival and by rising oil production, are taking a cautiously optimistic view of Venezuela.

Grass-roots support. It's true that Venezuela's inefficient police seem unable to prevent scattered headline-grabbing attacks by Communist terrorists. Despite the capture of more than 100 guerrillas, some 4,000 Venezuelan troops are still tied up in efforts to clean out small guerrilla bands operating in the mountains.

But peasants are giving little help to the guerrillas. Labor leaders loyal to the government have prevented strikes serious enough to threaten the government's stability.

In short, Betancourt has grass-roots support that most traditional Latin political parties have been unable to organize. This, more than anything, can help halt Communist penetration.

Bid for power. Betancourt first put together his combination of labor, peasant, and middle-class backing two decades ago. He wanted to push what was then a revolutionary program of agrarian reform, higher wages and benefits for workers, and industrial development—all financed by squeezing the profits of U.S. and British oil companies. But a military coup ended the first AD government in 1948, and Betancourt went into exile for 10 years, while the U.S. curried favor with dictator Marcos Perez Jimenez.

Back in office now, Betancourt is trying to keep his peasant and labor support by investing part of Venezuela's \$1.5-billion of annual oil revenues in agrarian reform, workers housing, community improvements, and education. As a nationalist gesture, he has set up a national oil company, and is granting no further oil concessions.

Moderate progress. The program has been only moderately successful. Betancourt has spent \$35-million to settle 57,000 peasants on their own lands, but these are only a fraction of Venezuela's rural population of more than 3-million. The slums of Caracas proliferate. The national oil company lacks markets for its production.

At the same time, Betancourt's reform program has lost much of its popular appeal as a result of Castro

propaganda. A pro-Castro wing of Betancourt's own party split off three years ago and is working closely with the Communists. A more moderate leftist group subsequently broke away and formed an opposition majority in Congress. In the long run, AD's labor and peasant leaders may find it hard to hold their rank-and-file following, unless Betancourt speeds up land distribution and finds jobs for Venezuela's army of unemployed.

Shift to the right. All this means that Betancourt's mild reforms aren't enough to counter Castro's appeal in Venezuela. Betancourt is now relying as much on army and business backing as on popular support.

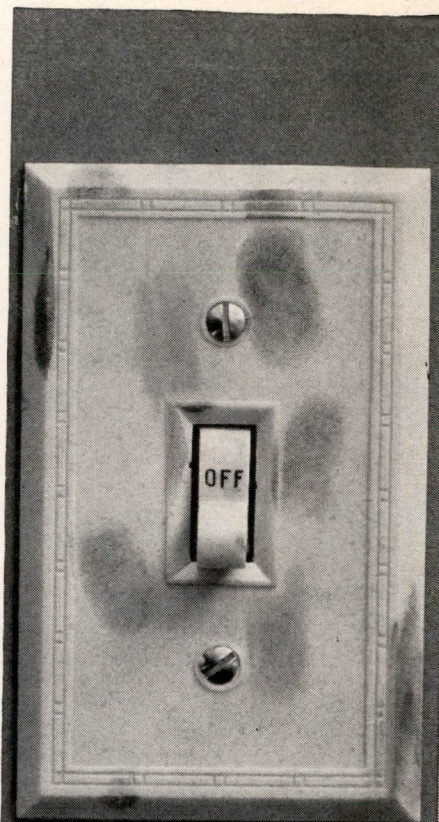
In the process of lining up this kind of support, Betancourt has ceased to be a radical leftist. Once a declared enemy of the military, Betancourt has been wooing military officers with special housing, modern equipment, and kid-glove treatment. To reassure businessmen, he has persuaded AD's labor leaders to moderate union demands.

Oil's view. Despite stiffer controls imposed on the oil industry, most U.S. oil company executives now applaud Betancourt's success in bringing some stability to an explosive political situation.

"Betancourt's survival is a daily miracle," says one.

Political skill. From the U.S., Betancourt has gotten \$200-million in aid commitments under the Alliance for Progress. On top of all this, he has the biggest per-capita national budget in Latin America—close to \$2-billion for a population of 8-million—to use in building a powerful, though expensive, political machine. Part of Betancourt's success in holding the loyalty of the peasants is due to farm credits—many of them never repaid—and the channeling of government funds to the peasant leagues. He has loaded the sprawling, inefficient and still-growing government bureaucracy with loyal followers.

Actually, it is Betancourt's skill in building varied political support of this kind—as much as his reform program—that has tipped the balance in his battle with the Communists. U.S. observers in Caracas admit that Betancourt's popular following is an important asset, but they point out that his successor will still need the backing of the army and businessmen to stay in power. Ultimately, says one, political stability in Venezuela will depend on generating enough economic activity to provide jobs for 380,000 unemployed, in addition to 80,000 new job-seekers every year. **End**



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Oilmen in new 'Battle of Britain'

Eight newcomers fight for toehold in fast-growing British market

Eight oil companies—six American, one French, and one Italian—have invaded Britain recently. Their objective: a slice of an oil market that is among the fastest growing and—in terms of annual consumption—second largest in the world.

Sleek, modern service stations (pictures) are replacing the traditional frumpy petrol stands where one or more pumps served up as many brands of gas. Trading stamps are being used to attract the beleaguered British motorist, who pays as much as 71¢ a gal. for super grade gas, 69¢ for premium, about 61¢ for regular.

More than \$3-billion has been spent by oil companies to stake out their claims. The invasion has set off one of the hottest market scrambles in Britain's commercial history. The potential is great. But, for the newcomers, competition is hot, investment high, and—so far—profits are meager.

Formidable. If the oil companies had been attempting a military invasion of the island by trying to scale Dover's famous chalk cliffs, the problems facing them could not have been much more formidable.

For a start, the invaders—Continental, Gulf, Murphy, Phillips, Standard of Indiana, and Tidewater, of the U.S.; Total Oil Products (G.B.) Ltd., a subsidiary of Compagnie Française des Pétroles; and AGIP, Ltd., marketing subsidiary of Italy's ENI—have a pretty weak handhold to grab for, once the established companies get through with the market.

For example, an estimated 85% of it is controlled by three oldline companies: Shell-Mex and BP, Ltd., a joint marketing company of Shell and British Petroleum, gets about 50%; Esso Petroleum Co. Ltd., accounts for some 28%; Regent Oil



Vigorous expansion of Jet Petroleum Ltd., which sells gas at cut rate, made it good outlet for oil from Continental Oil Co.'s new Libyan wells.

Peace Corps Training Program

Area Studies

"Economics of Underdeveloped Areas
with Special Reference to Colombia and Panama"

by Dr. Pan A. Yotopoulos

Lecture Summary

April 3, 1963

I. Definitional

Description of Underdevelopment

Measuring Economic Development

1. Statistical Indexes: per capita output
the rate of energy consumption
2. Social Indicators: infant mortality rates
the proportion of children attending school

II. Requirements for Development

1. Capital Accumulation: domestic savings
foreign investment and aid
technology
the role of the Government
2. Social Change: entrepreneurs
the role of minorities
the grip of custom

III. A Case Study: The Colombian Economic Development

1. Leading and Lagging Areas: geography and economic history of
Antioquia as compared to the Sabana
and the Valley areas
2. The Personality of Antioqueños
 - i. Creative Personality: Dr. Louis Shaw's TAT tests
Results of creativity: a/ attitude towards
"getting his feet wet"
b/ attitude towards manual labor
c/ attitude towards exploiting
opportunities
 - ii. Basque Origin of Antioqueños
 - iii. The Challenge of Depleted Mines
 - a/ economic innovations from the mines
 - b/ ability to assess business risks judiciously
 - c/ familiarity with machinery and mechanical operations
 - iv. Trade
 - v. Social Tensions

IV. The Balance Sheet of Economic Development

1. Benefits: widening the range of choice
decreasing social and political strife
humanitarianism
2. Costs: the traumas of change
individualism
rationalism and the economizing spirit

Note: Due to scheduling limitations Part IV was not covered in the lecture.
The outline might help you to organize your thoughts on the issue
after you consult the suggested bibliography.

Communist interest and activity in Yemen, the most probable alternative to a republican régime beset by tribal anarchy and without U.A.R. help at least in the form of a military training mission would be one with a Communist coloration heavily dependent on Soviet support."

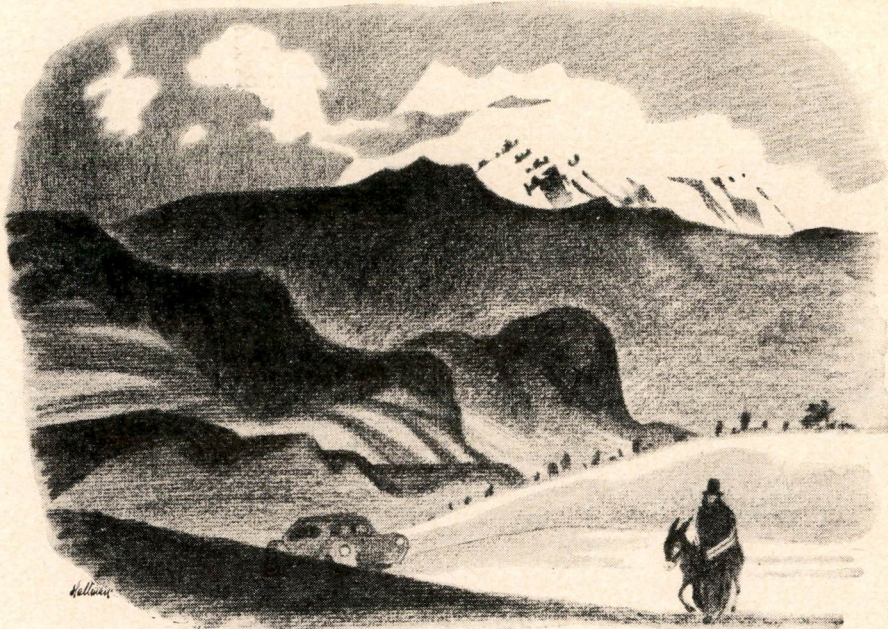
The State Department is, in effect, proposing for Yemen a kind of U.S. "presence" by proxy. The Egyptian proxy, however, is known to be wholly dependent in turn on Soviet arms, with all that means in terms of potential leverage from Moscow, and furthermore is itself being trained by the Russians. The important question would seem to be just who is training whom and for what purpose.

To be sure, the State Department and Pentagon are also considering a U.S. training mission for Yemen. If and when approved, it would consist of three to five republican Yemeni officers who would be brought to the U.S. for language courses, general orientation, and some military training. The total cost of the mission would not exceed \$15,000.

THE STATE DEPARTMENT has repeatedly declared that the United States has three "essential concerns" in Yemen: first, to protect Egypt's neighbors, in particular Saudi Arabia, from the dangers of a spreading conflict—which is to say from Egypt's ambitions beyond Yemen; second, to prevent the Soviet bloc from developing "a predominant position" in Yemen; and third, to encourage "a relatively stable and independent" Yemen. As the record shows, the administration's policy has gone a long way toward securing the reverse of these objectives.

In a dispatch from the Yemeni capital on September 12, Dana Adams Schmidt, Middle East correspondent for the New York Times, wrote: "Departure of the Egyptians from Yemen seems remote. Cairo's burden of maintaining soldiers and planes in Yemen is heavy, but it is not unbearable so long as Western and Soviet-bloc aid to the U.A.R. continues." Thus the fundamental question arises, as it does in other sectors of U.S. foreign policy, whether in Yemen and the U.A.R. we are competing with the Soviet Union or working with it against ourselves.

AT HOME & ABROAD



Peru's New Politics: The Hit-or-Miss Approach

GLADYS DELMAS

THE INAUGURAL ADDRESS of Peruvian President Fernando Belaúnde Terry on July 28 was impassioned oratory but political improvisation. He launched new ideas right and left: the first municipal elections in half a century to be held within ninety days (for technical reasons, they will not be held before the end of the year); public meetings to arbitrate the emotion-packed question of the title to the oil fields of the International Petroleum Company (the meetings are private); an inter-American credit institute so that Latin-American governments could guarantee each other's bonds (this idea died on the vine).

Nevertheless, the new president's style has pleased Peruvians. Belaúnde's popularity is probably greater today than at the moment of the elections in June, when, in coalition with the Christian Democrats and a few splinter leftist parties, his Popular Action Party won only slightly more than the necessary third of the votes. "This promises to

be the best government we've had in fifty years," a young businessman who had not voted for him said to me. Of course, there is relief that after a year of military government the country is back on a constitutional basis. More important is the exhilaration that things are moving at last in this country where, to an even greater extent than elsewhere in Latin America, the social pattern is feudal and the business pattern that of nineteenth-century *laissez faire*. Even those most attached to the status quo—the great landholders, the bankers, the mining interests—seem willing, for the moment at least, to bow before the fresh breezes. The center of controversy has moved: it is no longer the need for change that is in dispute, but Belaúnde's somewhat hit-or-miss methods.

IT IS THIS very heterodoxy, however, that has permitted the president to bring together many scattered impulses toward reform. It explains his present superiority over the APRA

(American Popular Revolutionary Alliance), his chief opposition and the oldest, best-organized, and most coherent of the non-Communist Left parties in South America. Apristas have been preaching reform for thirty years, often from jail, sometimes from exile, and, during the last administration of President Manuel Prado (1956-1962), from a sort of limbo known as *convivencia* or "living together." APRA, however, as the instrument of class struggle in a highly class-conscious country, has inspired more hate than love. "People didn't so much vote for Belaúnde as they voted against APRA," I was told; and my middle-class informant added, "APRA is still not quite respectable—it's too Indian."

Although not particularly wealthy himself, Belaúnde, an architect, belongs by birth to the upper class. Thus unhampered either by social stigma or a rigid ideology, the president has been promulgating new measures thick and fast. One of them has met with almost universal approval. This ended an archaic privilege of the great banking families by nationalizing Peru's private tax-collecting agency, established in 1905 by the leading commercial banks to act as trustee for government revenue already pledged to foreign creditors in Peru's then bankrupt state. It charged a fee for its services; sometimes it lent the government, at interest, taxes that had already been collected. When it tried this with Belaúnde, the ax fell in a matter of hours.

On the same day, August 9, another decree lifted all import duties on cement, to counter an announcement by local manufacturers of a rise in price. Both of these spur-of-the-moment decisions served notice that this was a government that recognized no sacred cows.

Latifundistas and Indians

It is in the field of agrarian reform that Belaúnde's action has been the most drastic. Only a few years ago the very phrase was anathema among Peru's ruling families. Pedro Beltrán, premier under President Prado, was the first to attempt agrarian reform, but his 1960 bill (which never came to a vote) was chiefly concerned with improving yields, opening up virgin lands on the eastern Andean slopes,

and preventing future additions to the great estates. The division of existing ones was not mentioned, even though this is the touchstone of all reform in a country beset by the twin evils of large estates run by absentee landlords and small plots scratched by teeming, undernourished families.

Belaúnde's first measure was a palliative, designed to deal with the immediate problem of squatters. For years, particularly in the highlands, groups of Indians have invaded remote and undeveloped estates, driving their scrawny herds before them, planting small Peruvian flags, and staking out homesteads with the meager building materials at hand. Under Prado, such invasions were repelled by force and often with bloodshed. Belaúnde's solution was simply to expropriate the invaded land and some more besides for a total of 185,000 acres, in favor of the neighboring Indian communities. These properties had been under litigation for years as communal lands of the Indian communities, which under the constitution may not be alienated. The present owners, however, particularly the Cerro de Pasco Corporation, which owns twenty-five per cent of the lands expropriated, maintain that their titles are legal: all of Peru once belonged to the Indians, say the landholders, so by this criterion there is no clear title even to the Presidential Palace in Lima.

The expropriation decree has not halted the invasions. Indeed, some Peruvians feel that by sanctioning illegal acts the decree has encouraged them. But the government, in a further attempt to halt invasions, felt obliged to give notice that future squatters would find themselves last on the list in the redistribution of land under the agrarian-reform program.

However disturbing the continuing invasions, there is as yet no evidence of a concerted campaign. There is no Zapata, as in the Mexican revolution, raising the cry of "Land and Liberty!" at the head of an armed horde. The invasions rather resembled a natural phenomenon, like a landslide, the result of the country's appalling geography, which provides less than half an acre of arable land per capita. This

geography also provides insurance against a revolutionary campaign: each small valley is isolated by tremendous mountain barriers. And the whole highland region between the Andean chains, where the population pressure is greatest and misery deepest, is walled off from the rich coast by the arid, desolate Western Cordillera.

ALTHOUGH the first expropriation decree was only a palliative, the government's agrarian-reform bill, sent to congress on August 12, goes to the heart of the matter. This is the most radical program short of revolution yet to be presented in the hemisphere. It states outright that all land is subject to expropriation except that directly worked by the owners up to a maximum of 375 acres of irrigated land, or fifteen thousand of dry pasture in the high Andes. Payment is promised in government bonds at five per cent, maturing in twenty years, on an evaluation based on the average yield of the previous five years "without taking into consideration speculative values of any sort." The new owners will repay the government in "installments over a period of not less than twenty years" and will be charged two per cent interest on a price based on an estimate of the land's potential. Preference is to be given to the establishment of family-type farms, but where conditions favor industrial agriculture, co-operatives are contemplated. The Indian communities are to retain their ancient communal system. The reform is to proceed by zones, the zone affected to be announced by government decree.

The Sociedad Agraria, the powerful landlords' club, immediately took two full pages in Lima newspapers to blast Belaúnde's proposal. They were all in favor of agrarian reform, they said, but this one was unconstitutional (because of deferred payment); impractical (small farms could not produce as efficiently as big ones, and the big farm owners would immediately cease any new investment with the threat of expropriation hanging over their heads); and anti-labor (what would happen to the accumulated benefits of union members employed on the big plantations when employees became

owners?). They even shed a tear for the widows and orphans who would lose their rented properties. They querulously complained that the bill goes farther than Belaúnde's own campaign promises.

Less biased critics challenge the bill on more solid ground. In the first place, where is the money to come from? Even granting the passage of a constitutional amendment to permit payment in long-term bonds, the amounts involved are enormous. U.S. policy is to refuse loans for the payment of expropriated land, so this solution cannot be resorted to. Even in the tremendously inflated budget for 1964, agriculture is allotted less than \$27 million, as compared with more than \$100 million for the armed forces and half as much again for the federal police. Since the redistribution of land, if it is to be legal, must therefore proceed slowly, why upset at a blow the whole structure of property rights?

The greatest population pressure, as the invasions show, is in the highlands. There agriculture is also most backward; land is still scratched with a wooden plow; fertilizer, improved seeds, and insecticides are almost unknown. The workers are little better than serfs, under the rule of a *mayordomo* barely less ignorant than themselves. None of Peru's complex social and labor legislation has any force. Medieval forms of punishment still prevail; Lima newspapers recently carried the story of a recalcitrant Indian who was punished by having his hand cut off. It is not unknown for parents to "sell" their children to cancel a debt. On the vast, remote haciendas there are no schools, no medical care, no escape from the slavery of ancient customs.

Merely to liberate these people from the tyranny of the landlord is not to solve their problem. They must be brought into the modern world not only technically but also humanly and socially. The experiment originated by Cornell anthropologists on the Vicos hacienda some ten years ago shows that this can be done in a remarkably short time. But to mount a program like Vicos on a significant scale would require a vast army of trained people—many more than Peru could begin to provide. Agricultural reform in the highlands

will thus require a great deal more than a favorable vote in congress or the return by presidential decree of some scattered communal lands. The danger here, say Belaúnde's critics, is that the destruction of the old order without adequate machinery to replace it with something workable may simply produce chaos.

The Price of 'Efficiency'

The situation on the coast is completely different. There on the great irrigated plantations blooming in



the desert, where Peru produces its valuable export crops—sugar, cotton, and coffee—most agriculture is modern and industrialized. Vice-President Edgardo Seoane, who is in charge of agrarian reform, has reassured the owners that these properties will not be affected at present, but he is suggesting a share-the-profits program and worker participation in management. Even this is probably more than most owners can stomach.

When I visited one of the largest sugar plantations in the world a few years ago, it was entirely surrounded by barbed wire, with armed guards

at the gates. I was laughingly told beforehand that I would need a passport to enter. Most of these enterprises have now been unionized, sometimes after bloody battles, and wages approach a dollar a day. But they remain little private kingdoms, with as many as ten thousand workers, plus their families, living on a single estate. There are towns, but they have no legal status; the stores are company stores. The best estates provide decent housing, health centers, nurseries, and schools. It is enlightened paternalism but hardly democracy. No one can hope to own his own home or to take part in civic affairs; even his comings and goings are strictly controlled.

Granted all this, say Belaúnde's critics, is it advisable to upset the structure of these prosperous enterprises? Peruvians are very sensitive about their balance of payments and the stability of the sol. "If we diminish our foreign-exchange resources," they say, "where will we find the money for our development plans?"

It thus appears very unlikely, even in the present atmosphere of change, that Belaúnde's agrarian reform measures will pass congress without serious modification. Belaúnde does not have a majority in either house. Former dictator Manuel Odria's Unión Nacional Party, which as much as any speaks for the landlords, has taken a constitutional position: no expropriation without immediate payment—tantamount to rejecting the whole idea. Even APRA has grave doubts about it, on the ground that it is not sufficiently discriminating, and therefore difficult to administer. After having talked reform for thirty years and been roundly denounced as Bolshevik for it, APRA is disconcerted to find that Belaúnde has stolen its thunder. In opposition it can do little but display sweet reasonableness, a frustrating stance for revolutionaries.

Nevertheless this bill, by its radical sweep, has placed the issue glaringly before Peruvians. It is no longer possible to talk about agrarian reform simply in terms of "the other side of the mountain"—the perennial colonization plans for the eastern Andean slopes that Beltrán assiduously peddled as a remedy for Peru's land hunger. Belaúnde too is eager to open up that rich

unexploited region; his pet project is for a great highway down the inner spine of the continent from Ecuador to Argentina. But the tremendous novelty of his bill lies in its separation of the two approaches; it tries first to right present injustice and does not simply tell the landless to go somewhere else.

THE QUESTION ARISES, of course, whether those who have most to lose by reform will once again resort to force to prevent it. At the moment the danger appears remote for several reasons. The first is the new political alignment in Peru. Of the three major parties, only Odría's Unión Nacional represents the old-time combination of oligarchs and the leaderless poor behind a strong man. The other two, Belaúnde's Acción Popular and the APRA, are both democratically minded and bent on reform. Acción Popular may have been formed with anti-Aprismo as its chief cohesive force; its program nevertheless is largely inspired by APRA. The chasm between the two is due above all to differences of personality, style, and social background. "If Belaúnde were threatened," a leading Aprista said to me, "we would jump to his defense. We'll have no more dictatorships in Peru."

Furthermore, it is unlikely that the military would intervene to prevent reform. In Peru the armed forces are not the expression of the upper class. An army career is one of the surest avenues of social mobility open to lower- and middle-class Peruvians. Although there is a feud of extraordinary intensity between military and APRA stemming from armed uprisings in 1932 and 1948, the armed forces today are sincerely concerned about social reform. Some observers note a Nasserite-nationalist tendency among some groups that might eventually lead them to further adventures, but at present they are pleased with themselves for having held successful elections (with APRA losing) and for having returned the government to civilian control as promised.

There is a remote danger that Belaúnde's vast promises may arouse too many hopes that cannot be fulfilled, and that the flood of accumulated grievances may become unmanageable. Then the armed forces

might intervene "to restore law and order." Anti-reform elements, indeed, may be trying to provoke such incidents.

Who Is Using Whom?

The immediate threat is more insidious; it derives from the official encouragement of the Communist attempt to capture the labor unions. The labor movement in Peru is overwhelmingly Aprista; Belaúnde has no strength there at all, and the deficiency rankles. Since the only people who have any training and experience in labor matters, outside of APRA circles, are the Communists and a few Christian Democrats, the simplest way to break APRA's power is to use the Communists.

This maneuver has been tried before: by Odría during his dictatorship; by President Prado, who delivered the powerful bank clerks' union into Communist hands by granting a Communist splinter group concessions he had refused the Apristas; and more recently by the military junta. In October, 1962, the junta encouraged the Communists, although legally outlawed, to issue a call for a national congress of labor unions to "revindicate" the leadership of the APRA-dominated CTP (Confederation of Peruvian Workers). The congress fizzled as a mass gathering, but out of it grew a parallel organization, entirely Communist-dominated, calling itself the Committee for the Reorganization and Unification of the CTP. This committee has consistently enjoyed the favors of the labor ministry, both under the military junta and the present government.

On September 2, the CTP called a general strike to protest a five-month lockout in a large ceramics factory, the dilatoriness of the labor ministry in dealing with it, and the shooting of an invader on one of the expropriated haciendas. The previous general strike, called by APRA labor leaders to protest the military take-over in July, 1962, had failed because, it was said, its purpose was purely political. This time the CTP ostensibly had a labor issue, even if a minor one. The real issue, which it dared not spell out, was to show the hostile labor ministry that it was a force to be reckoned with. Immediately, however, the Communist

committee jumped in with a similar strike call: if the strike were a success, the CTP could not take all the credit.

The plot was thicker than that, however. At midnight before the strike, Labor Minister Miguel Cusianovich received the Communist committee and settled the lockout by decree. The CTP was out on a limb but maintained the strike call, naturally with small success. Several businessmen said this was the first time in their lives they were sorry to see a strike fail.

The government strategy, of course, is simply to use the Communists. Belaúnde welcomed their support in his election, although he says he did not ask for it. It is true that in the distribution of offices he has not rewarded any well-known Communists. It is also true, however, that in university elections throughout the country his Acción Popular is throwing its votes to the Communists, thus giving them control of these traditionally APRA strongholds. The Communists are not numerically strong in Peru. But Communists at the head of the unions and the student federations multiply their strength a thousandfold.

Happily, the Communists themselves are divided into various factions. The Russian-Chinese split is felt acutely here. Trotskyites, who are relatively strong, are showing marked sympathy for the Chinese faction.

IN SPITE OF all the recent alarms and excursions, the business climate remains remarkably steady, the soil firm, and the growth rate one of the highest in Latin America—an estimated 9.8 per cent for this year. But real economic progress will depend on the integration of the unproductive fifty-six per cent of the Peruvians whose income is no more than \$80 a year. The modern sector—some five million people at the most—is simply too small to support even light industry on economic terms, and only industry can eventually provide jobs for the increasing landless multitude.

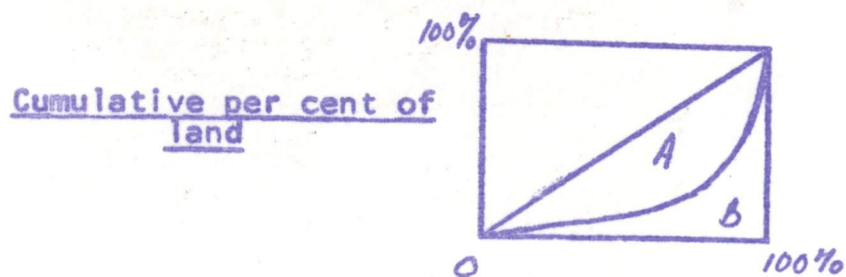
Belaúnde's sympathy and enthusiasm have been useful in dramatizing these problems. What is more difficult is to channel this fresh current of good will and to sustain it.

<u>Series</u>	<u>LCR</u>	<u>Per cent in top bracket</u>	
		Individuals	Items owned, operated, or received
U.S. Farm operations, '50	.70	2.3	43
U.S. National income, '52	.40	10	30
U.S. Farm Operating income, '46	.42	7	25
Liquid assets, U.S., '54	(.47)*	10	39
Chile, Farm ownership, '51	.93	1.5	75
Denmark, Farm ownership '51	.47	2.0	14.2
Iowa, farm operations '45	.35	1.4	5.8
California, farm operations '50	.86	4.4	71
Brazil, farm ownership '40	.80	1.6	48
Venezuela, farm ownership '36	(.87)*	5	90
Nile Delta, farm ownership '50	(.98)*	.05	37

* Estimated

Note: Accuracy of Latin American figures subject to wide variation.

Meaning of Lorenz Concentration Ratio (LCR):



$$LCR = \frac{A}{A+B}$$

Cumulative per cent of owners, ranked by size