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THE WHITE HOUSE
WASHINGTON

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Friday, November 18, 1966
10:20 a.m.

Mr. President:

Linc Gordon has been talking before various audiences in the U. S. on the Alliance for Progress. You may be interested in this sample of the line he is taking, notably the factual section beginning on page 5.

W. W. Rostow

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"A PROGRESS REPORT ON THE ALLIANCE FOR PROGRESS"

ADDRESS BY LINCOLN GORDON
ASSISTANT SECRETARY OF STATE
FOR INTER-AMERICAN AFFAIRS

GIVEN BEFORE

THE PAN AMERICAN SOCIETY
OF NEW ENGLAND

November 10, 1966

12:15 p.m. Luncheon
Algonquin Club
Boston, Mass.

I should like to use this occasion to present a brief analysis of our present relations with the Latin American countries, and to look ahead to the future direction and structure of these relations. I shall leave some time for questions, as I imagine that this audience, like most others, will be more interested in that type of exchange than in a one-sided exposition on my part.

Let me start with a highly condensed review of the historical course of inter-American relations, to set a framework for the present. In the exciting period a century and a half ago when Latin America won its independence from Spain and Portugal, the new countries felt that they were following the pattern set by the American revolution. Their constitutions were more or less copied from the American Constitution, and their leaders foresaw a parallel evolution of political and economic conditions as well.

In fact, however, the paths of Latin America and of the United States began to diverge radically from the very start. Lacking a middle class, and not participating in either the agricultural or the industrial revolutions which changed the face of Europe and North America during the 19th Century, most of Latin America settled into a static social pattern, based largely on plantation or subsistence

agriculture. As a result there is a very widespread -- and understandable -- feeling in Latin America that one group of the children of Europe was somehow left behind in the race for development -- in contrast with Europe itself, with the United States, Canada, Australia, and New Zealand. They are rightly convinced that they don't have to stay behind, and their present energetic efforts to catch up provide one of the really impressive socio-political and economic phenomena of our time.

There was a period around the turn of the century, for which the Spanish American War provides a useful benchmark, which might be described as the "American imperialist" era of our relations with these countries. This would include the temporary acquisition of Cuba, and of Puerto Rico; the intervention which led to the independence of Panama and the construction of the canal; and the series of interventions over 20 or 30 years in various parts of Central America and the Caribbean. Many Latin Americans feel that this phase was also characterized by a good deal of what they call business imperialism.

This phase tapered off in the 1920's and ended with the "Good Neighbor" policy of Franklin Roosevelt. As the Second World War began, there developed a period of active cooperation, marked by Nelson Rockefeller's work as Coordinator of Inter-American Affairs and by Latin American collaboration in many aspects of the war effort. Thereafter, however, our concentration on Europe and Asia led us into a most lamentable phase of post-war neglect, lasting almost fifteen years, for which both the Truman and Eisenhower administrations must share responsibility. This period faded into history in the late 50's, and the climate again changed sharply with the inauguration of the Alliance for Progress, which had its antecedents in the Eisenhower years with the Act of Bogota and the establishment of the Inter-American Development Bank. I am confident that the error of neglect -- the taking for granted of the sympathy and cooperation of our Latin American neighbors -- runs no risk of repetition.

Now where does Latin America stand today? To the extent that it is acceptable to generalize at all in such a complex arena of geography and people, we can see that Latin America as a whole is in the midst of a process of dramatic change -- economic, social and political.

Within that process of change, there is a very powerful thrust toward modernization -- a thrust in the expectations of peoples, in the expectations of leading groups of all kinds in and out of public life, and in public and private actions in the endeavor to see their aspirations realized. Perhaps the only comparable historical experience is what happened in Japan in the second half of the 19th century.

Many people say that this is a situation of incipient revolution. The word revolution means many different things to different people. It is a popular term in Latin America, and sometimes it is popular in the United States. I would say myself that a revolution is in process in Latin America in the sense of a rapid transformation of economic, social, and political structures. But it is of cardinal importance that this revolution take place by peaceful means, and without sacrifice to the basic values of human freedom and self-government which are just as deeply held in Latin

America as they are here.

Let me cite a few indicators of this radical process of transformation. The statistics indicate that today Latin America is already half urban. The population of the cities is growing twice as rapidly as that in the countryside, so the urban proportion is very rapidly increasing. There are substantial middle classes almost everywhere, and large ones in some countries, and they are active participants in political and economic life. There is a quite advanced degree of industrialization in Mexico and Brazil and Argentina, and a very good start on industrialization in Colombia, Peru, Venezuela, Chile and parts of Central America. It is true that average illiteracy among adults in Latin America is 50 percent, but the counterpart of that is that average literacy is also 50 percent, and the proportion is rising rapidly, partly with the help of the Alliance for Progress. Social mobility is increasing, and leadership is no longer drawn exclusively from a small traditional elite.

Compared with other underdeveloped regions, like much of Asia and practically all of Africa, this is not a discouraging picture. There are ample basic natural resources. There is ample land if it is well used. There are significant numbers of trained people in every skill and speciality required for development. They are far too few in numbers,

but there is at least a base everywhere. Annual per capita incomes average somewhere between \$300 and \$350. This is a very low figure by our standards, but it is three or four times as high as in the poorer parts of Asia and Africa, and not very far from income levels in Greece or southern Italy only 15 years ago. When one sees what has happened in Greece and Italy in the last 15 years, it suggests what can be in early prospect for Latin America.

Furthermore, there are no basic cultural inhibitions to development. On the contrary, the dominant cultural forces favor development. It follows from all this that the conditions permit very rapid growth, provided that certain missing elements can be supplied. Those missing elements are a larger volume of both domestic and external investment, the systematic application of available technology, institutional modernization, better markets both inside and outside, and improved structures of incentives and opportunities.

Now this may sound like a very optimistic picture. I do not want to leave it unbalanced. There are also very formidable obstacles to satisfactory growth, starting with the population explosion. The Latin American average population increase is over three per cent per year, which

means a doubling in 23 years. This is by far the fastest increase of any region in the world, and it imposes heavy burdens on the process of development. It results in a very young population structure, so that the active age groups have to carry on their shoulders a large proportion of the still inactive ones. It creates rapidly growing needs for food, houses, water, power, schools, and all the other minimum requirements. Unless unemployment is to rise sharply, it imposes a very large requirement for job creation, especially in the burgeoning cities.

In addition, Latin America still contains very large, and often rather isolated, backward rural areas. The terrain is difficult in much of the continent. Surprisingly large parts of the habitable areas, especially in South America (what Walter Lippmann a few months ago called the "inner frontiers"), are scarcely developed at all, because of difficult access. There are grave obsolescences in educational structures and in the machinery of public administration. There are in some places rather short-sighted, entrenched vested interests who are reluctant to accept constructive change, even though in the long run they themselves might benefit by it. There are serious foreign trade problems, especially the continuing excessive dependence for foreign exchange

earnings on the exports of a few primary products not necessarily in strong world demand. Also on the negative side of the ledger is the active continuing threat from communist-type subversion in certain areas, although this happily appears today less powerful than it did five or six years ago.

What I have briefly summarized constitutes the opportunity and the challenge to which the Alliance for Progress is addressed. When the Alliance was formalized five years ago in the Charter of Punta del Este, some Latin Americans interpreted it as a sort of Marshall Plan, which in four or five years would change the face of Latin America, as the Marshall Plan had changed the face of Europe. Clearly that type of expectation has not been met, and it inevitably led to disillusionment.

My own expectations were more sober five years ago. Partly for that reason, I do not feel disillusioned. On the contrary, I consider these first five years to justify a degree of sober optimism. Substantial progress has already been made, and what was started five years ago is clearly going in the right direction.

The basic concepts of the Alliance for Progress are simple: Latin American self-help, economic and social reforms, and institutional modernization -- all supported systematically by outside technical and financial help.

Let me comment on the actual experience with some of these principles. On the matter of self-help, for example, I am sometimes asked rather aggressively in congressional hearings whether there has really been any Latin American self-help, or whether we are just "pouring all this money down a drain?" What about the reforms that were promised at Punta del Este in 1961? Why hasn't every country approved legislation and implemented tax and land reforms, among others?

The answer to these questions is that a great deal has been done and more is forthcoming month by month. There have been really dramatic changes in tax structure and tax administration, and in the mobilization of resources for both public and private investment. To give an overall measure, as nearly as can be estimated, gross domestic investment -- that is, Latin American investment (excluding Venezuela, which because of its unique oil industry is a special case) -- went up between 1961 and 1965 from 8.4 to

10.5 billion dollars equivalent. That is a 25 per cent increase in real terms in four years. And of the total investment in Latin America in these years, 85 per cent has been domestic, and only 15 per cent has come from the outside. In broad economic terms this is not a bad record, and it is certainly going in the right direction. There have also been budgetary reforms, progress in the battle against inflation, and the building of incentives to promote private business, especially small and medium private business.

As for the direction of Latin American investment, today's tendency is for public investment to be well and soberly planned, with sensible priorities, instead of being directed to spectacular prestige or pork-barrel projects. There have also been institutional improvements in public administration. On the private side there have been major innovations in the creation of private investment funds and development banks, and in arrangements for agricultural credit, agricultural training and extension, and cooperatives. Such improvements are immensely important in their long run political and social effects.

There is a formidable problem of bringing about

agricultural modernization. In some countries land reform in the classic sense is a necessary part of it, but it is generally only a minor part. Equally important is the full range of other measures necessary to accomplish modernization. They include credit; improved landlord-tenant relationships and agricultural labor conditions; minimum price incentives; education; extension services; arrangements for storage, distribution, and marketing of crops; provision of fertilizers, seeds and machinery; agricultural research; and arrangements to get the benefits of that research into the agrarian economy. It is no simple task to organize this complex of measures, and it involves the sectors of the national communities which are always, in all parts of the world, the slowest to respond to new policies and new incentives. Nevertheless, significant progress is under way.

Sometimes the Alliance for Progress has been criticized for being mainly a government-to-government program which, the critics say, must therefore encourage socialization and discourage private enterprise -- either national Latin private enterprise, or foreign. I disagree.

We must bear in mind that certain types of government-to-government financing for public works are of direct and basic importance to private enterprise. In Brazil, for example, 15 years ago the main bottlenecks to the expansion of the private sector were roads and power. To some extent that is still true. It happens that roads everywhere, and power in Brazil and most of Latin America, are governmental responsibilities. The best single thing that could be done at that particular moment for Brazilian private enterprise was to get roads and power plants built through governmental action. Expanded and improved education is another indispensable prerequisite for healthy private enterprise. Fortunately, the Latin American countries, except for Cuba, generally possess strong private sectors, and the great bulk of agricultural, industrial commercial and financial enterprise is in private hands. Now these enterprises need modernization too -- they

need new incentives and opportunities, and much of the Latin self-help, as well as much of the outside assistance provided by the United States and the Inter-American Bank, is directed that way.

To mention only one such type of project, in the housing field the thrust has been toward trying to create something that never existed in Latin America before -- savings and loan institutions, and mortgage guarantees, as ways of helping to develop a private housing industry.

Another question which has disturbed many Americans with respect to our aid program in Latin America, is the effect of these activities on the U. S. balance of payments. Statements are often made to the effect that since the United States has a balance-of-payments gap, an obvious way to eliminate it would be to cut out foreign aid. This simple-minded approach disregards the plain fact that the great bulk of our aid is reflected in additional United States exports, which would not flow in the absence of the aid. This is especially true in Latin America, where the increase in imports from the United States in the last four years has been greater than the amount of aid given, so that the United States proportion of their commercial market has been showing a healthy increase in relation to sales by other industrial

suppliers such as Europe and Japan. In general, Latin America runs a payments surplus with Europe, and a deficit with United States, so the net effect of the triangular transactions is to benefit, and not to harm, our own balance of payments. Our share of the import market is higher in Latin America than in any other region of the world. It follows that a prosperous Latin America, which is one of the aims of the Alliance for Progress, would clearly be of benefit to the United States balance of payments, and to cut our assistance on this particular ground would be folly.

Where do we go from here? We are at work in several directions. One of them is an effort to strengthen the machinery for multilateral cooperation from our sister republics in determining policies and guidelines for the Alliance. The Inter-American Committee on the Alliance for Progress (CIAP), and the Inter-American Development Bank are the two principal agencies for this. As far as the content of our work is concerned, we all have a sense of running hard; we feel that we are busy and are making headway, but we also have very strong conviction of the need to run harder. The fact is, as President Johnson said in his August 17 speech commemorating the Fifth Anniversary of the Charter of Punta del Este, that the growth rate target of two and a half per cent

per year per capita set up in 1961 is not high enough. It is not enough to create the necessary jobs for the growing Latin American labor force, and it is not enough to carry forward the momentum of revolutionary transformation without unmanageable social and political frustrations.

This is why President Johnson endorsed with such enthusiasm the proposal for a summit meeting of all the western hemisphere presidents, to give new impulse to our joint efforts for Latin American economic and social development. We have identified three areas in which we believe that such a new impulse is especially needed: the economic and physical integration of Latin America, rural development, and the educational field. These are singled out without prejudice to the importance of the other things I have mentioned, and no doubt our colleagues from Latin America will have other ideas in mind as well.

Let me explain briefly why the three areas I have mentioned are of particular importance. With regard to economic integration, it is a plain fact that the individual economies of Latin America are too small for full participation in modern industrial growth.

There are too many restrictions on trade and there is too much duplication of effort. There is also too much conflict of interest between sectors of neighboring economies which should operate to complement each other rather than expend their limited resources in

unrealistic attempts to obtain national self-sufficiency at the expense of more productive, joint programs for progress. For these reasons, we should support those programs of economic integration which constitute genuine steps toward larger markets and greater competitive opportunity. The Latin American nations are making progress in this area. The two existing regional trading arrangements in the area -- the Central American Common Market and the Latin American Free Trade Association -- point the way toward what can be accomplished, but they are only a start. Much more needs to be done, both on the front of multinational physical projects to develop the roads and communications and river systems of the continent and on the front of commercial and financial policies which can help the region to grow faster in harmony.

Now as for education, you may think that my emphasis merely reflects the bias of a former university professor. I can assure you there is much more to it. The fact is that no nation in modern times has achieved adequate rates of economic growth without a major expansion and reform of its educational system. The opening of opportunity to talent also has profound social and political effects in creating a basis for meaningful popular participation in public life, in expanding the middle class, and in encouraging social mobility,

But even in the most narrow and severe economic terms, investment in education has been proven to yield higher returns than most forms of more conventional investment. Here again, multinational cooperation offers the promise of creating within Latin America some of the highly specialized skills needed for true modernization.

The complexities of agricultural modernization I have already referred to. Suffice it to say now that without its successful achievement, industrialization will prove to be a blind alley, without food to sustain the growing urban masses or adequate markets to consume the products of their factories. The time has come to recognize that modern agriculture is really a highly capitalized and highly technical industry, which requires no less than urban industry manning by skilled manpower with specialized training.

Let me, in conclusion, remind you of the importance of Latin America in this last third of the twentieth century and thereafter. The 200,000,000 Latin Americans of today will be, if present trends continue, 650 million by the year 2000. That is not very far off. Their fate will have a major bearing on our own well-being, our own security, our own position in a rather uncertain and unpredictable world. For all these reasons, I am confident that we will not fail

to do our share in this great cooperative effort to set the whole Continent firmly on the course of self-sustaining growth and increasing social justice under free institutions. The opportunities are very great; the challenge is very great; and the game, I believe, is clearly worth the candle.

Thank you very much.