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UNITED STATES FOREIGN AID IN ACTION: A CASE STUDY

SUBMITTED BY

SENATOR ERNEST GRUENING

TO THE

SUBCOMMITTEE ON FOREIGN AID EXPENDITURES

(Pursuant to S. Res. 182, 89th Cong.)

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES SENATE

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LETTER OF TRANSMITTAL

JUNE 28, 1966.

Hon. JOHN L. MCCLELLAN,
Chairman, Senate Committee on Government Operations,
Washington, D.C.

DEAR SENATOR MCCLELLAN: I submit herewith a case study on U.S. foreign assistance operations. The study is the outgrowth of the apprehensions I felt with respect to the operation of the Alliance for Progress as a result of two study trips to Latin America. I was accompanied on both trips by my legislative director, Herbert W. Beaser, and by Lt. Col. Harry Salsbury of the Department of the Army. Mr. Beaser has served on the State Department's Interdepartmental Committee on United States Foreign Policy and was one of Mrs. Franklin D. Roosevelt's advisers on and a member of U.S. delegations to the United Nations Commission on Human Rights.

I wish to express my thanks and appreciation to the men and women in our embassies and missions in the countries visited who, without exception, extended every effort to facilitate our efforts. I wish also to acknowledge the unfailing courtesies of the many Latin American officials and private citizens whom we met. Special thanks and appreciation are due to the personnel of the Agency for International Development in Washington, who, in addition to their regular duties, spent much time in locating, retrieving, and expediting the countless documents which we requested.

Space limitations make it impossible for me to mention by name each of the men and women who have helped make this study possible. However, my chief consultant on Latin American affairs, Mrs. Rieck Bennett Hannifin, rendered invaluable assistance in the preparation of the study. Many of our colleagues in the Congress also have found her expertise in Latin America helpful as Mrs. Hannifin is an employee of the Legislative Reference Service of the Library of Congress. I am indebted to the Director of the Service for making it possible for the Subcommittee on Foreign Aid Expenditures to have the use of her services. Her knowledge of the field and of government is rare. Finally, Miss Pamela de Groot patiently provided valuable help in the preparation of the manuscript.

ERNEST GRUENING,
Chairman, Subcommittee on Foreign Aid Expenditures.

PREFACE

From time to time a government program, although not achieving its objectives, seems to generate enough momentum to roll along for years. I am apprehensive that foreign aid could easily fall into that category unless we are prepared to review its operations and reappraise its assumptions with candor.

Some proponents of foreign aid regard scrutiny of the use of U.S. funds abroad as offensive—a kind of Scrooge attitude on the part of the United States toward less fortunate people as well as an insult to the recipient's national pride. This view is uninformed and unfortunate.

The American people, as attested to by our foreign assistance legislation, support the policy of "aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible governments." [1]

But throughout the world many millions live in pitiful circumstances. Here at home, recent efforts to cope with the problems of poverty—what President Johnson calls building a Great Society—reveal that much remains to be accomplished even in prosperous United States. Therefore, mammoth demands here and abroad upon the limited resources of the United States argue for a judicious expenditure of those resources.

The only way to assure the wise use of funds is to examine the programs thoroughly and objectively.

In October 1963, I submitted a report regarding the operations of our foreign assistance programs in 10 countries in the Middle East and Africa.[2] Previously, I had undertaken a study mission to Guatemala, Costa Rica, Nicaragua, Honduras, and El Salvador. Subsequently, I visited Peru, Chile, Colombia, Ecuador, and Venezuela to observe the operation of the Alliance for Progress.

The Alliance for Progress, it will be recalled, had its origins in a speech on March 13, 1961, by President John F. Kennedy to the Latin American diplomatic corps assembled at the White House. President Kennedy invited the 20 American Republics to join in "a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools." [3]

In August 1961, all members of the Organization of American States except Cuba signed the Charter of Punta del Este, establishing the framework for the proposed "common effort to bring our people

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[1] The Foreign Assistance Act of 1961, as amended; sec. 102, Statement of Policy.

[2] 88th Cong., 1st sess. U.S. Senate Subcommittee on Reorganization and International Organizations of the Committee on Government Operations: Report of a Study of U.S. Foreign Aid in 10 Middle Eastern and African Countries, submitted by Senator Ernest Gruening, Oct. 1, 1963.

[3] See text of speech in appendix, p. 205.

accelerated economic progress and broader social justice within the framework of personal dignity and political liberty." [4]

The Alliance for Progress was to differ markedly from previous foreign assistance programs in Latin America. The sense of the Charter of Punta del Este was that external assistance, to be of permanent benefit, must be based upon basic social and institutional reforms within Latin America. U.S. assistance was to be directed toward facilitating Latin America's own self-help measures.

To this end, the Latin American Republics agreed to undertake the reforms necessary to insure that the fruits of economic development would be broadly distributed. They pledged to improved health, housing, and sanitation; wipe out illiteracy; modernize tax structures and land tenure; maintain sound fiscal and monetary policies; and stimulate private investment. The countries of Latin America also promised to "formulate comprehensive and well-conceived programs for the development of their own economies as the contribution of each of them to the Alliance for Progress."

The Charter called for a minimum of $20 billion in external capital during the next 10 years, principally in public funds, "in support of well-conceived programs, which include the necessary structural reforms and measures for the mobilization of internal resources."

On its part, the United States pledged grants or loans on flexible terms and conditions which, "along with those anticipated from other external sources, will be of a scope and magnitude adequate to realize the goals" of the Charter. The United States also agreed to cooperate in seeking international solutions to the problems created by excessive price fluctuations in the basic exports of Latin American countries on which their prosperity so heavily depends.

On November 22, 1965, President Johnson informed the Latin American governments that the United States was prepared to extend the Alliance for Progress beyond the 10-year period foreseen in the Charter of Punta del Este.[5]

U.S. Government commitments since the beginning of the Alliance for Progress in mid-1961 amount to more than $4.9 billion. On the average, U.S. commitments have exceeded $1 billion a year, and while disbursements have not reached that level, they should do so shortly. A breakdown of the total U.S. commitments from the signing of the Charter of Punta del Este to December 31, 1965, is as follows:

AID	*$2,288,600,000
Public Law 480 (Food for Peace)	894,600,000
Social Progress Trust Fund	*515,600,000
Export-Import Bank	*671,000,000
Other (mainly Inter-American Bank)	*571,800,000

*Denotes mainly long-term loans.

While in Latin America I had the opportunity to talk with government officials, U.S. personnel in our AID Missions and Embassies, students, labor leaders, American and local businessmen, newspaper editors, Peace Corps volunteers, and local residents from many walks of life. There, also, I was able to see evidence of the construction made possible by U.S. foreign assistance: schools, hospitals, roads, bridges, grain storage facilities, electric plants, and other tangible proof of U.S. aid abound.

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[4] For complete text of the Charter of Punta del Este, see appendix, p. 185.
[5] For text of Presidential message, see appendix, p. 210.

It was profoundly troubling, therefore, to discover that many Latin Americans were dissatisfied with the Alliance for Progress. The reasons varied among the speakers, and some were contradictory. Government officials chafed at "redtape." Some labor leaders alleged that channeling aid through their "corrupt" governments means that nothing reaches the people. Some business leaders claimed that the emphasis on "social revolution" frightens those who still control the resources in most of the Latin American countries, driving out investment capital. There were intellectuals and students who charged that emergency assistance, provided by the United States to their country to avert economic chaos and thus allay social unrest, in fact vitiates the urgency to reform, prolonging the unsatisfactory conditions which the Alliance was designed to correct. Others, on the other hand, argued that the stability which emergency assistance preserves is an essential precondition to any economic and social progress. There were people who averred that "the Alliance is not accomplishing anything," and others who thought that the Alliance is "helping the rich to grow richer."

Few who criticized the Alliance for Progress could document their indictments. But the pervasiveness of the discontent made it evident that the program was somehow failing to inspire the enthusiasm and confidence necessary to galvanize to action the creative energies of the Latin American people.

I sought, therefore, to ascertain the causes of the malaise within the Alliance for Progress. Published materials proved to be unsatisfactory sources. The growing literature on the foreign assistance program was largely unenlightening, being devoted either to shallow, highly impressionistic reports or to a single narrow detail. Moreover, most of the serious monographs and articles reflect the professional disciplines of their authors, with each specialist emphasizing the factors familiar to him to the exclusion of other crucial elements. Publications by international organizations also were virtually useless. Filled with euphemisms in order not to offend anyone, they became so bland and obfuscated as to be meaningless. Congressional hearings provided only a few tantalizing clues. Witnesses from the Agency for International Development and the Department of State, as participants in and advocates of the program, are more intent upon defending their actions than in exploring any weaknesses in the program—a situation, of course, not unique in congressional-executive relations. But the sheer dimensions of foreign aid and the fact that it is conducted in distant lands make legislative oversight more difficult than in the case of domestic programs. Furthermore, the embattled history of foreign aid seems to make witnesses on its behalf exceptionally wary and defensive toward any questioning of their activities, however constructive the intent of the interrogators.

Thus, the bits and pieces culled from published sources furnished only fragmentary insights. Consequently, I decided to undertake a comprehensive study of the operations of our foreign assistance program under the Alliance for Progress. There immediately arose the problem of magnitude, or how to examine so vast and complex an operation in a meaningful manner. It was deemed advantageous to concentrate the study on the interactions of the various elements of our assistance program in a single country.

Chile was selected for the case study, for a number of reasons. First, at the outset of the Alliance for Progress the United States and Chile already had experience in cooperating on a relatively large scale as a result of the program undertaken to help Chile recover from the damaging earthquakes of 1960. Second, U.S. assistance to Chile is the highest per capita in Latin America. Third, Chile is a testing ground for "program loans," AID's technique of providing dollar loans geared to the recipient nation's performance on specified self-help measures instead of for specific projects. Fourth, Chile seemed to be one of most hopeful prospects in Latin America for an effective assistance program: stable, homogeneous, literate, with a democratic tradition and a promising resource base, Chile is particularly endowed with the requisites for attaining Alliance for Progress objectives. The probability for success appeared heightened by the smashing victory in the 1964 Chilean presidential elections of a regime committed to Alliance goals.

At the outset of the study of operations in Chile it was recognized that not all the findings which might emerge would be applicable with equal force to every AID program in Latin America. Nevertheless, the case study approach, as hoped, proved fruitful for revealing much about the general disabilities and weaknesses in the foreign assistance program. Situations similar to those cited in the Chilean study can be found with depressing monotony in the other countries which I have visited in Latin America, the Middle East, and Africa.

In fairness to the many dedicated Chileans and AID employees who are working assiduously to realize the objectives of the Alliance for Progress, a word of caution is warranted to place the study in perspective. The purpose of the study was to identify existing shortcomings in the assistance program in order to remedy inadequacies. Hence, the discussion singles out significant problem areas where it is believed corrective action is needed to accomplish the intent and purpose of the Foreign Assistance Act of 1961, as amended, as well as the goals of the Charter of Punta del Este. This concentration, perforce, on negative aspects of the program inevitably paints a bleak picture. In Chile and elsewhere projects made possible by U.S. technical and financial assistance have brought some benefits to host nations and their citizens. Nevertheless, as the reader of the following case study will discover, the U.S. assistance program is far from realizing the purposes for which it was created.

Those purposes are best stated in section 102 of the Foreign Assistance Act of 1961, as amended, as follows:

> It is the sense of the Congress that peace depends on wider recognition of the dignity and interdependence of men, and survival of free institutions in the United States can best be assured in a worldwide atmosphere of freedom.
>
> To this end, the United States has in the past provided assistance to help strengthen the forces of freedom by aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible governments.

The Congress declares it to be a primary necessity, opportunity, and responsibility of the United States, and consistent with its traditions and ideals, to renew the spirit which lay behind these past efforts, and to help make a historic demonstration that economic growth and political democracy can go hand in hand to the end that an enlarged community of free, stable, and self-reliant countries can reduce world tensions and insecurities.

The study I now submit is not an attack on the noble concept of foreign aid as expressed in the foregoing excerpt from the Foreign Assistance Act. Rather, the study is an effort to explore the causes of the gap between good intentions and poor achievements.

For too long public understanding of the foreign aid program has been beclouded by facile assumptions,[6] lack of knowledge, and the propensity of foreign aid proponents to label every critic a foe of the entire program.

It is my hope that the accompanying detailed and candid study will help to infuse a measure of realism into our own and others' expectations of what foreign aid can accomplish, and lead to a tailoring of foreign aid operations to realizable goals.

---

[6] Recent examples of the use by opinion-making news media of a dubious assumption with respect to foreign aid were editorials in the New York Times and the Washington Post following President Johnson's message to Congress on foreign assistance on Feb. 1, 1966. Both editorials fault the President for niggardliness in not proposing greater sums for foreign aid, the assumption being that foreign aid has not achieved better results chiefly because of parsimony on the part of donors. Texts of the editorials are in the appendix, p. 227.

GLOSSARY OF ABBREVIATIONS

A. Chilean Agencies

CONSFA: Consejo Superior de Fomento Agropecuario (Superior Council for Agricultural Development).	CONSFA, established in the late 1950's, is responsible for defining policy, planning, and coordinating activities for the agricultural sector.
CORA: Corporación de la Reforma Agraria (Agrarian Reform Corporation).	CORA, a semiautonomous agency, was set up in the framework of the Government's Agrarian Reform program initiated in November 1962, to direct the distribution of land to some 100,000 families.
CORFO: Corporación de Fomento de la Producción (Production Development Corporation).	CORFO, a semiautonomous agency established in 1939, is administered and managed by a 32-member board of directors composed of representatives of various Government ministries and agencies, the Parliament, the Central Bank, and private associations. CORFO's main objectives are: (1) to formulate plans for development of national production; (2) to advise the Government with respect to the coordination of public and private investment; (3) to carry out studies regarding the priority of various investment projects; and (4) to conduct negotiations for external loans for financing public and private projects. CORFO obtains funds through the Government budget and from interest, debt repayments, the sale of assets, and foreign credits.
CORVI: Corporación de la Vivienda (Housing Corporation).	CORVI, a semiautonomous agency established in 1953, absorbed the functions of two predecessor agencies, the Reconstruction and Relief Corporation and the Public Housing Fund. In 1959 when the 3-year housing plan was adopted, CORVI was reorganized and made responsible for all Government activity pertaining to housing construction. The agency's activities are financed by social security funds, by allocations from the Government budget, and by savings deposits.
ENDESA: Empresa Nacional de Electricidad, S.A. (National Electricity Enterprise).	ENDESA, a Government enterprise financed by CORFO, was established to provide the necessary power for the development of basic industries. It is one of the few Government enterprises which operates at a profit.
INDAP: Instituto de Desarrollo Agropecuario (Agricultural Development Institute).	INDAP, a semiautonomous agency, is one of the three agencies established to execute the agrarian reform law of 1962. A successor to a previous Council for Agricultural Development and Research, INDAP is charged chiefly with technical assistance and farm credit to some 2 million small landowners, sharecroppers, and other rural laborers.

B. International Agencies

CIAP: Inter-American Committee on the Alliance for Progress.	Created in November 1963 by the Inter-American Economic and Social Council at its second review of the Alliance for Progress, CIAP is a multilateral coordinating mechanism for the Alliance, consisting of eight members (one from the United States, seven from Latin America), with a Latin American as full-time chairman.
IBRD: International Bank for Reconstruction and Development (sometimes called the World Bank).	
IDB: Inter-American Development Bank.	The IDB is a regional hemispheric agency created by 20 American nations—19 Latin American countries and the United States—to accelerate the economic development of the member countries. Its legal existence dates from December 30, 1959. The IDB's functions include: (1) to promote the investment of public and private capital for development purposes; (2) to utilize its own capital, funds raised by it in financial markets, and other available resources for financing the development of the member countries; (3) to encourage private investment in projects, enterprises, and activities contributing to economic development and supplement private investment when private capital is not available on reasonable terms and conditions; (4) to cooperate with the member countries to orient their development policies toward a better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade; and (5) to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals.
OAS: Organization of American States.	The OAS is the inter-American regional system dedicated to the preservation of peace and the promotion of democratice government, individual liberties, and economic welfare in the Western Hemisphere. Member-states include the 20 Latin American Republics and the United States (the present Cuban regime has been excluded from participation).

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CHILE

Elevation - 5,000 ft. & over

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MILES

PERU

BOLIVIA

Iquique

Antofagasta

Atacama Desert

M T S.

Copiapó

Pacific

Valparaíso

SANTIAGO

Talca

Linares

R. Maule

Chillán

Concepción

R. Bío Bío

Temuco

Valdivia

Osorno

Puerto Montt

Ancud

CHILOE I.

Ocean

PARAGUAY

BRAZIL

URUGUAY

ARGENTINA

Atlantic

Ocean

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UNITED STATES FOREIGN AID IN ACTION: A CASE STUDY

I. BACKGROUND

No brief description of the Chilean setting and society can convey a total picture of the complex historical, economic, social, and psychological factors that contribute to Chile's current situation. Nevertheless, in evaluating the role of foreign assistance in spurring economic and social progress, it is essential to have some frame of reference. The following brief narrative emphasizes those features that are significant to an understanding of the role of foreign assistance in the Chilean milieu.

A. Physical and Human Resources

Extending 2,660 miles in length and only 221 miles at its broadest point, stringbean-shaped Chile is sandwiched between the towering Andes and the Pacific Ocean. The country encompasses three main regions: arid deserts in the north; a broad, well-watered valley in the midsection; mountains and fjords with high winds and heavy rains in the south.

Chile is now predominantly an urban nation, with almost 70 percent of the people living in urban centers having a population of 5,000 or more. Nine-tenths of the country's 8.5 million people are concentrated in the more hospitable central region, with a quarter of the total population in Greater Santiago alone.

The country is richly endowed with natural resources. Its huge forests offer exciting possibilities for pulp and paper production. Its long coastline teems with a variety of fish. With a large waterpower potential, Chile already ranks first in Latin America in electric capacity per capita. A diversity of mineral resources abound. Chile is the world's leading producer of crude iodine, the world's leading exporter of copper, and the world's only producer of natural sodium nitrate. Chile also is a significant producer of coal, iron ore, and molybdenum. The country also possesses substantial deposits of manganese, lead, zinc, sulfur, phosphates, borax, quartz, and lime.

As for agricultural and pastoral pursuits, Chile is again blessed. It has a high amount of arable land per capita, roughly equal to the ratio in the United States. The central valley contains a combination of favorable circumstances that could produce bountiful crops: rich, deep soil, snow-fed streams along gentle slopes which facilitate irrigation, winter rains, and summer sunshine. In the cold southern region, 15 million acres of grassland permit sheep grazing on an extensive scale.

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Chile also has certain social and political characteristics that should facilitate its development. The population is homogeneous, with Spanish universally spoken. Hence, unlike neighboring Peru, Ecuador, and Bolivia and some of the Central American Republics, Chile is not confronted with the language, caste, and cultural barriers presented by great masses of unabsorbed indigenous peoples. Furthermore, more than 80 percent of the people over 15 years of age are literate, one of the highest literacy rates in Latin America.

B. Political Freedom and Stability

In a continent beset by militarism and instability, Chile's political development has been among the most promising in Latin America. The nation has a long history of elections, most of which have been honestly and peacefully conducted. There is a tradition of respect for constitutionally established order and the decision of the ballot box; a strong Congress and effective separation of powers; a highly developed political party system; and widespread impersonalism in politics. People are free to read and discuss whatever they choose and the press is at liberty to print material of all political persuasions, including vigorous criticism of the Government. The relationship between church and state is constructive, and although the great majority of Chileans profess Catholicism, religious freedom is respected. Civil supremacy is deeply entrenched, with the Chilean military bound by strong traditions not to intervene in policy determination or matters of succession.[1]

If a combination of prodigious resources and democratic political traditions were enough to assure sound economic development, Chile would be among the world's most fortunate nations. But despite its human and natural resources, Chile has been beset with grave economic and social problems.

C. Economic Conditions

The economy has been virtually stagnant for a decade—its rate of growth in recent years has averaged about 3 percent a year, only inching ahead of the annual 2.5-percent population growth.

Inflation has been endemic. During the decade 1950–60, the cost of living rose by an annual average of 36 percent. In 1960 and 1961, under an austerity program, inflation was held to 5 percent and 10 percent respectively. But as inflationary pressures were felt again, living costs rose 28 percent in 1962, 45 percent in 1963, and 38.4 percent in 1964.

In recent years Chile's monetary and fiscal position has been bleak. The balance of trade has been unfavorable, with imports exceeding exports by some $95 million in 1963 and $93 million in 1964. At the same time, the Chilean Government is responsible for many social and economic services which contribute to recurring budget deficits (the budget deficit reached 452.4 million escudos at the end of 1964, or about $165 million).[2] Meanwhile, the Chilean Government has been

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[1] Only once since 1891 (1925–31) has there been political discontinuity of an institutional nature.

[2] Converted at the rate of 2.74 escudos=$1.00, the average futures market rate during 1964.

forced to rely more heavily upon foreign borrowing. In recent years foreign credit has financed as much as 40 percent of official investment. As a result, Chile faces increasingly serious difficulties in servicing its medium- and long-term foreign debt (currently amounting to $1.4 billion) with payments of interest and amortization imposing a heavy burden on the balance of payments. International reserves of the monetary system dipped to a *minus* $207.9 million on December 31, 1964.

D. Obstacles to Development

(1) in mining

The Chilean economy rests heavily on the exportation of minerals, mainly copper and nitrates. Although the mining industry employs only about 4 percent of the labor force, it generates more than 80 percent of all export earnings and about one-fourth of total Government revenues. Two U.S. companies, Anaconda and Kennecott, produce some 80 percent of Chile's copper production and account for approximately 60 percent of the country's foreign exchange earnings.

Chile's desperate need for financial resources to accelerate economic development, its heavy dependence upon copper exports to generate foreign exchange, the presence of 30 percent of the world's copper reserves within its boundaries, and a favorable market for copper, all would seem to militate for stepped-up production. But the history of copper investment and operations by U.S.-owned companies in Chile has not been conducive to increased investment. In the early 1950's the Chilean Government subjected the companies to a disastrous attempt to market copper at well above the world market price, with the result that a large surplus of unsold copper accumulated. The companies also have been subjected to severely discriminatory taxes and exchange-rate treatment and to an ever-present threat of nationalization. Consequently, the copper companies withheld plans to expand production.

(2) in manufacturing

Since World War II manufacturing has been the most dynamic sector of the economy. Chile ranks among the most highly industrialized nations in Latin America, with manufacturing accounting for nearly one-quarter of the gross domestic product and employing about 20 percent of the economically active population. The country is now largely self-sufficient in most consumer goods—that is, for the limited middle- and upper-class markets—and produces some intermediate and capital goods.

In recent years the growth of manufacturing has slowed considerably. This slowdown is frequently attributed to a series of ills within the economy as a whole: the burgeoning costs and labor difficulties created by rapid inflation; price controls; the scarcity of foreign exchange, resulting in stringent import controls and exchange restrictions that make it difficult to obtain necessary imported manufacturing inputs; capital flight and "safe" investments—such as housing—that make it hard to obtain funds for expansion in an already tight credit situation.

These factors undoubtedly inhibit the growth of manufacturing. But to understand the weakness in Chile's industrial sector, another

vital factor must be recognized. Chilean manufacturing bears little resemblance to what is usually associated with "free enterprise" in the industrialized nations.

Typically, Chilean enterprises are family owned and dependent for their prosperity on interlocking connections in the government. Through a mixture of tariff protection, import restrictions, licensing requirements, and other devices to insure against domestic and foreign competition, Chilean firms produce at high cost for a limited market. In this situation, there is little spirit of risk and little incentive either to improve the product or to reduce costs. Productivity is low—about one-half that of the mining industry. As a result, Chilean products are priced out of world markets, and the Chilean consumer is saddled with higher priced, often inferior, merchandise.

The custom persists of hiring relatives and friends with little regard for qualifications. In the monopoly situation enjoyed by Chilean industries, the companies can afford the mismanagement that this practice entails. But again, the Chilean consumer and the Chilean economy as a whole suffer. Furthermore, talented people without connections are effectively relegated to inferior rungs on the economic ladder. This situation stifles initiative and creates barriers to social mobility.

Finally, Chilean capitalists—with a few exceptions—still believe in suppressing rather than in cooperating with the lower classes. This attitude, largely abandoned by responsible industrialists in the advanced nations, contributes to the conflicts and tensions in Chilean society and to discrediting private enterprise as a system for democratic progress.[3]

(3) IN AGRICULTURE

While the mining and industrial sectors of the Chilean economy demonstrate certain shortcomings, most observers agree that the situation in agriculture is particularly disturbing. Despite the importance of mining and industry in the economy, agriculture remains the largest source of employment, with about 28 percent of the active work force engaged in agricultural pursuits. That 28 percent produces only 10 percent of the nation's gross domestic product, and its contribution has been declining continuously over the past decade.

Prior to World War II, Chile was a net exporter of surplus food. But agricultural production has lagged behind population growth. As a consequence, in recent years Chile has been a net importer of more than $100 million worth of foodstuffs annually. Imports now

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[3] Senator Javits, after a trip to Chile, Brazil, Argentina, and Peru, expressed his concern regarding the attitudes of Latin American businessmen, as follows:

"I have seen, however, disquieting evidence—albeit with some notable exceptions—that a considerable segment of private enterprise in Latin America has not learned the lessons that U.S. private enterprise has learned in the last 35 years.

"The primary lesson is that business, to be successful and socially viable, must be conducted 'in the public interest' and should, as far as practical, be the subject of the broadest practical, mutual ownership through shareholding.

"In too many cases in Latin America, I found a lack of understanding of the relationship between reasonable prices and living wages as the base for social stability and increased consumption; and a lack of appreciation of the effect on production prices of increased competition and the rationalization of production which could come through a common market. I found, too, a lack of awareness that business had a responsibility in respect of housing, education, and health. I found certain built-in opposition to land reform without the offering of responsible alternatives. I found, too, some reluctance to adopt new and necessary techniques, as, for example, in the legislation for mixed business-government accelerated development of Chile's copper resources which has had a hard time being enacted, a fact which has cost Chile at least a year in getting started on this great historic project. (Congressional Record, Apr. 7, 1966, pp. 7587–7588.)

comprise about 20 percent of total food consumption. Allowing for tropical products which the country cannot produce, this means that Chile is spending each year $70 to $80 million in precious foreign exchange for commodities which could be produced at home.[4]

Why the anomaly between agricultural possibilities and poor performance? Observers agree that one of the principal obstacles to increased productivity rests in Chile's feudal agricultural system. The pattern of land tenure in Chile consists of a relatively few huge estates and many tiny plots. In fact, Chile ranks near the top of Latin American countries in terms of land ownership concentration. According to the last census in 1955—and there is no reason to believe that much has changed—2.8 percent of the farm units, containing over 1,000 hectares [5] each, occupied 37.3 percent of the arable land. Over 73 percent of all families gainfully employed in agriculture either own no land or own units of less than 5 hectares. In the central zone, which contains the greatest agricultural potential, less than 9 percent of the farms contain over 74 percent of the irrigated land. The great estates, frequently undervalued and lightly taxed, are held for reasons of prestige and power and as a hedge against inflation. With a few notable exceptions, wealthy landlords have done little to modernize their inefficient, underproductive agricultural practices.

Income in the agricultural sector is as badly askew as land ownership, with the upper class—less than 8 percent—receiving over 65 percent of the total. These statistics mean that rural laborers—who with their families represent one-third of the nation's population—are virtually excluded from becoming purchasers of the products of Chilean industry.

The pitiful earnings of the bulk of Chile's rural families are reflected in their living conditions. It is estimated that only 6 percent of the rural population has access to safe water service. Housing for almost half the rural population is primitive. Sewage facilities are practically nonexistent. Despite Chile's educational achievements relative to other underdeveloped countries, one-third of the rural population 15 years and over has received no schooling whatsoever, while another third has completed 1 to 3 years of primary education—hence, two-thirds are functional illiterates.

A large segment of Chilean landlords have demonstrated little concern for their tenant farmers and laborers or for increasing the productivity of their lands.[6] With plenty of cheap labor available, large landholders earn comfortable livings from extensive farming. Significantly, agriculture in recent years, although accounting for only about 10 percent of gross national product, has received about 35 percent of the private credit outstanding. Most of the credit has gone to a small group of producers, and much of this has been diverted to relatively nonproductive or to nonagricultural uses. Studies of the expenditure patterns of large landowners reveal that they spend almost 80 percent of their sizable incomes for personal consumption.

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[4] President Frei, in a special message accompanying the agrarian reform bill submitted to the Chilean Congress in January 1966, estimated that since 1950 more than $1 billion in foreign exchange had been spent to import foodstuffs that could readily be raised in Chile.

[5] 2.471 hectares = 1 acre.

[6] For a perceptive analysis of the attitudes of Chile's large landholders see Peter Dorner's, "An Open Letter to Chilean Landlords," April 1965, in the appendix, p. 215.

(4) LOW RATE OF SAVINGS

Another condition limiting Chile's ability to develop is the nation's traditionally low rate of public and private savings.

In the private sector, chronic inflation has reduced the incentive to save. Furthermore, the tradition of family enterprises inhibits investment of risk capital because owners are reluctant to permit outsiders to participate. What personal savings there are are largely channeled into middle and upper income housing rather than into productive investments.

Savings in the public sector are low for several reasons, chiefly: (1) lack of an effective and equitable tax system; (2) the exceedingly high and wasteful cost of running an inefficient government; (3) the perpetual heavy drain on the national treasury caused by deficits run up by many of the decentralized government agencies (the railroads and buslines, for instance, cover only about half of their operating costs from their revenues.)[7]

Public and private unwillingness or inability to save, and the corresponding propensity to increase consumption, has led to growing external indebtedness.

(5) EDUCATIONAL SYSTEM

Another obstacle to development lies in Chile's educational system. Chile has a relatively proud record in Latin America in the educational field. But it has become increasingly clear that the school system, organized in the 19th century, has failed to adapt to the country's real needs. Emphasis has traditionally been upon academic training and the liberal professions, with the result that few people have vocational skills.

The dropout rate is high: of every 100 students who enter primary schools, only 33 complete the sixth year of the curriculum. The dropouts indicate, in part, the system's failure to provide the kind of meaningful education that Chilean parents can relate directly to the future welfare of their children.

A 1960 study of the educational attainments of the labor force shows that 40 percent had completed primary school, only 6 percent had completed secondary school, 0.4 percent had completed vocational school, and 1 percent had completed university studies. In the administrative and clerical occupations, about one-fourth of the people had finished 6 years of general high school, one-fourth had completed 3 years of general high school, and around one-half had completed only 6 years of primary school. Furthermore, given the nature of the school system, these employees have no particular vocational skills. Inevitably, the resulting incompetence in middle and lower level administration is costly in money outlays, time, and errors.

E. Efforts To Cope With Problems, 1920–64

Chilean governments have not been insensitive to demands for political and social change. Political control shifted in 1920 from the

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[7] Of the 38 decentralized agencies, 19 have operating deficits. In recent years about 35–40 percent of fiscal sector operating expenditures were in the form of transfers to semiautonomous agencies to cover operating deficits, and approximately 55 percent of fiscal sector capital expenditures were in the form of transfers to such entities. Some of the semiautonomous agencies report surpluses, but the gap between surpluses and deficits is increasing.

landed aristocracy, which had ruled Chile since independence in 1818, to forces seeking reform. Subsequent governments, in response to pressures from the growing and increasingly restive middle and working classes, enacted various social welfare measures. Today Chile has a social welfare system unrivaled in the Americas.[8] Efforts were also made to diversify the economy in order to reduce Chile's dependence on foreign markets and to raise living standards. To encourage private industrial development, protective tariffs and tax incentives were enacted.

During the great depression of the 1930's, a catastrophic drop in world demand for and prices of copper shrank Chile's export earnings to only 30 percent of previous levels. Young industries, heavily dependent upon imported raw materials and spare parts, were paralyzed. The resultant unemployment brought strikes and riots.

The poor investment climate, lack of private capital, and the need to invest in enterprises which would not bring quick returns, convinced Chilean leadership of the desirability of establishing government-sponsored and government-owned enterprises to speed economic diversification. In 1939 the Government created the Corporation for the Promotion of Production (CORFO). Subsequently, this agency took the initiative in stimulating and financing such basic industrial activities as petroleum, steel, and electric power, all of which have been highly successful.

Meanwhile, the problems of rural Chile went largely ignored. Successive governments, beholden in large measure to the middle and working class electorate, concentrated on urban development. Although the majority of Chileans still depended upon agriculture for a living, they were unorganized and voiceless, with no channel through which to exert pressure in the political arena. The Government directed little attention toward relieving the deplorable conditions of farm labor or to spurring agricultural production. Feudal attitudes inherited from the colonial era went unchallenged.

This bias toward urban areas accentuated the growing gulf between city and countryside, engendering new problems. Unskilled rural people, hoping to improve their miserable living conditions, flocked to industrial centers. Their migration created the need for more sewage and water facilities, housing, schooling, and medical attention, straining already hard-pressed budgetary resources. At the same time, the slow pace of industrial development proved incapable of absorbing all the newcomers, thus exacerbating the problem of unemployment.

The continuing low rate of private investment and the stagnating economy led the Chilean Government to step up public investment. This expansion of public investment, in the absence of increased revenues, was maintained through inflationary Central Bank financing and a drawdown on Chile's foreign exchange reserves. Faced with the violent protests of workers whose incomes could not keep pace with cost-of-living increases, the Government decreed wage increases—which in turn contributed to the virulent inflation.

Chile's peculiarly persistent inflation, spanning over 80 years with only very brief intervals of comparative price stability, has thus far

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[8] Revenues of the social security system now constitute a charge of about 40 percent on direct wage and salary payments.

defied solution.[9] Theories regarding the causes and cures of the inflationary process abound. Foreign experts have been called in, among them U.S. Prof. Edwin Kemmerer in 1925, distinguished teams from both the International Monetary Fund and the United Nations in 1950, and a Washington-based Klein-Saks mission in 1955.

Chileans have tried various prescriptions to stem inflation. For example, in the 1940's they tried price and exchange controls, to no avail. In 1948–49 they sought to achieve a balanced budget, attained a respectable surplus in 1949, yet inflation continued. They have also tried a mix of austerity measures, including bank credit restrictions, reduced public expenditures, wage-price controls, and exchange reform. Belt tightening did slow down inflation, but monetary restraint and cuts in public expenditures also tended to slow the pace of business and to create unemployment. The consequent outcries from the business community as well as increasing social tensions led to relaxation in the stabilization measures and a resumption of spiraling inflation.

F. Recent Political Developments

As economic stagnation and chronic inflation heightened the distress of lower- and middle-income groups, the Chilean electorate began to search for solutions which would radically alter the economic and social institutions. A leftward swing became apparent in the presidential election of 1958, when Salvador Allende, candidate of the Socialist-Communist coalition, was narrowly defeated by 33,500 votes.

Allende ran again in September 1964, this time against Christian Democrat Senator Eduardo Frei. Both candidates campaigned to upset the existing power structure in Chile. Allende called for a far-reaching Marxist program including nationalization of industry and banking and centralized state control. Frei's program was strongly reformist, stressing the needs of the poor, agrarian reform, "Chileanization" of the copper mines (that is, joint ownership and a greater voice in the management of the industry, but not nationalization), all to be accomplished by democratic procedures. From the start of the campaign, Julio Durán, candidate of the centrist Radical Party which had ruled Chile for several decades, was not even in the running.

Frei won by the largest majority ever recorded in Chile's multiparty elections: 56 percent of the popular vote to Allende's 39 percent and Durán's 5 percent. By way of comparison, Frei's predecessor, President Jorge Alessandri, had been elected in 1958 with only 32 percent of the total vote.

Despite his impressive victory, Frei's program was initially blocked by an intractable holdover Congress. The young Christian Democratic Party[10] held only 28 of the 147 seats in the Chamber of Deputies and only 4 of the 45-member Senate. President Frei appealed to the Chilean people to give him a Congress in the March 1965 elections which would support his legislation.

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[9] An excellent, detailed account of Chile's efforts to combat inflation can be found in: Albert O. Hirschman, *Journeys Toward Progress,* New York, The Twentieth Century Fund, 1963, pp. 161–223.

[10] Whereas the Conservative and Liberal Parties emerged during the early history of the Chilean Republic, the Radical Party was organized in 1861, and the Communist Party was formed in 1921, the Christian Democratic Party (first called the National Falange) did not appear until 1938. Growing slowly at first, it captured only 2.9 percent of the vote in the 1953 congressional elections. A decade later, in the 1963 municipal elections, it led all other parties for the first time, receiving 23 percent of the vote.

The victory of Frei's Christian Democrats in the congressional elections exceeded even their own optimistic predictions. They won 82 of the 147 seats in the Chamber of Deputies. This resounding majority abrogated the Chilean executive's customary dependence upon coalitions with other parties—and the resultant necessity to compromise on legislation.[11] The Christian Democrats also captured 13 of the 21 seats being contested in the 45-member Senate. Although a sizable gain, the lack of a majority in the Senate poses problems for Frei's legislation.

Present composition of the Chilean Congress is as follows:

	Chamber of Deputies	Senate
Liberals } Right	6	5
Conservatives } Right	3	2
Radicals (Center Right)	20	9
Christian Democrats (Center Left)	82	13
Socialists } Left	15	7
Communists } Left	18	5
National Democratic Party } Left	3	1
Vanguardia } Left	----------	1
Independents } Left	----------	2
Total	147	45

[11] Providing the various wings of the Christian Democrats remain responsive to party discipline.

II. HISTORY OF U.S. ASSISTANCE (PRE-ALLIANCE FOR PROGRESS)

A. Original Program (1937–61)

Initially, U.S. economic assistance to Chile consisted mainly of capital loans from the Export-Import Bank, a relatively small technical assistance program (averaging $2 million a year), military assistance, and Food for Peace.

U.S. economic assistance to Chile began in 1937 with two Export-Import Bank loans, totaling $1.2 million, for the purchase of locomotives and farm machinery. While Export-Import Bank operations were designed largely to bolster export of U.S. industrial and farm equipment, the loans furnished capital—unavailable from other sources during the great depression—with which the Chilean Government could undertake development projects. In the ensuing years, the Export-Import Bank provided loans to the Chilean Government for such purposes as the construction of an integrated steel mill ($58 million), electric power facilities ($42 million), and railway rehabilitation ($30 million).

Technical assistance was inaugurated in Chile in 1943 with the establishment of a cooperative public health program. Later two additional programs were undertaken, one in agriculture (1951) and the other in industry (1952), and several small projects in housing, administration, geology, transportation and education. The three main programs were administered by jointly financed cooperative agencies called "servicios." U.S. participation in the health servicio terminated in 1956; in the industry servicio in 1960; and in the agriculture servicio in 1963.

In 1955 the first sales agreement was signed with Chile for shipment of U.S. surplus food under title I of Public Law 480.[1] This was supplemented in 1956 by a second agreement. Together the agreements totaled $38.8 million. Most of the proceeds of the sales of the commodities for Chilean currency (the equivalent of $30.9 million) were set aside by the United States for loans to Chile for such varied projects as rural housing, dairy plants, road construction, and port development.

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[1] Public Law 480 establishes the Food for Peace program. Under title I, the President is authorized to carry out agreements with friendly nations for the sale of surplus agricultural commodities for foreign currencies. The local currencies that accrue from the sale of the commodities may be used for, among other purposes, development projects mutually agreed upon by the United States and the host government.

Other provisions of Public Law 480 applicable to foreign assistance include: in title II, an authorization for the President to furnish emergency assistance to needy foreign peoples in meeting famine or other urgent relief requirements; in title III, an authorization for the donation of surplus food commodities to nonprofit voluntary agencies registered with the Advisory Committee on Voluntary Aid at the Agency for International Development for granting to needy persons outside the United States; in title IV, an authorization for long-term dollar credit sales of surplus agricultural commodities to friendly nations during periods of economic development so that the resources and manpower of such nations may be utilized more effectively for industrial and other domestic economic development without jeopardizing adequate food supplies.

During fiscal year 1955 the United States also began a program under Public Law 480, title III, of donating U.S. surplus food to nonprofit voluntary agencies for distribution to needy people. CARE, the first voluntary agency to participate in the program in Chile, was joined in fiscal year 1956 by the Church World Service, in fiscal year 1957 by the Catholic Welfare Conference, in fiscal year 1959 by the Seventh-Day Adventist Welfare Service, and in fiscal year 1960 by Lutheran World Relief. From inception of the program through fiscal year 1960, the acquisition costs of the commodities shipped through voluntary agencies for distribution in Chile totaled $35.3 million, not including ocean freight charges paid by the U.S. Government.

Military assistance to Chile began in 1953. Through fiscal year 1960, the United States granted assistance totaling $32.1 million for this program, as well as equipment and supplies from excess stock with an acquisition value of $16 million.

The following table presents a summary of post-World War II United States assistance to Chile.

TABLE 1.—*Post-World War II U.S. assistance to Chile*

[U.S. fiscal years—Millions of dollars]

Program	U.S. overseas loans and grants—Net obligations and loan authorizations											Total, 1946–65	Repayments and interest, 1946–65	Total less repayments and interest
	Postwar relief period	Marshall plan period	Mutual Security Act period					Foreign Assistance Act period						
	1946–48	1949–52	1953–57	1958	1959	1960	1961	1962	1963	1964	1965			
AID and predecessor agencies—Total		$1.1	$9.8	$12.8	$3.1	$18.3	$31.1	$142.4	$40.4	$78.5	$99.0	$436.5	$5.1	$431.4
Loans			.8	10.0	.3	10.5	8.3	[1] 140.0	35.0	75.6	96.6	377.0	5.1	371.9
Grants		1.1	9.0	2.8	2.8	7.8	22.9	2.4	5.4	2.9	2.5	59.5		59.5
Social Progress Trust Fund								18.7	4.9	4.5	5.8	33.9	.8	33.1
Food for Peace—Total			32.6	15.0	12.3	8.6	27.7	6.6	26.5	30.5	12.9	172.7	11.5	161.2
Title I (total sales agreements)	(—)	(—)	(38.8)	(—)	(—)	(3.1)	(25.7)	(—)	(—)	(—)	(—)	(67.7)	(—)	(67.7)
Less (planned for U.S. uses)	(—)	(—)	(7.8)	(—)	(—)	(1.0)	(5.1)	(—)	(—)	(—)	(—)	(13.9)	(—)	(13.9)
Title I—Planned for loans and grants			31.1			2.1	20.6					53.8	10.0	43.8
104c—Grants for common defense														
104e—Grants for economic development														
104e—Loans to private industry						.8						.8	.2	.6
104g—Loans to governments			31.1			1.3	20.6					53.0	9.8	43.2
Title I—Assistance from other country agreements														
Title II—Emergency relief and economic development											4.9	4.9		4.9
Title III—Voluntary relief agencies			1.5	15.0	12.3	6.5	7.1	6.6	5.5	9.6	8.0	72.1		72.1
Title IV—Dollar credit sales									21.0	20.9		41.9	1.5	40.4
Export-Import Bank long-term loans	$41.9	62.1	35.7	15.0	27.5	16.9	74.0	46.4	15.5	16.5	[2] 8.2	[2] 359.7	200.4	159.3
Other U.S. economic programs	4.0	1.1					.1	1.0	.9	1.5	2.7	11.2		11.2
Total economic	45.9	64.3	78.1	42.8	42.9	43.8	132.9	215.1	88.2	131.5	128.6	1,014.0	217.8	796.2
Loans	41.9	62.1	67.6	25.0	27.8	29.5	102.8	205.1	76.4	117.5	110.6	866.3	217.8	648.5
Grants	4.0	2.2	10.5	17.8	15.1	14.3	30.1	10.0	11.8	14.0	18.1	147.7		147.7

See footnotes at end of table.

TABLE 1.—*Post-World War II U.S. assistance to Chile*—Continued

[U.S. fiscal years—Millions of dollars]

Program	U.S. overseas loans and grants—Net obligations and loan authorizations												Repayments and interest, 1946–65	Total less repayments and interest
	Postwar relief period	Marshall plan period	Mutual Security Act period					Foreign Assistance Act period				Total, 1946–65		
	1946–48	1949–52	1953–57	1958	1959	1960	1961	1962	1963	1964	1965			
Military assistance program—(Charge to appropriation) [3]	----------	----------	$17.3	$6.7	$5.4	$2.7	$4.0	$7.9	$8.0	$7.9	$7.1	$81.1	$0.5	$80.6
Credit assistance	----------	----------	----------	----------	----------	----------	----------	----------	----------	.1	.8	1.1	.5	.6
Grants	----------	----------	17.3	6.7	5.4	2.7	4.0	7.9	8.0	7.8	6.3	80.0	----------	80.0
(Additional grants from excess stocks)	(—)	(—)	(8.3)	(5.2)	(.9)	(1.6)	(.8)	(1.4)	(1.3)	(2.7)	(.6)	(22.8)	(—)	(22.8)
Other military assistance (grants)	----------	----------	----------	----------	----------	----------	5.7	4.4	17.1	1.8	.9	29.9	----------	29.9
Total military	----------	----------	17.3	6.7	5.4	2.7	9.7	12.3	25.1	9.7	8.0	111.0	.5	110.5
Total economic and military	$45.9	$64.3	95.4	49.5	48.3	46.5	142.6	227.4	113.3	141.2	136.6	1,125.0	218.3	906.7
Loans	41.9	62.1	67.6	25.0	27.8	29.5	102.8	205.1	76.4	117.6	111.4	867.4	218.3	649.1
Grants	4.0	2.2	27.8	24.5	20.5	17.0	39.8	22.3	36.9	23.6	25.3	257.6	----------	257.6

[1] Includes $100,000,000 loan for Reconstruction and Rehabilitation.
[2] Excludes refunding of $40,400,000 in fiscal year 1965.
[3] Annual data represent deliveries; total through 1965 is the cumulative program.

Assistance from international agencies to which the United States is a substantial contributor

	Fiscal year 1964	Fiscal year 1965	Fiscal years 1946-65
IBRD (World Bank)	$24.0	$4.4	$140.6
U.N. Exp. Prog. (CY)	.6	.8	7.4
U.N. Reg. Prog. (CY)	.2	.2	1.0
U.N. Special Fund	.8	1.7	11.2
Intl. Dev. Assoc	----------	----------	19.0
Inter-Am. Dev. Bank	18.7	4.9	69.2
Intl. Finance Corp	----------	.3	9.1

SOURCE.—Agency for International Development, Statistics and Reports Division.

B. Earthquake Reconstruction

It will be noted that total U.S. economic assistance to Chile more than tripled between fiscal years 1960 and 1961 (from $43.8 million to $132.9 million) and rose again to $215.1 million in 1962. This sharp rise in the level of U.S. assistance resulted from our efforts to help Chile recover from devastating natural disasters.

In May 1960, Chile suffered a series of severe earthquakes, accompanied by tidal waves, landslides, volcanic eruptions, fires, and floods. The affected zone in southern Chile covered about one-fourth of the country's land area. Nearly one-third of Chile's people and one-third of the economy were directly affected. The toll after 2 days of natural disasters: some 1,600 dead; 52,600 houses destroyed and 61,500 rendered uninhabitable; communications and transport facilities knocked out; many municipal and commercial buildings, hospitals, schools, sewerage systems, and powerplants in the zone damaged or demolished. The Chilean Government estimated costs at about 390 million escudos, or $371 million at the exchange rate then in effect.

Total grants and loans from the United States for earthquake relief amounted to $124.8 million, composed of $4.8 million allotted in fiscal year 1960, $20 million in fiscal year 1961, and $100 million in fiscal year 1962, as follows:

Operation Amigos.—Immediately following the disaster, the United States mounted Operation Amigos, one of the largest emergency relief programs undertaken in peacetime. Equipment, supplies, clothing, food, reconstruction material, and two complete Army field hospitals were airlifted to Chile. In June 1960, AID provided $4.8 million [2] to pay for the operation.

A $20 million Presidential grant.—In June 1960, AID also authorized an emergency grant of $20 million from the fiscal year 1961 President's contingency appropriation to meet the local currency costs of interim reconstruction projects agreed upon between the Governments of Chile and the United States until longer range earthquake rehabilitation plans could be developed. The Chilean Government resisted the concept of specific projects, preferring to use the funds for overall budgetary support.

Agreement regarding the use of the $20 million grant was finally incorporated in an exchange of notes on October 28, 1960. The procedures established for the $20 million grant provided for an advance to the Government of Chile of 10 percent of the amount of approved project agreements. Local currency generated by the sale of these dollars was then to be used to finance agreed-upon projects. As escudo expenditures were subsequently made, documents supporting the expenditures were submitted to the AID Mission (hereafter referred to as USAID) and an equivalent amount of dollars was then advanced. These procedures were followed until January 1962, when the remaining balance of $7.4 million was advanced to the Government of Chile to relieve a critical exchange crisis. Later, a system was established whereby the escudo equivalent of the $7.4 million advance, deposited in the Central Bank of Chile, could not be released prior to USAID approval.

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[2] Subsequently, about $0.9 million of unused funds was deobligated.

The following table shows the projects for which the $20 million Presidential grant was expended.

TABLE 2.—*$20 million Presidential grant information available as of June 30, 1965*

[In thousands of dollars]

Project description	Obligated	Released	Disbursed by Government of Chile agencies
1. Road reconstruction—Chiloé To reconstruct the road networks of the island of Chiloé, including a 600-meter bridge, 96 kilometers of secondary road construction, 114 kilometers of reconstruction and betterment, and to provide a ferryboat to operate between Chile's mainland and the island of Chiloé.	$1,100	$1,100	$1,100.0
2. Valdivia and Ancud Airports construction To construct these two airports.	1,300	1,300	1,299.1
3. Valdivia Hospital reconstruction To construct a 208-bed hospital at Valdivia.	1,300	1,300	1,300.0
4. Construction of hospitals To construct 6 hospitals (230 beds) in the earthquake zone.	1,000	1,000	999.4
5. Austral University reconstruction To construct 4 faculties, student dormitory and cafeteria, and 23 faculty houses.	1,400	1,400	1,303.6
6. School construction To construct 4 grade schools, with a total capacity of 3,600 students.	1,300	1,300	902.3
7. Housing—rural villages To construct 16 rural villages (648 housing units), throughout southern Chile.	2,410	2,410	2,410.0
8. Housing—Central Savings & Loan Bank To provide "seed" capital to establish a facility for granting home loans to prospective buyers.	5,000	5,000	5,000.0
9. Housing—National Housing Corporation (CORVI) To construct 8 housing developments with 2,217 units, 1 community market, and 1 child-care center.	4,982	4,982	4,879.5
10. Housing—Ministry of Agriculture staff To construct 4 houses and 26 office-dwellings. The GOC will furnish an additional 8 houses for the Ministry of Agriculture staff.	200	200	194.4
Total	20,000	20,000	19,388.3

A $100 million earthquake reconstruction loan.—In September 1960, Congress authorized the appropriation of $100 million for use in the reconstruction and rehabilitation of Chile. The funds were appropriated in May 1961, and the loan agreement signed by the Governments of Chile and the United States on August 3, 1961. The $100 million loan is repayable over 40 years, with a 10-year grace period, and is interest free but carries a service charge of three-fourths of 1 percent a year.

Disbursements under the loan were to be related to escudo expenditures by the Government of Chile after January 1, 1961, for mutually agreed-upon reconstruction projects. Unlike the $20 million grant, the dollars disbursed under the loan were to be used to import essential commodities and services from the United States. An advance of $30 million was made to the Government of Chile at the time the loan agreement was signed; $20 million of the advance were later liquidated by the submission of documents evidencing escudo expenditures, leaving an outstanding advance of $10 million. In February 1962 the United States agreed to permit the Chilean Government to retain the $10 million advance in order to assist Chile in a foreign exchange crisis.

The following table summarizes the projects financed under the $100 million loan and the related dollar disbursements as of June 30, 1965.

TABLE 3.—*$100 million earthquake reconstruction loan (best information available as of June 30, 1965)*

[In thousands of dollars]

Project description	Obligated	Released [1]	Unliquidated obligations
1. CORFO development loans This project reimbursed the Government of Chile for approximately 3,500 loans made to private industry for reconstruction and rehabilitation. Of these loans approximately 2,200 were made in agriculture and 1,300 in industry. Illustrative projects include the erection of prefabricated storage sheds, repairs to commercial shops, replacement of fishing boats and equipment, land recovery, minor industrial rehabilitation, etc.	$14,255.8	$14,255.8	----------
2. Urban paving Provides for street and sidewalk repairs in 38 towns. It includes 64,000 square meters of street paving, 22,000 square meters of sidewalk, and 17,000 lineal meters of curbs.	1,087.5	1,080.4	$7.1
3. Hospital reconstruction To construct 11 hospitals, 1 policlinic, and 1 mother and child clinic.	2,761.7	2,207.3	554.4
4. CORVI reconstruction loans This project reimbursed the Government of Chile for approximately 7,600 loans to homeowners whose homes were damaged or destroyed by the earthquake of 1960.	14,004.0	13,931.1	72.9
5. School reconstruction—SCEE The project provides for the construction of 33 urban primary and secondary schools and 46 rural primary schools.	6,711.0	5,358.0	1,353.0
6. Longitudinal highway This agreement financed approximately 65 percent of the cost of earth movement and drainage, base stabilization, and concrete paving in about 610 kilometers of the Southern Longitudinal Highway, between Los Angeles and the island of Chiloé and the construction of 1,462 lineal meters of concrete bridges.	18,266.8	16,501.1	1,765.7
7. State railways To construct 10 railway stations, 400 houses for railway employees, rehabilitate 24 bridges and culvert crossings, and maintain the right-of-way of 270 miles of railway lines.	2,917.4	2,830.4	87.0
8. Sanitary works This project comprises 25 potable water installations serving about 410,000 people, 8 sanitary sewer installations serving 85,000 persons, and 2 storm sewers for the town of Puerto Montt.	4,291.4	3,857.0	434.4
9. Port works To rehabilitate 8 major ports, reconstruct 13 small boat landings, construct 25,000 feet of river bank protection, rebuild seawalls in 20 small communities, and construct ferryboat terminals between the mainland and the island of Chiloé.	2,771.8	2,455.3	316.5
10. Riverbank protection To replace 5,300 feet of rock wall with earth backfill to protect urban business properties.	553.5	553.5	----------
11. Grain storage facilities To construct 104 silos and complementary works with a total capacity of 52,000 metric tons of grain, located at 7 different sites in southern Chile.	2,169.4	1,859.7	309.7
12. Public service buildings This project provides for the construction of 22 buildings and the repair of 1 existing facility. Included are 3 gymnasiums, 1 athletic stadium, 4 firemen's headquarters, 2 airport terminals, 2 ferryboat terminals, and 10 public services buildings.	1,010.2	472.7	537.5
13. School construction—MOP This project reimburses Government of Chile for the construction of 25 schools and repair of 9 schools, with a total area of 41,645 square meters and a student capacity of 13,870 students.	2,070.2	1,786.8	283.4

See footnotes at end of table.

TABLE 3.—*$100 million earthquake reconstruction loan (best information available as of June 30, 1965)*—Continued

[In thousands of dollars]

Project description	Obligated	Released [1]	Unliquidated obligations
14. Transverse roads. This agreement comprises the repair and betterment of approximately 2,650 km. of secondary roads, the repair and reconstruction of about 2,200 lineal meters of wooden bridges, and the repair of about 2,650 lineal meters of concrete or permanent type bridges. It also finances the construction of 2 airports at Valdivia and Ancud, and highway department zonal shops at Puerto Montt.	$12,395.5	$11,181.1	$1,214.4
15. Hospital repair	(2)	(2)	(2)
16. CORVI housing construction. This project includes the construction of 21 urban housing developments with a total of 5,306 units and 77 shops, 268,000 square meters of construction, accommodating approximately 27,000 people.	10,219.5	10,078.3	141.2
17. Rural Housing Institute. This program comprises the construction of 3 urban housing projects totaling 340 units, the construction of 12 rural villages totaling 461 units, the repair of 2 existing housing projects damaged by the earthquake, the purchase and installation of cooking stoves and various improvements to the water, light, sewers, streets, gardens, and plazas of other villages.	2,825.2	2,721.5	103.7
18. Ministry of Agriculture facilities. This program comprises the construction of an experimental station located near the city of Temuco. The project is made up of a crop experimental center, a livestock experimental center, and maintenance and service buildings.	955.8	664.8	291.0
19. Community facilities. To construct 2 markets, 4 child-care centers, and 4 community centers. This project was added to the reconstruction program by agreement dated May 31, 1963.	733.3	----------	733.3
Unliquidated advances	----------	8,121.1	(8,121.1)
Totals	100,000.0	99,915.9	84.1

[1] Represents U.S. dollar equivalent of escudos reimbursed to the Government of Chile plus $10,000,000 advance.

[2] Project canceled.

1. DEFICIENCIES IN THE PROGRAM

The earthquake reconstruction program is now close to completion and largely tangential to the main thrust of AID's current Chilean program. Nevertheless, the problems which beset the earthquake reconstruction effort provide certain illuminating and relevant lessons for future operations in Chile and elsewhere.

Descriptions in tables 2 and 3 of the subprojects undertaken with the $20-million grant and the $100-million loan give some idea of the dizzying array of responsibilities thrust upon USAID and Chilean agencies. Furthermore, U.S.-financed assistance amounted to only one-quarter of the Chilean Government's total reconstruction effort.

Neither the USAID nor Chilean agencies, unfortunately, had the administrative, managerial, and technical capabilities to mount rapidly an investment program of the magnitude undertaken. The Mission staff, despite the considerably increased complexity of operations, remained virtually the same in size and composition as that which had been carrying out the former modest technical assistance program. Furthermore, from the time of the earthquake until the last project agreement under the $100 million loan was signed in March 1962, there were three U.S. Ambassadors and three Mission Directors—a

situation hardly conducive to efficient and consistent management. On the Chilean side, despite the competence of many officials and technicians, the diverse actions needed at various locations at one time greatly overtaxed available human and physical resources.

The program was further complicated by pressures for its speedy implementation. Understandably, the Chilean Government was anxious to relieve distress and to repair the damaged economy. In addition, with dollar disbursements tied to project expenditures, Chile's financial needs became a factor pressing for quick action. The United States—in the throes of developing new inter-American measures to combat Latin American restiveness—was eager to show results in the region. AID/Washington established a 6-month deadline—later extended to 8 months—for entering into project agreements under the $100 million loan.

Meanwhile, AID did not regard section 611 of the Foreign Assistance Act [3] (requiring prior engineering, financial, and other plans for any U.S. obligation in excess of $100,000) as applicable on the grounds that the Chilean earthquake assistance was authorized by separate legislation.[4]

From the outset, the adage "haste makes waste" characterized the program. Preplanning was often haphazard and incomplete. Projects were approved without prior field inspection by USAID. Moreover, the Mission did not have sufficient or suitable personnel even to review competently such plans as were available.

The unhappy results were predictable. Faulty planning caused problems in construction, necessitated changes, and resulted in high cost overruns. In some instances, Chilean Government funding was insufficient to carry projects to completion. Some projects never got underway, others ground to a halt at various stages of completion, others inched along. Many projects had to be renegotiated or eliminated completely.

For example, one hospital was being built in a location where geologists' reports indicated that no further building should take place; the responsible Chilean Government agency had failed to submit the required report prior to undertaking the building. One school, which had been started before the earthquake, was being completed despite the fact that its lower portion was below the waterline and it was surrounded by water on all sides. With regard to a small ferryboat, designed to carry passengers and vehicles across the Pudeto River during the period of reconstruction of the Pudeto Bridge and later to serve as a transport between the Island of Chiloé and small neighboring islands, a Mission audit discovered: [5]

> The ferryboat, which at the time of our visit was tied up to a small pier in Ancud, had grass growing between the cracks in the main deck, had a draft of less than a foot and a high and heavy superstructure. Attempts to use the craft proved it to be both unriverworthy and unseaworthy * * * as it cruises, or attempts to cruise, the superstructure catches so much wind that it either proceeds in circles or drifts.

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[3] For text of Foreign Assistance Act, see appendix, p. 125.
[4] Latin American Development Act. For text, see appendix, p. 182.
[5] Agency for International Development, USAID/Chile, Office of the Controller, Report of Audit No. 111, Nov. 27, 1964, p. 6.

Although the Mission disassociated itself from this tragicomedy by reprograming the cost of the boat to another project, Chile was still out the cost of the boat and the people of Chiloé had no transportation.

The very absurdity of the cases cited may leave an impression of mere caviling. After all, it may be assumed, a few human errors will occur in any mammoth emergency program. But the examples cited, while colorful, are not isolated blunders. The reconstruction program is honeycombed with cases of wasted time, manpower, and material—more pitiful in a country which can ill afford to squander its resources.

The fate of two high priority projects—agricultural facilities and hospital construction—help to illustrate the serious deficiencies which occurred in the program.

Agriculture, as indicated earlier, has been a debilitating sector in the Chilean economy. Since the zone affected by the 1960 disasters comprised 65 percent of the country's arable land, it was logical to devote portions of the earthquake assistance toward the rehabilitation, perhaps even improvement, of this important element in Chilean well-being.

One of the agricultural projects selected was the construction of 100 grain storage silos, with a total capacity of 51,000 metric tons, at 7 locations in the devastated area. Pursuant to a project agreement dated February 13, 1962, USAID agreed to provide for this purpose 1,250,000 escudos (equivalent to $1,187,100) from the $100 million loan. The project agreement stated that construction had already begun during 1961 at six of the locations and completion was scheduled for May 1962; construction at the seventh location would begin in 1962 and be completed early in 1963.

But more than 5 years after the earthquakes and 4 years since the project agreement, five of the proposed subprojects—with a total grain storage capacity of 32,000 metric tons—are not yet operational. Given the urgent need for facilities for grain storage, the delays in completing this project must surely have resulted in substantial commodity losses and marketing dislocations.

How did this meritorious idea go awry? In this case, the Mission assumed responsibility only for that portion of the project involving U.S. funds—construction of the silos. The project agreement did not provide financing for access roads, rails, railroad spurs, or grain conveying equipment, all of which are essential to operate the silos. Nor did the project agreement concern itself with who would finance these items.

When it became apparent that Chile (and by inference, USAID) would end up with 100 useless silos decorating the landscape, the project agreement was amended in April 1963 to provide an additional 1,150,000 escudos ($395,000 at the current rate of exchange) to provide railroad spurs, electric power substations, paving, roofing, doors, windows, structures for grain drying equipment, and houses for storekeepers and caretakers. In May 1964, the agreement was again amended to provide an additional 2 million escudos (equivalent to $626,360 at that date) for the complementary structures. Neither of the revisions provided for the operating equipment, for which the responsible Chilean agency had contracted earlier with a French firm.

The last available report by USAID's Engineering Services Division, dated December 31, 1965, states: [6]

> The five remaining projects, long delayed by the GOC [Government of Chile] lack of participating funds which also prevented the timely importation of elevating equipment, will not be completed before July 1966.

The hospital construction program provides another example of defective planning, poor coordination, high cost overruns, and interminable delays.

With 42 of the 64 hospitals in the earthquake zone considerably damaged, the high priority of hospital service was evident. Consequently, funds were provided in 4 agreements for the construction of 19 hospitals. The following discussion is devoted to the history of the 2 agreements covering 17 small hospitals.

On January 16, 1961, USAID agreed to finance the construction of the following six hospitals, with 1,051,000 escudos (equivalent to $1 million) from the $20 million Presidential grant:

Site:	*Number of beds*
Rio Bueno	60
Curacautín	34
Cañete	73
Villarrica	20
Laja	60
Puerto Octay	20
Total	267

Estimates, upon which the agreement was based, provided that construction of four hospitals was to begin by February 1961, with completion by October 1961. The remaining two hospitals were to be completed by March 1962. By December 1965, however, only the construction of the Curacautín, Laja, and Puerto Octay hospitals—with 74 beds—had been completed.

When the $100 million loan became available, a project agreement dated November 9, 1961, provided 3,815,000 escudos ($3,623,000) for the construction of 11 additional hospitals, all of which were to be completed by July 1963. At the time the agreement was signed, however, plans and specifications had not been finalized. The estimates, as we shall see, turned out to be unrealistically low.

Construction at all the sites ran into difficulties. Delays were caused by strikes at the cement and steel mills, a shortage of construction materials due to the huge public works program in progress, and in two instances, to bankruptcy of the contractor. But above all, the problems which arose in the hospital construction program were due to inadequate planning, lack of specifications, and poor monitoring. In the words of a Mission audit: [7]

> It is obvious that the planning of the buildings has not been adequate and that the terms of the agreement have not been complied with, viz, clause 7 paragraph 3 of the agreement states: "All plans will be completed before construction starts." In this connection, we found that at most hospitals subcontractors' plans have been issued at least 1 year

[6] USAID/Chile, Engineering Services Division. Status Report of Construction Projects (Sixth Quarterly Report), Dec. 31, 1965, p. 5.

[7] Agency for International Development, USAID/Chile, Office of the Controller, Report of Audit No. 105, June 30, 1964, p. 3.

> after the construction has been initiated. This has, in many cases, delayed the construction and in other cases has increased the cost of construction. In some cases, finished work had to be destroyed in order to provide items not previously considered or specified.

Consider the case of the Cañete hospital. First, the foundation had to be increased from 1.5 to 4.5 meters in depth due to the quality of the soil. Mission auditors, on an on-site inspection in June 1964, found that the doors, windows, and even walls did not fit the structural steel frames. That same month the Mission's Engineering Division disclosed: [8]

> The job foreman nor [sic] the heating installers have figured out how to run the overhead heating and hot water lines from one wing to the other due to a steel crossbeam and the lower hanging roofing and eaves of the adjoining perpendicular wings. Furthermore, there are out-of-town subcontractors for heat, water, electricity, flooring, etc., who hold up the job frequently by not coordinating their work with progress level of the general contractor.

Thus, 2 years after the Cañete hospital was scheduled for completion, it was enmeshed in problems created by poor planning. In June 1965, the hospital was still only about one-half constructed. In September 1965—3 years after scheduled completion date and 5 years after the earthquake—the Cañete hospital was eliminated from the agreement.

The problems encountered in the hospital construction program led to a Mission decision to compress the size of the program in order to complete within a reasonable time and with available funds a reduced number of hospitals. In April 1963—following the devaluation of the escudo which made 46 million additional escudos available to the earthquake program—an amendment eliminated 5 of the 11 hospitals planned with funds from the $100 million loan, and added 3 policlinics. The amendment increased the financing for these facilities by about 312,000 escudos. It also provided an additional 2,173,000 million escudos for the six hospitals being constructed under the $20 million grant (thus tripling the original escudo estimates for these hospitals).

In May 1964 another amendment deleted two of the three policlinics. A further amendment in September 1965 eliminated the third policlinic and the Cañete hospital.

At this stage, then, the entire program consisted of the following 11 establishments:

Site:	*Number of beds*
Río Bueno	60
Curacautín	34
Villarrica	60
Laja	20
Puerto Octay	20
Valdivia (mother and child clinic)	0
Pitrufquen	34
Llanquihue	20
Coelemu	50
Santa Juana	30
Lautaro	50
Total	378

[8] Ibid, p. 6.

Whereas the Mission planned to finance construction of 17 hospitals under the two project agreements for a cost of 4.9 million escudos, it is now financing the construction of only 10 hospitals and a clinic for 7.6 million escudos. Due to the devaluation of the escudo, dollar authorizations actually have been reduced—from $4.6 million to $3.8 million. Nevertheless, the end result of the multimillion dollar U.S. assistance for the two hospital construction agreements has been pitifully meager. By December 1965, only construction of the little Valdivia mother-and-child clinic and five hospitals (with a total capacity of 158 beds) had been completed.

The emergency nature of the earthquake reconstruction program may excuse some of the frustrations and setbacks, while inflation accounted in some measure for the huge cost overruns. But it would be a disservice to all concerned to ignore the lessons of the experience. However well intentioned the program, too much was undertaken simultaneously to be accomplished expeditiously. The consequent dissipation of resources is obvious.

Defects in the reconstruction program emphasize certain fundamental requirements for the effective use of external assistance. Projects must be technically and administratively sound, with an institutional base adequate for implementation. They must be scaled to the capabilities of the Mission staff to provide adequate technical support; or conversely, adequate technical personnel to administer a specific program should be provided when a program is undertaken.

How well these lessons were assimilated by responsible Chilean and AID officials is discussed in the next chapter.

III. THE ALLIANCE FOR PROGRESS

The Alliance for Progress, as mentioned earlier, was to differ markedly from previous foreign aid programs in Latin America. The sense of the Charter of Punta del Este was that external assistance, to be of permanent benefit, must be based upon social and institutional reforms within Latin America. U.S. assistance was to be directed toward facilitating Latin America's own self-help measures.

A. Chile's Development Plan

Chile and the United States embarked upon the Alliance in the midst of the intensive earthquake reconstruction program. Nevertheless, Chile appeared to have a head start over many of the other Latin American countries. It was one of the first nations in Latin America to possess a prime requisite called for by the Charter of Punta del Este—a development plan.

Prior to the earthquake, CORFO technicians had prepared a 10-year national development plan to guide Chilean economic policy for the decade beginning in 1961. The plan envisaged raising the investment ratio from a level of 10 percent of GNP to 18 percent by 1970.

The plan called for 10 billion escudos in public and private fixed investment, with the public sector contributing about one-half.

The main objective of the plan was to create a favorable climate for private investment—by providing public investment for such necessary infrastructure as electric power and transportation; by stimulating the private sector through public works and direct investments in housing, irrigation, and land settlement; and through the promotion of mining, forestry, and fisheries. It was hoped that the planned level of investment would raise the annual rate of GNP growth to 5.5 percent (3 percent per capita) from the average 3.5 percent per annum during the 1951–60 period.

In 1962, the plan was evaluated by the International Bank for Reconstruction and Development (IBRD) and the OAS Panel of Nine.[1] Both international institutions agreed that the program's targets were attainable if a substantial national effort were made in terms of fiscal and monetary policy and domestic financing. The evalution by the Panel of Nine called on all sectors of Chilean society to make—

> needful sacrifices in order to increase available investment resources. The higher income groups will be required to shoulder a heavier tax burden. Entrepreneurs will have to absorb a substantial share of the rise of costs. And workers will be obliged to moderate their demands for wage increases.

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[1] Popularly called the "Nine Wise Men," the panel of nine experts was created by the Charter of Punta del Este for the purpose of evaluating national development plans. For a full description of its selection and functions, see the Charter of Punta del Este, chapter V, paragraphs 2–7, in the appendix, page 191. The final act of the Fourth Meeting of the Inter-American Economic and Social Council, March 15–April 1, 1966, approved a resolution reducing the Panel of Nine to five members.

Even with considerable efforts to mobilize savings and to expand exports sufficiently to support a greater inflow of resources required by the plan, a large volume of external assistance would be required for the plan to succeed.

The situation appeared tailor-made for the Alliance for Progress. The Chilean Government had a blueprint for economic and social development; the United States was prepared to help underwrite Chilean efforts to enact and implement sound development policies.

B. $40 Million CORFO Loan—1962

In March 1962, President Alessandri requested U.S. assistance in support of the Chilean Government's financing requirements for capital projects and the 10-year development plan.

At that time Chile was in grave financial condition. The budget deficit was large. So was the deficit in the balance of payments as foreign debt servicing obligations mounted while imports increasingly exceeded exports. In the absence of external financial assistance, Chile would have had to resort to inflationary borrowing from the Central Bank in order to continue financing capital projects at anywhere near the magnitude contemplated in the budget. On the other hand, a drastic cutback in public investment would have caused severe unemployment and economic deterioration.

The Chilean request for assistance came during a period of rising criticism of the Alliance for Progress both in Latin America and the United States. Many Latin American officials, considering large injections of U.S. capital assistance to be the principal ingredient in the new Alliance, complained of the slowness in securing funds. AID, on the other hand, tried to emphasize the recipient nations' obligations to undertake reforms. But AID, still reeling from the latest of its numerous wrenching reorganizations, had no guidelines for action beyond the generalities of the Charter of Punta del Este.

The Chilean view appeared in an article in the New York Times (February 28, 1962), as follows:

> Chile's Minister of Economy brought into the open today a major problem in the Alliance for Progress: which comes first, United States aid or Latin American reforms?
>
> The Minister, Luis Escobar, said in effect that Chile was doing her part as rapidly as possible under the democratic system but that United States and international banks were not putting up their promised share. * * *
>
> He added that the Government had found "with some surprise" that the contemplated complementary funds from abroad did not materialize and that "certain countries" and certain financial institutions did not seem satisfied. * * * He called for clarification of this "situation of permanent uncertainty" about the availability and volume of outside help.

Meanwhile, a spate of articles reflected the growing dissatisfaction in the United States with uncertain promises of reform. For example, the Washington Post (February 28, 1962) opined:

> The Alliance is running like a proverbial dry creek. * * * There is not much evidence yet that Latin American governments are showing an excessive eagerness to carry out the

land, tax, and other social reforms imperative to the Alliance's success.

According to the Economist (March 17, 1962): "There are grave doubts whether this money is doing what it is supposed to do, encourage the Latin American recipients to help themselves. * * *" Tad Szulc, writing in the New York Times (February 24, 1962) on the possibility of large-scale aid to Brazil, stated:

> The view is rising in the Administration therefore, that the principle of self-help in the Alliance for Progress would be violated if large-scale assistance was supplied to Latin American countries unable or unwilling to undertake internal improvement measures. * * * This sentiment is also strongly held in Congress.

Life Magazine (March 16, 1962) editorialized:

> The biggest question is whether the Latin American governments are going to live up to their pledges (in the Declaration of Punta del Este last August) to match the U.S. Government loans with thorough tax, fiscal, and social reforms. * * * So far there has been little but lipservice to reform and the belief is spreading in Latin America that this will satisfy the U.S. * * * Kennedy will be buying false progress if he lets the lipservice trend continue.

As press commentaries mounted on the question of short-range aid versus holding out for long-range social and economic reforms, administration officials publicly exhorted our Latin American partners to undertake basic reforms. Alliance for Progress Coordinator Teodoro Moscoso, in a speech to the National Press Club in Washington in February 1962, warned Latin Americans that U.S. taxpayers could not be expected to underwrite development programs in countries where a rich, privileged class was "virtually free from taxation." He continued:

> Nor is it reasonable to expect North Americans to perpetuate agrarian systems where a handful of wealthy families own as much as 90 percent of the desirable land, where the great bulk of the farmworkers own almost no land at all.

In an address on the first anniversary of the Alliance (March 17, 1962), President Kennedy somberly admonished the assembled Latin American diplomats:

> For too long my country, the wealthiest nation in a continent which is not wealthy, failed to carry out its full responsibilities to its sister Republics. We have now accepted that responsibility. In the same way those who possess wealth and power in poor nations must accept their own responsibilities. They must lead the fight for those basic reforms which alone can preserve the fabric of their societies. Those who make peaceful revolution impossible will make violent revolution inevitable.

As it became increasingly clear that exhortations and pleas would not bring desirable action, AID began to grope for an effective method of relating U.S. funds to the recipient's commitment to undertake

self-help measures. In this atmosphere of uncertainty, a high-level mission from the United States, including Alliance Coordinator Moscoso and White House aide Richard Goodwin, flew to Santiago for conversations with the Chilean Government in response to President Alessandri's request for assistance. "The economic mission," declared an article in the Christian Science Monitor of March 5, 1962, "expects to touch on the question of how much self-help, how much tax reform a country must display before qualifying for Alliance for Progress aid."

Upon completion of the talks, the representatives of the Governments of the United States and Chile issued a joint communique. The communique is vague regarding concrete commitments on the part of Chile, merely reaffirming the dedication of the United States and Chile "to the principles of the Alliance for Progress as well as their determination to carry out the commitments which they made in the Charter of Punta del Este." The United States "agreed to help provide the external resources needed" for Chile's 10-year plan "along with other industrialized countries, international institutions, and private investment"—an oblique reference to a proposed consortium of international lending agencies and governments being formed by the World Bank for the purpose of making long-term commitments to help finance specific projects in Chile's plan, after which U.S. loans to Chile would not exceed a given percentage of the total loan commitments for projects in the public sector by all members of the consortium. The communique also mentions annual review by the OAS Panel of Nine of Chile's implementation of its development program.

Whatever the precise terms of the understanding between Chile and the United States, Mr. Moscoso appeared confident that a formula had been found for relating U.S. assistance to Latin American self-help measures. In testimony before the Senate Committee on Appropriations on July 25, 1962, Mr. Moscoso stated with reference to the Alliance for Progress in general:

> If we are impatient with our own record so far in the first months of this decade of development, we are far from satisfied with Latin American progress under the Alliance for Progress. We cannot be satisfied when so little has happened in relation to what must happen—and when our continued impatience at the rate of change and growth is necessary to stimulate the performance of the Latin American governments. * * *
>
> External aid is most effective when tendered at the optimum time to support and encourage national programs, not when it is given as a reward for some earlier accomplishment. For the first time, the U.S. aid program for Latin America can, by the extending or withholding of assistance, have some influence over the actions of the national governments. We have, at last, a powerful combination to help the members of the Alliance to create economic and social development programs leading to political stability throughout the hemisphere. We have not been afraid to use this new tool.

In August 1962, AID made available a long-term $40 million loan to CORFO for extending credits to high-priority projects in the public and private sectors. The loan agreement, however, makes no mention of any conditions which might have been discussed during the

Moscoso-Goodwin mission. At the same time, a $19.6 million PL 480, title IV, loan was authorized, the local currency proceeds of which were to be used by Chile for development purposes.

The total amount of the $40 million loan was reimbursed for expenditures made during 1962 on 12 activities coming within the general framework of the Chile Development Plan. These included:

TABLE. 4.—*Uses of $40 million CORFO loan—Loan No. 513–H–107* [1]

[In thousands of dollars]

Purpose	*Amount*
1. Partial financing of 8 hospitals throughout Chile	$837.6
2. Partial financing of public electric utilities	7,210.7
3. Railroad equipment and installations	1,539.7
4. To Architecture Division of Ministry of Public Works for partial financing of construction of 3 high schools, 1 school work shop wing, an additional wing on 1 primary school, and repair of existing school	284.6
5. Construction of 18 schools with a total of 297 classrooms	663.3
6. To CORVI for construction of 30 housing projects with a total of 13,630 family housing units	16,261.1
7. To Sanitary Division of Ministry of Public Works for development and improvement of potable water, sewage and storm drainage systems	1,671.3
8. To National Mining Co. for partial financing of copper smelter and copper ore flotation plant	651.0
9. To the Highway Division of the Ministry of Public Works for improvement of 700 miles of road and 5 airports	6,463.4
10. To CORFO for relending to private companies for improvement of fishing industry at Arica	135.2
11. To Irrigation Division of Ministry of Public Works for partial financing of 4 dams	3,997.0
12. To CORFO for payment of services of U.S. consulting firm, Rader & Associates, who were monitoring $40 million loan	285.1
Total	40,000.0

[1] Agency for International Development, Country Assistance Program, part II, November 1963, p. 284.

Proceeds from P.L. 480 agreement were assigned to eight projects, as follows:

TABLE 5.—*Uses of Proceeds of the 4th P.L. 480 Sales Agreement—Loan No. 513–6–008* [1]

Project	*Amount (escudos)*
1. Agriculture development, for relending to agriculturists for development and improvement of farm production	5,650,000
2. Development of fishing industry, assigned to CORFO for relending to rebuild and expand fishing industry	800,000
3. Road development, provides partial financing for 8 sectors of Longitudinal Highway, 3 transverse roads, and 2 bridges	3,516,000
4. Port facilities improvement, for improvement of 5 ports	949,721
5. Port construction, for improvement of 7 ports, 4 small piers, procurement of equipment, and dredging	2,463,100
6. Public water and sewer works, for water and sewer system for sectors of Santiago and a water system for sector of Valparaíso	2,840,000
7. Construction of agricultural facilities, for construction of agricultural experimental station, loans to cooperative dairy plants, construction of livestock slaughter and cold storage plant, and agricultural inspection stations	3,500,000
8. Chilean state railways, for partial financing of 3 railway stations, 2 freight warehouses, 3 machine shops, 5 electrical substations, 6 residences, and other purposes	2,936,428
Total	22,655,249

[1] USAID/Chile, Engineering Services Division. Status Report of Construction Projects, June 30, 1965, p. 10.

C. Program Loans

In January 1963 Chile entered into a stabilization agreement with the International Monetary Fund. The agreement set limits to Central Bank credit expansion and required increased public sector savings and a more realistic exchange rate.

In support of Chile's stabilization-development effort, the United States agreed to make available $60 million—a $35 million AID program loan, a $15 million Export-Import balance-of-payments loan, and a $10 million Treasury exchange agreement.

The $35 million program loan introduced a new technique in development assistance to Chile. Formerly, loan disbursements were tied directly to specific projects. Under the $100 million earthquake reconstruction loan and the $40 million CORFO loan, dollars were disbursed only as project expenditures were made. But Chilean difficulties in planning and implementing projects caused long delays in the release of the dollars.

In an effort to procure a more timely and adequate flow of foreign exchange for essential imports, the program loan system was devised. Under a program loan, the borrower agrees to undertake certain economic policies and practices. Portions of the loan are released periodically following a review of the country's performance on its commitments. The local currency generated by the sale of the dollars to importers is then placed in a special account and released by AID for mutually agreed upon projects or sectors in the Chilean Government's investment budget.

AID assumed that program lending would promote two basic objectives: (1) Provide in a timely manner the additional external resources to facilitate the recipient's efforts to undertake the major structural changes required for dynamic development, and (2) press the recipient to take desirable measures, by attaching appropriate conditions to the disbursement of loan funds.

Whatever the reform rationale attached to program lending, AID was forced to resort to the technique in Chile largely because of Chile's difficulties in preparing soundly conceived projects that met development criteria.

In the last several years, program loans have become the largest component in the United States assistance to Chile. The following program loans have been made: [2]

Date of agreement	Amount	Terms of repayment
Jan. 31, 1963	$35,000,000	40 years including 10-year grace period, ¾ percent interest.
Apr. 3, 1964	55,000,000	Do.
Jan. 5, 1965	80,000,000	40 years including 10-year grace period, 1 percent interest during grace period, 2½ percent interest thereafter.

For the $35 million program loan, it was agreed between the Government of Chile and AID that the anticipated 70 million escudos generated by the sale of dollars to importers were to be used to finance

[2] Another $80 million program loan agreement was signed on Feb. 14, 1966.

mutually agreed upon programs in key sectors of Chile's capital investment budget for the calendar year 1963, allocated as follows:

Sector	*Millions of escudos*
Agriculture	22.0
Housing	24.0
Schools	9.0
Hospitals and health centers	6.0
Transportation	7.0
Industry	2.0
Total	70.0

The $55 million program loan in 1964 was utilized for the following purposes:

TABLE 6.—*Utilization of the escudo proceeds of the $55 million program loan, 1964* [1]

(The escudo proceeds from this loan—E° 141.6 million—plus E° 21 million generated under a 1964 amendment to the 5th P.L. 480 Title IV Agreement and an estimated E° 800,000 unprogramed carryover from 1963 $35 million Program Loan, for a total of E° 163.4 million, were assigned for CY 1964 Chilean Government expenditures to the following specific projects.)

1. Transportation—Funds assigned E° 77.0 million:
   - (*a*) Ports: E° 5.4 million for expansion and/or improvement of 7 ports.
   - (*b*) Highways:
     - E° 27.3 million assigned to the South Longitudinal Highway from Santiago to Quellón.
     - E° 23.2 million assigned to the North Longitudinal Highway from Arica to Santiago, including 12 bridges.
     - E° 21.1 million assigned to 57 transverse road projects including 23 bridges.
2. Agriculture—Funds assigned E° 9.3 million:
   - (*a*) Irrigation: E° 1.2 million assigned to the San Pedro de Atacama project.
   - (*b*) Credits to small and medium farmers: E° 7.0 million assigned to CORFO for subloans.
   - (*c*) Agricultural production—INDAP: E° 1.0 million assigned for a livestock center at La Platina Experimental Station; E° 100,000 assigned for furnishings in the Temuco Experimental Station.
3. Industry—Funds assigned—E° 8 million: Funds assigned to CORFO to make an estimated 600 subloans to small and medium industries.
4. Energy—Funds assigned—E° 6.2 million: Assigned to ENDESA for construction of Chapiquina plant.
5. Mining—Funds assigned—E° 2.8 million: For expansion of three of ENAMI's copper plants.
6. Housing—Funds assigned—E° 50.1 million:
   - (*a*) CORVI assigned E° 40 million for 28 housing developments with 4,947 units.
   - (*b*) IVR assigned E° 6.5 million for 9 developments with 788 units.
   - (*c*) CORVI assigned E° 3.6 million for 10 community facility projects.
7. Education and Health—Funds assigned—E° 10 million:
   - (*a*) SCEE assigned E° 6.2 million for construction of 18 schools, with 340 classrooms for a total of 13,420 students.
   - (*b*) MOP's Architecture Division assigned E° 1.6 million for 5 schools, with 60 classrooms for approximately 2,500 students.
   - (*c*) CORFO assigned E° 400,000 for completion of the German Hospital at Valdivia.
   - (*d*) CORFO assigned E° 1.4 million for accelerated manpower training, to train 3,294 craftsmen during the year.
   - (*e*) MOP's sanitary division assigned E° 400,000 to connect two water storage tanks into the main lines.

[1] USAID/Chile. Engineering Services Division. Status Report of Construction Projects (First Quarterly Report), September 30, 1964, pp. 27–29.

The $80 million program loan in 1965 was assigned to six main sectors of the Chilean development program as follows:

TABLE 7.—*Projects undertaken with the escudos generated by the $80 million program loan, 1965* [1]

GOC COMMODITY FINANCING—LOAN NO. 513–L–025

Amount of loan $80 million, anticipated escudo generation E° 223,606,700.
Funds assigned to six sectoral programs, in summary as follows:

1. Transportation—Funds assigned E° 72,529,000:
   Highways:
   (*a*) E° 49,519,000 assigned to 15 various sectors of the Longitudinal Highway from the northern border of Chile, southward to the island of Chiloé.
   (*b*) E° 23,010,000 assigned to 33 various transverse highways, in 15 of the 25 provinces of Chile, from the most northerly to the most southerly.
2. Agriculture—Funds assigned E° 29,807,000:
   (*a*) Agriculture Supervised Credits: E° 7,000,000 assigned to INDAP for subloans to farmers.
   (*b*) Agrarian Reform Credits: E° 7,400,000 assigned to CORA (Corporation of Agrarian Reform) for subloans to resettled farmers.
   (*c*) La Platina Agricultural Research Station: E° 700,000 assigned to IIA (Institute for Agricultural Investigation) to finance a livestock center addition to the existing La Platina station.
   (*d*) Agriculture Credits: E° 14,707,000 assigned to CORFO (Corporation for the Development of Production) for subloans to small and medium farmers.
3. Industry—Funds assigned E° 16,800,000:
   E° 16,800,000 assigned to CORFO for subloans to encourage the develop- of various industries.
   Anticipated loans:
   Forest industry: E° 1,100,000.
   Fishing industry: 13,300,000.
   Various small industries: 2,400,000.
4. Energy—Funds assigned E° 51,416,000: E° 51,416,000 assigned to ENDESA (Empresa Nacional de Electricidad) for—
   (*a*) Continuation of the work on two main electric powerplants,
   (*b*) The development of seven distributional substations, and
   (*c*) Extensive power distribution lines.
5. Mining—E° 2,936,000 assigned to ENAMI (Empresa Nacional de Minería) for completion of the construction of three copper production plants.
6. Education and Health—Funds assigned E° 49,708,700:
   (*a*) E° 5,868,500 assigned to the University of Chile to finance the construction of five regional colleges and a teaching institute.
   (*b*) E° 12,250,000 assigned to CORFO for the development of vocational training.
   (*c*) E° 12,001,000 assigned to the Ministry of Public Works for the construction of 73 primary schools in 22 provinces of Chile.
   (*d*) E° 7,407,800 assigned to the SCEE (Sociedad Constructora de Establecimientos Educacionales) for the construction of 53 primary schools in 10 provinces of Chile.
   (*e*) E° 12,181,400 assigned to the Ministry of Education for the construction of 113 primary schools in 12 provinces of Chile.

[1] USAID/Chile, Engineering Services Division. Status of Construction Projects (Fourth Quarterly Report), June 30, 1965, pp. 20–21.

D. OTHER U.S. ASSISTANCE

While program loans are now the largest single element in the U.S. assistance package, other segments are not inconsiderable. These include AID project loans, AID grants for technical assistance, Food

for Peace, loans from the Export-Import Bank and the Social Progress Trust Fund, and the Peace Corps. Furthermore, the United States, as a participant in the World Bank, the Inter-American Development Bank, and United Nations agencies, contributes a substantial portion of the assistance which these international institutions render Chile.

(1) AID PROJECT LOANS

In recent years the United States has authorized the following seven loans, totaling $42.8 million, for specific projects in Chile.

TABLE 8.—*AID project loans*

Purpose	Date	Amount (millions)	Terms
1. Padahuel Airport. To construct a jet airport to serve Santiago.	July 19, 1960	$10.5	20 years including 10-year grace period at 3½ percent interest.
2. Savings and loan bank. These loans, coupled with 2 $5,000,000 IDB Social Progress Trust Fund loans for housing cooperatives, a $5,000,000 AID grant and a $1.3 million loan under Public Law 480, title I, provide seed capital to stimulate savings and home construction.	June 14, 1961	5.0	25 years including 10-year grace period, 4 percent interest.
	Mar. 18, 1964	8.7	20 years including 5-year grace period, 4 percent interest, or the Government can assume the loan obligation at its option with terms of 40 years including 10-year grace period, ¾-percent interest.
3. Carriel Sur Airport. To finance construction of an airport to serve Concepción.	June 21, 1961	3.2	20 years including 10-year grace period at 3½ percent interest.
4. Feasibility studies. To finance project feasibility studies and to provide general planning assistance to facilitate the identification and evaluation of projects in both the public and private sectors.	Mar. 16, 1964	3.0	40 years including 10-year grace period, ¾-percent interest.
5. San Vicente Port. To help construct a new deepwater seaport to service Chile's second largest industrial area around Concepción.	May 11, 1964	7.0	20 years including 4½-year grace period at 3½-percent interest. The Government at its option can assume the loan obligation and repay over 40 years including 10-year grace period at ¾-percent interest.
6. Construction of primary schools. To construct 15 schools in low-income areas.	June 22, 1964	2.1	40 years including 10-year grace period at ¾-percent interest.
7. Rural electric cooperatives. To be used by CORFO to further development of 14 rural electric cooperatives, financing projects which will bring electricity to 5,481 new rural customers.	Mar. 5, 1965	3.3	40 years including 10-year grace period at ¾-percent interest.
Total		42.8	

(2) SOCIAL PROGRESS TRUST FUND LOANS

The Social Progress Trust Fund was established on June 19, 1961, by agreement between the U.S. Government and the Inter-American Development Bank. The purpose of the Fund was to supplement traditional economic investments with financial resources for social investment programs in the fields of higher education, land settlement and improved land use, community water supply and sanitation, and housing for lower income groups.

63-511—66——4

By the agreement, the United States provided $394 million to capitalize the Fund, and the Inter-American Development Bank became its administrator. On February 17, 1964, the U.S. Government allocated another $131 million to the Fund, bringing its total resources to $525 million.

From its inception through December 31, 1965, the Social Progress Trust Fund has authorized 14 loans for Chile, totaling $38,938,000. These include:

TABLE 9.—*Social Progress Trust Fund loans*

Purpose	Date	Amount (millions)	Terms
1. Potable water systems. To finance 41 percent of construction costs of potable water systems for Concepción and Talcahuano.	May 16, 1962	$2.47	20 years including 1-year grace period, at 2¾ percent interest, ¾ percent service charge.
2. Housing for low-income farmers. To finance the construction of houses for low-income farmers.	May 2, 1962	1.268	30 years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
3. Supervised agricultural credit. To finance purchase of seeds, and fertilizers, irrigation, and pasture improvements and home improvements through a supervised credit program for small farmers and agricultural cooperatives.	May 16, 1962	10.00	20 years including 8-month grace period, at 1¼ percent interest, ¾ percent service charge.
4. Central savings and loan system. To help finance construction of 3,200 low-cost housing units in 12 cities for families belonging to cooperatives.	May 17, 1962	5.0	27 years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
5. Housing for low-income families. To provide for the construction of 1,885 new housing units for low-income families in Viña del Mar and Valparaíso, or 26 percent of the financing for an 8,000-home project.	Jan. 22, 1963	2.0	21 years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
6. Regional colleges. Through University of Chile, assists in financing the construction of buildings, purchase of equipment, and rehabilitation of libraries at 5 regional colleges.	Dec. 19, 1962	2.3	14½ years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
7. Cooperative supermarkets. To expand a system of cooperative supermarkets in low- and medium-income neighborhoods in Santiago.	Apr. 26, 1963	.600	12½ years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
8. Housing for low-income families. Helps finance construction of 2,500 new houses for low-income families who are members of cooperatives.	Nov. 5, 1963	2.0	29½ years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
9. Rural water supply systems. Provides ½ of funds for construction of water aqueducts at 300 rural localities.	Mar. 17, 1964	2.5	29½ years including 1-year grace period, at 2¾ percent interest, ¾ percent service charge.
10. Savings and loan system. To help finance construction of 2,500 houses for low-income families.	Aug. 12, 1964	5.0	27 years including 1-year grace period, at 1¼ percent interest, ¾ percent service charge.
11. School of Public Health, University of Chile. Provides 54 percent of funds for completion of classrooms and laboratories and purchase of equipment for expansion of School of Public Health.	Oct. 3, 1964	1.25	20 years including 2½-year grace period, at 1¼ percent interest, with ¾ percent service charge.
12. School of Physical and Mathematical Sciences, Catholic University of Chile. Funds will provide 28 percent of the costs of construction of classrooms and laboratories and purchase of equipment.	Nov. 2, 1964	1.05	20 years including 2½-year grace period, at 1¼ percent interest, ¾ percent service charge.

TABLE 9.—*Social Progress Trust Fund loans*—Continued

Purpose	Date	Amount (millions)	Terms
13. Instituto de Viviendas Populares Caritas (INVICA). A private, nonprofit agency which assists housing cooperatives in the legal work, technical aid on land purchase and development, and loans from a revolving fund for construction financing.	Mar. 11, 1965	$2.0	20 years including 1-year grace period, at 1.25 percent interest, ¾-percent service charge.
14. Agrarian reform and development to Instituto de Promoción Agraria (INPROA). A private foundation created in 1963 under auspices of Chilean bishops. Funds will help finance $3.7 million land subdivision plan to benefit 600 low-income families.	Aug. 4, 1965	1.5	10 years including 1-year grace period, at 1.25 percent interest, ¾-percent service charge.
Total		38.938	

(3) TECHNICAL ASSISTANCE

(a) The need

Experience with the earthquake reconstruction program revealed serious deficiencies in the capacity of Chilean agencies to formulate, coordinate, and implement sound investment projects.

Much of the difficulty stemmed from a critical shortage of trained budgetary and planning personnel and a lack of coordination among the various Chilean agencies involved in development planning and budgeting. Responsibility for the planning process was diffused among various Government agencies. Furthermore, the planning process was not integrated into the budgetary process. Vital decisions were made on fiscal and monetary matters, wage and price policies, and on the mobilization and use of resources with little reference to the requirements of the Ten-Year Plan. Allocations of investments resulted from pressures of the moment rather than from rational selection of investments on the basis of development priorities. As a result, numerous low-priority projects were started, wasting precious resources and scarce personnel. Monitoring the implementation of projects was also inadequate.

Meanwhile, the tax system necessary to obtain financing for development projects and social services was sorely deficient. Tax laws were inequitable, unsuited to revenue needs, and difficult to administer. Administration was inflexible and inefficient. The tax system depended heavily on regressive indirect taxes, with 63 percent of revenue originating in sales and excise taxes and customs duties, and only 12.5 percent in personal income taxes. Assessed tax value of real estate was less than 10 percent of market value. Many minor taxes cost more to administer than they yielded in revenue. Tax evasion was estimated at more than 50 percent. In Chile's inflationary situation, the custom of passing tax forgiveness laws condoning interests and fines and providing easy payment plans for overdue taxes put a premium on tax delinquency.

In addition, the Customs Service caused important revenue losses. Customs receipts contribute about one-fifth of Chile's total public revenue. But the Customs Service was in shambles. No effective periodic reporting system was in operation between the field and central offices. The administrative and internal audit function was not performed. There was no system to ascertain that all arriving cargo was documented and that such cargo was withdrawn from customs only after payment of the required duties. There was no effective supervision over the appraisers to assure that their findings as to classification, value, and quantity of merchandise were valid. There was a failure to compile accurate foreign trade statistics and other data vital to development planning. Cumbersome procedures resulted in transaction and handling time taking 12 days. About $2.5 million in losses were suffered each year by importers and exporters through loss, damage, spoilage, and pilferage, but these were difficult to document, with the result that legitimate claims often remained uncompensated. Illegal customs practices, including evasion, penalized the legitimate importer and subjected him to competitive disadvantages. Revenue losses to the Government ran high.

(*b*) *The program*

Under the Alliance for Progress, AID has attempted to provide a comprehensive technical assistance program aimed at developing within Chile the institutional framework and human resources needed to sustain modern economic development. Grant funds authorized for this purpose total $13.2 million for the 4 fiscal years 1962 through 1965.

The key goals include: (1) improvement in public sector management capacity; (2) rural improvement, aimed at expanded social and economic opportunities for the small farmer; (3) education and manpower development; (4) development of financial institutions in the private sector in order to stimulate a more vigorous private sector contribution to economic growth.

Projects are underway in such fields as cooperative development, industrial training, graduate level training and research in economics and social science, rural improvement, and public safety.

Technical advisers are obtained by four methods: (1) direct hire by AID; (2) utilization of specialized personnel from other Federal Government agencies through participant agency service agreements (PASA); (3) contract arrangements with private citizens or institutions; and (4) the Chile-California program.

The Chile-California program, a unique arrangement in U.S. foreign assistance operations, now occupies a large segment of U.S. grant aid to Chile. In February 1963, following a conference at the White House with California Governor, Edmund G. "Pat" Brown, President Kennedy noted:

> California has developed an agricultural economy so abundant that it is able to export 75 percent of its production. Chile, with many of the same problems, geographical features, and products, is now embarked on a development program designed to lift its own agricultural economy and bring a better life to millions of Chilean workers. I believe that

> the State of California can be of substantial assistance in that effort.

Following surveys conducted between February and November 1963, a three-way contract between the Government of Chile, the State of California, and AID was signed in December 1963. According to the contract:

> Because of the special competence, resources, and knowledge available in the public and private institutions of the State of California, technical assistance to be provided by California is envisaged in particular in the fields of national economic planning, agriculture, education, water resources development, and transportation with particular emphasis on highways.

Subsequently, coordinating offices were established in Santiago and Sacramento. Principal duties of the Sacramento office are to arrange and supervise training programs in California for Chileans, recruit California experts and consultants, and to maintain appropriate accounting records.

Among the most significant technical assistance projects—at the very core of the development process—are those designed to promote improved administration, project planning and execution, and fiscal management in government agencies responsible for the development program.

The Chile-California program undertook five broad projects: *Agricultural Development*, primarily concerned with marketing, price, and credit policies; *Manpower and Education Planning*, with emphasis on rural manpower development; *Master Transportation Plan*, to prepare a master plan for coordinated transportation development with special emphasis on creating an effective Chilean transportation planning process; *Development Planning—Organization and Coordination;* and *Regional Planning—River Basin Development.*

Other key projects in AID's effort to provide a comprehensive technical assistance program include: (1) *Moderization of Internal Tax Administration*, for which the resources of the U.S. Internal Revenue Service were tapped by means of PASA agreement to supply advisers for a 4-year project to assist in the reorganization and modernization of Chile's Internal Tax Service; (2) *Customs Administration*, a 2-year project for which AID contemplated supplying 3 advisers; and (3) Modernization of the *Controller General's Office*, to be accomplished by means of a 3-year contract with a U.S. management firm.

In Chile, AID's technical assistance has had varying degrees of success and failure. A number of projects bogged down because AID encountered difficulty in recruiting competent advisers. Others did not progress because of lack of interest and support on the part of key Chilean officials. An occasional program ran into determined resistance because Chilean participants felt their prestige and position threatened by innovations. Some projects had to be discarded because newly appointed Chilean officials did not consider them as important as had their predecessors. Several projects, undertaken on the basis of U.S. experience in similar situations, failed miserably—demonstrating that American experience cannot be superimposed upon differing mores.

The following descriptions of the operation of four technical assistance projects illustrate some of the accomplishments achieved and the obstacles encountered in implementing such programs.

(1) *Development Planning—Organization and Coordination* (Chile-California program. Obligated funds, $228,000; estimated total U.S. cost, $543,000).—The target of this activity was to assist Chile in establishing by the end of fiscal year 1966 an integrated planning process through the development of procedures, organizations, and staff capable of carrying out work on project identification, selection, and feasibility studies, monitoring budgetary performance, and evaluating planning and execution processes.

For this tall order, the project contemplated providing four resident advisers and a series of short-term consultants. The senior development economist arrived in May 1964. A technical adviser and an economic adviser to work with the project evaluation staff of the Bureau of the Budget arrived the following month. Two short-term consultants also served short periods in Chile. But the senior adviser found most of his time absorbed with another of his duties—coordinating the entire Chile-California program—and the economic adviser resigned in early 1965 to work on an OAS project in Brazil.

After an expenditure of about $99,000, the entire project now has been abandoned. Advisory assistance to the Project Evaluation Office will be provided by the World Bank. Advisory assistance in development plan monitoring has been canceled pending determination of the type and amount of assistance desired by the new National Planning Office established by the Frei administration.

(2) *Regional Planning—River Basin Development* (Chile-California program. Obligated funds, $231,000; total estimated U.S. cost, $1,057,000).—The target of this project was to prepare by December 1967 a comprehensive multisector development plan for the Maule River Basin. Three long-term advisers and 11 short-term consultants (in the fields of agricultural engineering, engineering geology, industrial economics, forestry and forest products, agricultural land and water use, agricultural economics, regional planning, and marketing structure) worked with a team of Chilean planners under CONSFA (Superior Council for Agricultural Development) to assist them in developing and improving the skills, procedures, and organizations necessary to prepare the regional development plan.

The project was divided into two parts, phase I being a preliminary survey and work planning, and phase II a long-term planning and programing stage. Phase I was completed late in fiscal year 1964.

Changes in the terms of reference of this project, however, have led USAID to end advisory assistance to this activity. Whereas the previous Chilean administration had attached a high priority to development of the Maule region, the Frei administration has assigned higher priority to regional development plans in the Bió Bió watershed and in the Aconcagua region affected by a March 1965 earthquake. Furthermore, the Central Planning Office has been assigned the role of doing multisectoral planning, while CONSFA's role is now defined as that of doing agricultural planning.

AID professes to believe that all the effort and the $231,000 expended in this project have not been futile. According to AID, the Chilean Government will continue regional planning efforts in the

Maule River Basin on a reduced basis, with CONSFA coordinating the efforts of the various public and private groups investing in the region. In addition, according to AID, the project was not altogether unrewarding since it revealed one of the most highly promising multipurpose water development projects in Chile to be the Colbún dam project in the Maule watershed; funds from an AID feasibility studies loan will be made available for a preinvestment study of the Colbún project. Finally, again according to AID, the California advisory assistance has sparked Chilean interest in strengthening the entire national water resources planning process. Despite the fact that 20 percent or more of public investment is expended in water resources projects and programs each year, planning heretofore has been on a project-by-project basis with little regard for project interrelationships, multipurpose water use, and the implications for public and private investment. The Mission has been discussing with the Chilean Government possible assistance under the Chile-California program in this field.

Meanwhile, during the protracted negotiations on the revised concept, the services of the three resident advisers under the Maule regional plan terminated on December 31, 1965. This means that if and when a new project agreement is signed, a new team will have to be recruited.

(3) *Modernization of the Internal Tax Administration* (Obligated funds, $973,000; estimated total U.S. cost, $1,280,000).—Beginning in fiscal year 1962, advisers from the U.S. Internal Revenue Service began to assist in the reorganization and modernization of Chile's Internal Tax Service (ITS). The project provided for assistance in such fields as auditing, communications and management, tax fraud, training, office services and facilities, personnel management, public information, and data processing.

From the outset, the Chilean Government and ITS personnel gave strong support to the administrative aspects of the program. Chile's response on legislative aspects of tax reform has been slower. Nonetheless, some progress is visible. Revised stamp, income, and inheritance taxes have become law. New capital gains and net worth taxes are in effect. All real property has been reassessed (with the aid of data obtained from an aerial photogrammetric survey financed by the OAS, an IDB loan, the Government of Chile, and about $100,000 from AID), providing a realistic basis for property tax. Property tax revenues increased by 74 percent (28 percent real increase) in 1964. In 1964 total tax collections rose by 10 percent in real terms. During the first 6 months of 1965, total tax yield registered a 67.5 percent increase over the same period in 1964 (for a real increase of about 26 percent).

In the area of tax enforcement, for the first time in Chilean history 2 offenders have been given jail sentences for tax evasion, and another 20 are undergoing legal proceedings. Tax fraud work suffered a setback in April 1965 when the lameduck Congress passed a law condoning fines, interest, and corporal punishment for delinquent taxes and all taxes unpaid, even through a fraudulent evasion or failure to declare. In a sense, the law was a compliment to the work of the Tax Fraud Department, since this was the first time taxpayers needed to seek protection from prosecution for fraud. The Frei administration has declared that it will vigorously oppose tax condonation laws.

(4) *Customs Administration* (Obligated funds, $87,000; estimated total U.S. cost, $164,500).—The purpose of the Customs Administration project is to create an efficient, modern customs service capable of expanding revenue through improved administration. Other objectives include a sharp drop in normal transaction and handling time, less lost and damaged merchandise, the production of accurate trade and financial statistics, reduction in contraband, and improved manpower utilization of the 1,300-man Customs Service.

Although the 2-year project agreement was signed in April 1963 and it was planned to have a three-man advisory team ready to begin activity by February 1964, little of a substantive nature has been accomplished until recently. Setbacks resulted in some measure from delays in recruiting the advisers. The chief customs adviser did arrive in November 1963, but the procedures adviser did not arrive until June 1964 and the customs enforcement adviser until May 1965.

In any case, throughout 1964 the advisory team had difficulty in obtaining from the Chilean Government a clear statement of its intentions, and little headway was made in implementing recommendations. The headless Customs Service was paralyzed from taking any administrative steps, while the outgoing Alessandri administration showed little inclination to pursue the legislative changes necessary to put other recommended changes into effect.

The Frei administration has recently demonstrated a serious intent to bring about reform in the Customs Service. It has assigned a number of its most capable customs officials to the project and a highly qualified lawyer to work on a new customs code and regulations. The appointment of a superintendent at last gives hope of providing the backing required to initiate remedial measures not requiring legislative action. Further, the Chilean Government has accepted and transmitted to its Congress with an "urgent" tag, bills creating a new office of internal investigation and audit and authorizing a new control system for all imported merchandise, utilizing computers already installed in the superintendency. There have also been encouraging developments in the enforcement field. Beginning in November 1965, a 7-week course in enforcement methods was held for about 50 officials of the Customs Service, maritime police, and carabineros. In the past several months customs employees have brought charges against individuals involved in about 80 cases of contraband.

The fate of a fifth technical assistance project—*Modernization of the Controller General's Office*—is discussed in detail below, page 72.

(4) EXPORT-IMPORT BANK LONG-TERM LOANS

From fiscal year 1946 through fiscal year 1965, Export-Import loans to Chile with maturities of more than 5 years have totaled $363 million. During Alliance for Progress years (fiscal year 1962 through fiscal year 1965), loans have totaled $86,600,000.

(5) FOOD FOR PEACE

Under five agreements, Chile has purchased some $109.6 million[3] of surplus food under titles I and IV of Public Law 480. Most of

[3] Market value including transportation costs.

the proceeds of the sales for Chilean currency under title I have been set aside by the United States for loans contributing to economic development within Chile. All local currency proceeds of the long-term dollar credit sales under title IV are being used by Chile for development purposes.[4] Another agreement under Public Law 480, title I for $19,750,000 has been negotiated for fiscal year 1966.

In addition, Chile is one of the largest recipients per capita of donations of foodstuffs under Public Law 480, title III. Under this program through fiscal year 1965, Chile received over 661 million pounds of food, with an estimated market value of over $47.6 million and freight charges totaling some $11 million.

(6) THE PEACE CORPS

The first group of 45 Peace Corps volunteers arrived in Chile in 1961. Obligations for the program since its inception total $6.2 million, with obligations for fiscal year 1965 at $2.7 million. There are at present 363 volunteers scattered throughout Chile working on projects in education, housing, social development, and public health.

(7) PRIVATE U.S. ASSISTANCE

Numerous U.S. private religious and secular agencies carry out a wide range of activities in Chile, including operation of hospitals and primary schools, and programs of environmental sanitation, agricultural and vocational training, credit union and cooperative development. No estimate is available of the total expenditures in Chile by these organizations.

Among the most active nonprofit organizations providing assistance to Chile are the Ford and Rockefeller Foundations. Some of the Ford Foundation's activities include: a grant of $1,225,000 to provide consultants and fellowships for the purpose of strengthening the study of physical and mathematical sciences at Catholic University in Santiago; $500,000 to provide consultants, equipment, and fellowships to the Institute of Sciences and Mathematics of the University of Concepción; $1,441,911 to the University of Chile to provide consultants, equipment, and fellowships for regional colleges; $250,000 to provide consultants to the National Commission for Educational Planning. The Rockefeller Foundation also is aiding the University of Chile and Catholic University through direct grants and fellowships. In addition, it maintains programs in cereal improvement and forage and pasture crops, and is assisting in the development of experimental stations.

The list of activities of U.S. voluntary agencies in Chile is too long for inclusion herein. Under an AID contract, the Technical Assistance Information Clearing House of the American Council of Voluntary Agencies for Foreign Service, Inc., periodically publishes a directory. Anyone interested further in the operations of U.S. voluntary agencies should consult that publication entitled, "U.S. Non-Profit Organizations; Voluntary Agencies, Missions, and Foundations Participating in Technical Assistance Abroad, A Directory, 1964."

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[4] For examples of the types of projects undertaken with the local currency proceeds, see table 5, p. 29.

(8) INTERNATIONAL SOURCES OF CHILEAN ASSISTANCE TO WHICH THE UNITED STATES CONTRIBUTES

Often overlooked in discussions of U.S. foreign aid are the sizable U.S. contributions to international agencies which extend capital and technical assistance to less developed nations. Chile has received considerable assistance from international sources to which the United States makes substantial contributions.

(*a*) *International Bank for Reconstruction and Development*

The International Bank for Reconstruction and Development and its affiliates, the International Development Association and the International Finance Corporation, have made loans to Chile for development purposes totaling $168.7 million. The United States supplies 29 percent of the IBRD's capital and over 35 percent of the IFC's capital. Thirty-six percent of the IDA's usable resources is furnished by the United States.

(*b*) *Inter-American Development Bank*

Since its inception in 1961, the Inter-American Development Bank has made loans to Chile totaling $68.5 million from general funds (to which the United States contributes 42.5 percent), and $28.3 million from the Fund for Special Operations (to which the United States contributes 68 percent). The following table describes the loans which have been made.

TABLE 10.—*Inter-American Development Bank loans to Chile to December 1965*

Borrower (guarantor)	Purpose	Approved or signed	Amount	Interest (percent)	Repayment terms
		ORDINARY CAPITAL RESOURCES			
Corporación de Fomento de la Producción (CORFO).	Industrial, mining, and fishery development.	Approved Apr. 9, 1961; signed Aug. 19, 1961.	$6,000,000	5¾	20 semiannual beginning Dec. 15, 1963.
Republic of Chile	Water supply	Approved Nov. 23, 1961; signed May 16, 1962.	1,050,000	5¾	32 semiannual beginning Nov. 16, 1966.
Corporación de Fomento de la Producción (CORFO).	Fishery project	Approved Dec. 7, 1961; signed Mar. 29, 1962.	5,000,000	5¾	18 semiannual beginning July 15, 1965.
Republic of Chile	Irrigation	Approved Feb. 8, 1962; signed May 16, 1962.	2,211,460	5¾	32 semiannual beginning Nov. 16, 1966.
Compañía Manufacturera de Papeles y Cartones S.A.	Pulp plant	Approved Nov. 8, 1962; signed Nov. 23, 1962.	16,000,000	5¾	25 semiannual beginning Nov. 23, 1965.
Maderas Aglomeradas Pinihue, S.A. (Corporación de Fomento de la Producción—CORFO).	Chipboard plant	Approved Feb. 7, 1963; signed Feb. 8, 1963.	1,235,000	5¾	18 semiannual beginning Aug. 8, 1965.
Empresa de Agua Potable (Republic of Chile)	Water supply	Approved Apr. 4, 1963; signed May 24, 1963.	5,125,000	5¾	32 semiannual beginning Nov. 24, 1967.
Empresa Nacional del Petróleo (Corporación de Fomento de la Producción—CORFO).	Oil refinery	Approved Oct. 24, 1963	11,000,000	5¾	20 semiannual beginning May 5, 1966.
Corporación de Fomento de la Producción (CORFO)	Industrial, mining and fishery development.	Approved, Mar. 12, 1964; signed Mar. 17. 1964.	6,000,000	5¾	18 semiannual beginning Sept. 17, 1967.
Banco Central de Chile	Capital goods exports	Approved Apr. 8, 1964, signed Apr. 15, 1964.	2,000,000	6	Repayable in periods and conditions specified in credit documents issued by the borrower.
Republic of Chile	Irrigation	Approved, Aug. 6, 1964; signed Aug. 12, 1964.	3,500,000	6	32 semiannual beginning Feb. 12, 1969.
Compañía Manufacturera de Papeles y Cartones, S.A.	Pulp mill	Approved Oct. 8, 1964; signed Oct. 9, 1964.	1,400,000	6	25 semiannual beginning Nov. 23, 1964.
Corporación de Fomento de la Producción (CORFO).	Industrial development	Approved Sept. 23, 1965; signed Dec. 3, 1965.	8,000,000	6	19 semiannual beginning Nov. 30, 1968.
Total			68,521,460		

TABLE 10.—*Inter-American Development Bank loans to Chile to December 1965*—Continued

FUND FOR SPECIAL OPERATIONS

Borrower (guarantor)	Purpose	Approved or signed	Amount	Interest (percent)	Repayment terms
Corporación de Fomento de la Producción (CORFO).	Farm settlement	Approved Dec. 21, 1961; signed May 2, 1962.	$6,267,160	4	27 annual beginning May 2, 1966. (Interest and principal payable in escudos or in currencies loaned, at election of borrower.)
Corporación de Fomento de la Producción (CORFO). Corporación de la Reforma Agraria	Technical assistance	Approved Dec. 21, 1961; signed May 2, 1962.	265,000	4	7 annual beginning May 2, 1965. (Interest and principal payable in escudos or in dollars at election of borrower.)
Corporación de Fomento de la Producción (CORFO).	Aerial photogrammetric survey.	Approved Oct. 18, 1962; signed Dec. 20, 1962.	2,100,000	4	19 semiannual beginning Jan. 15, 1966. (Interest and principal payable in currencies loaned.)
Corporación de Fomento de la Producción (CORFO).	Preinvestment studies	Approved Aug. 12, 1965; signed Nov. 26, 1965.	3,000,000	4	25 semiannual beginning Nov. 26, 1968. (Interest payable in currencies loaned; principal in escudos or in currencies loaned at election of borrower.)
Universidad de Concepción (Corporación de Fomento de la Producción—CORFO).	Higher education	Approved Nov. 4, 1965	1,200,000	2¼	33 semiannual beginning 48 months after date of contract. (Interest and principal payable in escudos or in currencies loaned at election of borrower.)
Republic of Chile	Water supply	Approved Dec. 14, 1965	15,500,000	2¼	33 semiannual beginning 48 months after date of contract. (Interest and principal payable in escudos or in currencies loaned at election of borrower.)
Total			28,332,160		

Source: Inter-American Development Bank.

(c) *United Nations Expanded Program of Technical Assistance*

The United Nations conducts a wide range of technical assistance activities in Chile. Under the United Nations Expanded Program of Technical Assistance (for which the United States contributes 40 percent of the financing), various U.N. agencies—Bureau of Technical Assistance Operations; International Labor Organization (ILO); Food and Agricultural Organizations (FAO); Educational, Scientific, and Cultural Organization (UNESCO); International Civil Aviation Organization; International Telecommunications Union; International Atomic Energy Agency; and the World Health Organization—provide advisers, fellowships, and some equipment. Over the period 1951–64, these technical assistance activities in Chile reached a total of about $7.4 million. The program for the 2-year 1965–66 period is established at $1 million.

Under this program, for example, the U.N. Bureau of Technical Assistance Operations currently is furnishing Chile with four experts (British, Australian, Finnish, Norwegian) to work with the Chilean Committee for the Latin American Free Trade Zone in the fields of foreign trade, industrial promotion, industrial statistics, and agricultural marketing, respectively; a Swedish adviser to the Ministry of Finance on the rationalization of government offices and a career service; and a German economist to advise on the financing, organization, and marketing problems of small industries and handicrafts.

The ILO currently is furnishing a British adviser to assist in the organization of high-level seminars for the promotion of industrial productivity, an Ecuadorean to advise on the development of a rural program in the Andean highlands, and an Italian expert in the field of small industries and handicraft cooperatives.

The FAO is providing a number of experts to advise the Ministry of Agriculture and CORFO on various aspects of the livestock development program. This group includes a British expert on pasture improvement, an Australian to advise on general aspects of the plan, a Portuguese adviser to work on dairy production and cheese technology, a German associate expert also working on the development of dairy production, and two Australian experts to work on meat marketing and livestock production. The FAO is also providing an Italian expert on colonization to advise on the land reform program and the study of the consolidation of small uneconomic landholdings as well as to give technical advice to settlers and cooperatives.

UNESCO has also been active in Chile. Among the services presently being provided to the National Commission on Educational Planning are those of a Cuban adviser on curriculum reform, a Mexican to assist in the preparation of a system for developing audiovisual aids in education, and an Israeli to help organize a program of industrial education. A Spanish expert on the teaching of sciences is also in Chile under UNESCO auspices.

The International Civil Aviation Organization's chief of mission serves as adviser on aeronautical communications to the Chilean Director of Civil Aviation. The ICAO is financing five fellowships for Chilean nationals for study at the ICAO Regional Civil Aviation Training Center in Buenos Aires in both 1965 and 1966.

The above examples of the activities in Chile of the United Nations Expanded Program of Technical Assistance are illustrative rather than exhaustive, but they do give some idea of the manifold tasks undertaken by the international organization, and supported in good measure by U.S. funding.

(d) United Nations Special Fund

The largest United Nations effort on behalf of Chilean development relates to the United Nations Special Fund. The U.N. Special Fund has authorized about $11.2 million in assistance to Chile. Here, again, the United States is a heavy contributor, supplying 40 percent of the financing of the Special Fund.

The Special Fund has completed one project in Chile, a mining and geological survey in the Province of Atacama. The project personnel, which included a group of 10 French experts working under subcontract, surveyed various deposits of copper, iron, and other metals, and undertook preliminary drilling operations in several selected sites. The Special Fund contributed $990,500 for this project.

The following 10 Special Fund projects are currently in operation:

TABLE 11.—*United Nations Special Fund activities in Chile*

Description	Duration	Type of assistance	Cost
1. Institute of Occupational Health.... Scientific research, personnel training and technical assistance to the Government, industry, and private institutions for the protection of industrial workers against occupational diseases in the Greater Santiago area.	June 1963–68.....	Project manager (United States); consultants (9); equipment.	$404,000
2. Training center for instructors, supervisors, and foremen. To create a training center in Santiago to cover planned requirements for instructors, supervisors, and foremen for Government and private industry, who will in turn undertake industrial training at the skilled manpower level.	August 1963–68....	Project manager (France). ILO has supplied experts or instructors in technical drawing, agricultural mechanics, electricity, welding, carpentry, lathe, metallurgy, diesel, and automobile mechanics.	1,120,200
3. Institute for Training and Research in Agrarian Reform. To create an institute to work in the field of agrarian reform in 2 principal directions: in training professional and specialized personnel, and by carrying out research and analyses of specific problems and projects.	June 1964–69.....	Project manager (United States); experts (5) in land settlement, agrarian legislation, credits, cooperatives, rural sociology, and administration of agrarian reform programs.	723,100
4. Institute of Food Science and Technology. To create an Institute of Food Science and Technology in the Faculty of Agriculture at the University of Chile. The Institute will operate through research, training, quality control, and direct advisory services to private industry.	Started September 1964.	Project manager (Brazil); experts (7) in food technology over the course of the project.	482,000
5. Institute for Development of Forest Resources. Institute is responsible for reforestration projects, research in forestry products and marketing, forest inventories and experiments in controlled growth, training, and advisory services to private industry.	September 1961–65.	Project manager (Spain); experts in wood technology, marketing, classification, standardization, sawmilling, and forestry research.	1,136,050

TABLE 11.—*United Nations Special Fund activities in Chile*—Continued

Description	Duration	Type of assistance	Cost
6. Survey of geothermal resources in northern Chile To undertake the survey and drilling of the geothermal resources in the Provinces of Tarapaca and Antofagasta.	Approved June 1965; 3½ years.	Experts	$1,664,300
7. Mineral resources survey of the Province of Coquimbo.	January 1964–December 1965.	Project manager (United States).	507,100
8. Faculty of Engineering, University of Concepción. To assist in the creation of a faculty of engineering.	November 1961–December 1966.	Project manager (United States); consultants; equipment.	1,107,904
9. Hydrometric and hydrometeorological stations. To undertake the establishment of new and the expansion of existing hydrological and climatological stations throughout Chile.	May 1960–65	Project manager (Spain); hydrologist.	612,500
10. Institute of Fisheries Development. To create an institute which will lay the foundation for the rational development and use of Chile's fish resources through the study of existing resources, improved fishing methods, better marketing and distributing systems, quality control, and personnel training.	August 1963–68	Project manager (South Africa); experts (17) during course of project in such fields as oceanography, biology, process technology, quality control, economics, and fishing techniques.	381,000

(e) *The United Nations Children's Fund (UNICEF)*

Since initiating activities in Chile in 1949, UNICEF has approved programs valuing over $3 million. United States contributes 40 percent of UNICEF's financing. Sample UNICEF programs in Chile: nurses training; equipment for nursing schools; equipment for penicillin manufacturing plant; an extensive nutrition program in several provinces; a pilot project in tuberculosis control in San Miguel among an estimated population of 260,000 for which UNICEF has supplied fixed and mobile X–ray equipment, laboratory equipment, drugs, vaccinations, administrative and health education equipment.

IV. OBSERVATIONS ON OPERATION OF ALLIANCE FOR PROGRESS

In furnishing assistance under this title, the President shall take into account (1) the principles of the Act of Bogotá[1] *and the Charter of Punta del Este,*[2] *and in particular the extent to which the recipient country or area is showing a responsiveness to the vital economic, political, and social concerns of its people and demonstrating a clear determination to take effective self-help measures; (2) the economic and technical soundness of the activity to be financed; (3) the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives. * * **

(Sec. 251(b), the Foreign Assistance Act of 1961, as amended. Title VI—Alliance for Progress.)

The preceding section summarizes elements of United States assistance to Chile under the Alliance for Progress. How effective has that vast array of projects and programs been in achieving Alliance objectives?

Physical accomplishments resulting from United States-Chilean economic cooperation abound. Hundreds of miles of roads have been built. Ports and railroads have been expanded and modernized. City streets have been paved. Dams, irrigation canals, and two agricultural experiment stations have been constructed. A copper smelting plant and several hydroelectric projects are under construction. Thousands of housing units and classrooms have been erected. Several airports have been improved and two new jet airports are underway. Thousands of loans have been made available to medium and small industries, farmers, and agricultural cooperatives.

Given Chile's myriad necessities, most of the undertakings are probably useful in some degree. But a list of physical accomplishments conveys little about the Alliance program. Rather we must ask:

Are the funds provided spurring economic and social development?

Are the projects undertaken those of high priority, those which will induce the vigorous and sustained development that Chile direly needs in order eventually to reduce its dependence upon external assistance?

Are the projects conducted in a reasonably efficient manner?

Has U.S. assistance really served as an incentive and support for self-help measures, or has the availability of substantial external aid actually reduced incentive for reforms?

The following findings regarding the operations of U.S. assistance in Chile from the inception of the Alliance for Progress through December 31, 1965, explore these basic questions.

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[1] See appendix, p. 199.
[2] See appendix, p. 185.

FINDINGS

A. AID is weak in evaluating merits of projects and programs.

One of the most urgent requirements for sound economic and social development is the selection of high-priority programs and projects. Scatter-shot choices often channel investment into low-priority endeavors, wasting limited human and material resources on activities of little permanent value to the nation. The Charter of Punta del Este recognizes the need for selectivity in calling for comprehensive development plans.

Chile was one of the first Latin American nations to possess a 10-year national development plan. For several years AID justified its requests for assistance to Chile by pointing to the existence of the 10-year plan as an assurance that funds would be well spent for development purposes.

Unfortunately, Chile's plan is not an action program, as AID has subsequently recognized. Rather, it is largely a series of projections exploring the interrelationships of the major sectors of the economy under certain quantitative assumptions. As such, it provides an analytical framework for Chile's economic development, but does not set forth clear priorities or definite projects. In practice, the Chilean Government has made vital decisions with little reference to its plan.

Meanwhile, experience with the earlier earthquake reconstruction and Public Law 480 programs made evident that Chilean Government agencies lacked the capability to identify key projects; to formulate projects in terms of sufficient economic, financial, and engineering detail to serve as the basis for programing investment; to make priority determinations; and to evaluate projects in process. In short, it had become clear that assistance to Chile—despite that nation's relatively high technical capabilities with respect to other less developed countries in Latin America and elsewhere—was no Marshall plan operation. That is, funds could not simply be channeled in Chile's direction with assurance that they would contribute to that country's long-range growth.

AID sought to remedy this critical situation by initiating a comprehensive, interrelated program of technical assistance to the various key Chilean Government agencies involved in development planning and execution. But some of the projects undertaken "to improve use of resources in the public sector," as AID terms this goal, have been ineffectual. Earlier in this report the abandonment of two such efforts is discussed: *Development Planning-Organization and Coordination* (p. 38), and *Regional Planning—River Basin Development* (p. 38). Another potentially important effort, *Modernization of the Ministry of Public Works Management*, never got off the ground. The project agreement was executed in April 1963, but after long delays in negotiations over a management consulting firm and obvious lack of interest on the part of the Alessandri administration, the project agreement was canceled in August 1964. The unhappy fate of another key project in public sector management, *Modernization of the Controller General's Office*, is discussed below (p. 72).

In its proposed country assistance program for fiscal year 1967, AID lists five activities under Goal II—*Improved use of resources in the public sector*, as follows: [3]

Activity 2.1—Feasibility studies loan.
Activity 2.2—Master transportation plan.
Activity 2.3—Regional development planning (terminating).
National water resources (preliminary proposal).
Activity 2.4—Modernization of Controller General's Office.
Activity 2.5—Development planning—organization and coordination.

Currently, only the first two activities exist. The last three have terminated, not because they accomplished their purposes, but for the reasons indicated elsewhere in this report.

Of the two remaining activities, the master transportation plan project is obviously limited in scope to a narrow sector of Chile's planning and evaluation requirements. The $3 million feasibility studies loan originally did contain a provision to the effect that up to $750,000 may be utilized to finance the costs of technical assistance to Chilean agencies involved in planning. An amendment in July 1965 diluted this already permissive provision by broadening the purposes for which the $750,000 could be used. By the amendment, "at the option of the borrower, up to $750,000 may be made available to finance the costs of general surveys and prefeasibility studies designed to assist in the identification, appraisal, and formulation of priority development projects and the costs of technical assistance to the planning department of the borrower's Budget Office." In the event that any funds authorized for the uses just specified were not utilized, such funds could be used for feasibility studies of public sector projects. Thus, the technical assistance component of the $3 million feasibility loan was practically written off. To date, none of the loan has been utilized for technical assistance purposes.

In effect, AID's original intention of strengthening Chile's capacity to administer an extensive development program has virtually collapsed. AID has been reduced to a piecemeal approach, standing ready to offer technical assistance to whichever Chilean agency appears receptive at the time.

Meanwhile, U.S. program lending has been rising steeply—from $35 million in 1963, to $55 million in 1964, to $80 million in 1965.[4] As explained earlier, the local currency generated by the sale to importers of these dollars is placed in a special account and released by AID for mutually agreed upon projects or sectors in the Chilean Government's investment budget. Similarly, most of the proceeds from sales of Public Law 480 surplus foods for Chilean currency are set aside for development purposes.

In the absence of a workable Chilean development plan and administrative capacity, AID must devise its own procedures to insure the expenditure of these funds for projects on the basis of high priority, feasibility, and a reasonable guarantee of adequate followup. In a

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[3] Department of State, Agency for International Development, Country Assistance Program, fiscal year 1967, Chile, pt. II, September 1965 (unclassified), table of contents.
[4] Another $80 million program loan agreement, for 1966, was signed on Feb. 14, 1966.

larger sense, AID must also develop procedures for a constant and searching evaluation of the overall program in relation to Alliance goals.

AID's evaluation of the merits of the overall program and of individual projects, however, is inadequate. AID provides little foundation for decisions in the way of objective research and analysis. Projects are often undertaken on the basis of a single technician's enthusiasm for his specialty. Those responsible for final selection of projects are usually untrained in the various specialized fields, hence susceptible to the arguments of a persuasive advocate. This is not to imply that the technicians are usually wrong, but that AID has no way of *knowing* since no objective analyses are undertaken. Consequently, numerous projects are started in a burst of enthusiasm, but without real knowledge of the probability of their acceptance in the foreign setting, of the host country's capability to carry out its part of the bargain, or of the project's contribution to the long-range development of the country. As a result, certain projects run into great problems of implementation and require an expenditure of staff time out of all proportion to the possible benefits of the scheme.

The Chilean experience provides a number of examples. One such case should suffice to illustrate. Early in 1963 AID contracted the services of an adviser on small rural industries. Based on his recommendations, a project agreement was executed with the Chilean Ministry of Agriculture and the Institute of Agricultural Development (INDAP) on June 24, 1963.

The Country Assistance Program book (CAP), published in November 1963, contains the following glowing description of the project.[5] The italics are added.

> In Chile there is much unemployment and underemployment in the rural zones. There is a frequent lack of proper diet for Chileans in the winter and during times of stress. The climatic factors in Chile are similar to those of the west coast of the United States where almost two-thirds of the fruit and vegetables are grown which supply the U.S. domestic and export markets. The small farmers and subsistence farmers of Chile consume fresh vegetables in season, but any excess is lost. This loss, according to best information, is over 30 percent of the total production, sometimes estimated to amount to $100,000 a day in the Santiago area alone. Without increasing the workload of the rural farmer significantly, there could be greater utilization of production if there were some way to conserve and market the output. This project proposes to make available to numbers of small farmers the opportunity to conserve their products for future use or for local sale and thereby to increase their generally low income.
>
> There are over 2,000 committees or informal associations of small farmers organized in the rural communities of Chile. These groups can be *easily* transformed into cooperatives for developing and operating community canning

[5] Pt. II, unclassified, pp. 186, 187.

centers. The need for canning centers and other small industries is recognized by these groups. *Lack of available capital within these groups to purchase the required equipment has served to limit progress in this direction. The recent decline of the value of the escudo and the increased cost of living have made it impossible for the associations to purchase foreign made equipment.*

This activity will provide imported canning equipment. Building and local operating costs will be financed locally.

Excess production will first go into inventories for the farmers, next be available for commercial marketing for consumption in the area. The merchant jobbers are ready to buy lots of sufficient size to warrant their handling and to distribute them in the domestic or export market.

It is estimated that 200 full-time jobs will be made available to rural people through this project and part-time work for many more. Furthermore, the project will be identified with Alliance for Progress, as Alliance stickers will be on the cans and this symbol will eventually become the trademark of all the products produced in the plants. The plants will be known as "Alliance for Progress Community Canning Plants" and their signs and advertising will feature the Alliance theme. It is hoped these associations or cooperatives will eventually unite to form a national merchandising federation.

This project will finance itself after the AID initial contribution which was made entirely in fiscal year 1963. Small farmers will conserve enough food for their home use and enough extra for sale in the local markets to finance equipment and their share of the operating cost. They will also be able to trade between communities on a barter basis, that is, meat, fish, or temperate zone vegetables can be traded for tomatoes, peaches, figs, and apricots without the need of a cash consideration. As they gain experience, the variety of products produced will be extended and there will be an increase in products grown for sale to the cannery. *California Packing Corp. (CALPAK), the world's largest food conservation company, started operations about 50 years ago in the same manner as proposed in this project.*

[This project] * * * was initiated after a *careful study* of suitable locations in the farming section of Chile where serious unemployment existed and where there was a production capability.

To qualify for receiving a canning unit, it was necessary for a community to show willingness to cooperate actively and have, or be able to provide, a suitable building and clean water supply. Principally, a community, to qualify, had to have prime materials available and also show evidence that production could be increased under guidance of technicians of the Chilean Ministry of Agriculture, or its subsidiary organization, Institute of Agricultural Development (INDAP).

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Operations will start in the midsummer, March 1964.

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AID has agreed to purchase equipment in the United States for the canning plants and to transport this equipment to the port of entry.

AID also agreed to select other equipment required according to needs of the industries to be sponsored, to train technical personnel in the operation of the equipment, and to train Ministry of Agriculture personnel to become specialists in the field of rural industries.

In a section entitled "Progress to Date," the Country Assistance Program book, published in November 1963, informs us:[6]

> This project has met with a *very favorable response from the Ministry of Agriculture, INDAP, and the rural communities* visited in connection with selecting the site for the industries. In fact, the project enjoys *enviable* support from the GOC [Government of Chile] and the local communities. *The 50 sites for canning industries have now been selected* together with 7 other sites for hammer mills and mixing units and 2 further sites for fruit drying plants. The United States contribution of commodities has already been ordered and should arrive in Chile in January 1964. *Installation of same will begin immediately* upon arrival. Furthermore, four training seminars have been organized by the USAID contract technician. [Italics added.]

Any reader—including Members of Congress and at AID/Washington—is likely to be impressed by the CAP's description of the small rural industries project. It has all the elements of an Alliance for Progress success story: economic justification, "enviable support" from Chilean agencies and local communities, and willingness of the United States to supply the missing ingredient, foreign equipment. The project, we are told, is off to a running start, with all 50 sites selected and the equipment, ordered from the United States, due to arrive in January 1964 at which time installation will "begin immediately."

The fate of the small rural industries project gives a kind of Alice-in-Wonderland quality to the description of the project in the CAP. Early in 1964, USAID/Chile introduced a system for monitoring on-going projects, with bimonthly progress reports. On August 3, 1964 (8 months after publication of the Country Assistance Program book and 5 months after the contract of the small rural industries adviser had expired), the Project Operations Division of USAID reported: "40 cannery sites have been selected by INDAP/Ministry of Agriculture and approved by the Mission."[7] This eliminates 10 sites supposedly selected by November 1963. Also, reported the Project Operations Division, "Most of the cooperatives or committees do not have sufficient funds to finance the construction of the necessary building, water, and power facilities."[8]

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[6] Ibid., p. 190.
[7] USAID/Chile, Project Operations Division. Bimonthly project status report (third bimonthly report), Aug. 3, 1964, p. 24.
[8] Ibid.

The next bimonthly progress report of the Project Operations Division, October 5, 1964, states: [9]

> Progress toward a successful conclusion to this project has not been as rapid as expected. This is due in part to a history of internal problems in INDAP, omission of crucial items in the commodity order, and difficulties inherent in seeking to encourage collaboration between individualistic and ill-trained farmers in dozens of different communities.

The same report also records a further drop in the number of selected sites. A member of the Mission staff who inspected the 12 approved sites in the southern region discovered that some "are not in a position to furnish the necessary buildings and potable water in the near future." [10]

The February 1965 report of the Project Operations Division states: [11]

> With regard to the 40 sites tentatively approved by the Mission in July and August 1964, INDAP has again been requested to provide definite data on the sites that will have to be relocated because of *a lack of local resources or enthusiasm.* [Italics added.]

What had become of the "enviable support" the project was said to have enjoyed from Chilean agencies and local communities? By what alchemy had the CAP's "over 2,000 committees or informal associations of small farmers organized in the rural communities of Chile," which could be "easily transformed into cooperatives for developing and operating canning centers," been converted to the Project Operations Division's "individualistic and ill-trained farmers in dozens of different communities" among whom it is "inherent[ly]" difficult "to encourage collaboration."

By the end of 1965, only 2 canning plants (one INDAP's pilot plant for training purposes) were in operation and less than 20 of the 50 sites originally contemplated had been approved.

The following excerpt from the Project Operations Division's report in December 1965 tells of the Mission's search for some means to salvage the project and put the canning equipment to use: [12]

> At a meeting with INDAP representatives on November 8, 1965, the Mission recommended the joint operation of some of the plants by farmers and the universities and agricultural schools which would be willing to cooperate. The four universities and the agricultural schools in operating the plants will also offer vocational training courses for the students.
>
> The Mission, by letter to INDAP of October 26, 1965, expressed its deep concern for the slow progress of the program and urged INDAP to take more positive efforts to arrange financing for the cooperatives and for the farmer groups. It was suggested that CORA financing be explored for a number of suitable sites and that INDAP itself directly

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[9] Ibid. (fourth bimonthly report), Oct. 5, 1964, p. 15.
[10] Ibid.
[11] Ibid. (sixth bimonthly report), Feb. 3, 1965, p. 10.
[12] Ibid. (11th bimonthly report), Dec. 3, 1965, p. 8.

assist about ten cooperatives in the Valdivia-Osorno area which had been proposed early in the program.

It will be noted that the Mission's suggestions for Government financing and university cooperation significantly alter the original concept of the project whereby the farmers were to assume a major portion of the initiative.

The Small Rural Industries project is modest as foreign aid projects go—$100,000 plus the salary and expenses of the contract adviser. Yet, because of the setbacks encountered, it has involved an inordinate amount of time and travel on the part of Mission personnel to push it to completion. Furthermore, it would be interesting to know the reaction toward the Alliance for Progress of those farmers whose hopes were initially raised only to be dashed when their site was eliminated from the project.

Apparently, no one cognizant of Chilean rural conditions and attitudes was consulted in advance regarding the possibility and pitfalls of transplanting a California experience to a Chilean setting. The kernel of the idea was promising. Perhaps if the project had been subjected to objective scrutiny, with hard questions asked about Chilean realities, the Mission may have seen the advisability of beginning with one or two pilot canneries instead of dissipating efforts in 50 directions.

As for evaluation of the overall program, AID has no independent group to perform objective review and evaluation. The subjective analyses carried out by AID's operating and planning staffs are useful as far as they go. But it is contrary to human nature to expect a completely objective view from people who are involved intellectually or emotionally with various stages of the program.

AID's ability to self-evaluate the merits of programs and projects is also severely limited by a lack of agency memory, as discussed in the following finding.

B. The Agency for International Development lacks memory of previous experiences upon which to assess its own performance and to make intelligent judgments for operational decisions.

The use of international assistance to promote economic and social progress is relatively new. We know very little as yet about inducing innovations in alien cultures. AID's experiences could yield important insights into the development process.

AID is not unaware of the need for some means of accumulating and storing its experiences for application to the decision-making process. Several Agency manual orders have been issued outlining in detail procedures which, if fulfilled, would provide AID with "the reservoir of data needed for the evaluation of AID's efforts and methods, for an assessment of the results of the activity reported upon, and for the improvement of future AID programs through exchange of experience." [13]

Particularly pertinent in this regard are the requirements set forth in M.O. 1391.1, "Preparation and Submission of the Technical Assistance Project History and Analysis Report," and in M.O. 1423.10, "Evaluation of Contractor Reports and Performance." For instance,

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[13] Agency for International Development, Program Guidance Manual, Manual Order 1393.1, Sept. 9, 1963.

M.O. 1393.1 calls for very thorough reports on technical projects, to include:

Major Factors Affecting Progress

This section is important for understanding the rate of progress achieved, for making comparative analyses with other projects of similar type, and for future programing purposes. A meaningful but concise statement is desired. It need not follow the outline below but should contain the information indicated.

a. *Cooperating Country Performance*

Discuss concisely administrative arrangements, lack of presence of high level interest, understanding of technical factors or objectives, legislation, financial support, natural disasters, political considerations, etc., which contributed to, or hampered progress. Do not include problems which the project was designed to remedy. Do include, as applicable, discussion of tactics followed by the Mission and/or cooperating country agencies to overcome problems or take advantage of favorable factors.

b. *U.S. Performance*

Discuss planning, financing, implementation methods, time schedules, staffing, contractor selection, or other factors which contributed to or hampered effective U.S. performance. Discuss how performance might have been improved.

Appraisal of Results (by the Reporting Mission)

[The previous parts] of the Project History and Analysis Report provide an organizational framework for presentation of the project's history. If properly prepared, they should contain all of the facts and clues which are significant to an assessment of progress.

[This part] is analytical. It contains the Reporting Mission's interpretation of the meaning of the data in [previous parts].

a. Actual rate of progress compared to expectation.

b. Significance of findings with respect to the country situation toward which the activity is addressed, to national development, and to U.S. objectives;

c. Significance of findings with respect to future activities within the country or to AID activities of similar type which may be under way or under consideration elsewhere.

The analysis should include consideration of whether the problem attacked was well defined, its technical and other dimensions adequately known, its solution sufficiently important to the country's development. It should determine whether initiation of the project was correctly timed, premature or too late; whether the means adopted were adequate and appropriate and supplied when required. It should assess the importance of institutional or attitude changes which have occurred

and the likelihood of their continuation after the termination of U.S. assistance. It should not include a recommendation for continuance or termination of U.S. help.

The Mission Director's Comments and Evaluation of the Project

The Mission Director's responsibility for the program as a whole leads to a broader perspective than is to be expected from a single technical or program area. In formulating his views, the Mission Director may wish to elicit comments and advice from other members of his staff, either informally or through review committees, to assure the fullest utilization of staff competence and experience. The Mission Directors' comments particularly are solicited on the following matters:

a. The nature of the major problems encountered and the nature and effectiveness of tactics adopted in dealing with them.

b. Appraisal of results.

c. Whether experience with the project provides a sound basis for continuing the project activity and possibly for initiating, or avoiding, similar activities in other countries.

Critical analyses of the successes and failures of AID's operations along the lines of the above excerpts from the manual order could furnish an abundance of raw materials for adding up and interpreting what the United States is learning about the development process.

Most of the project history and analysis reports emanating from Chile, however, ignore the searching questions set forth in the manual order.[14] The problem stems, in part, from the timing of the reports, which are required to be submitted to AID/Washington at 3-year intervals or upon termination of the activity. Due to personnel turnover, persons responsible for writing the reports usually have little firsthand knowledge of the projects. Furthermore, Mission personnel seem to resent AID/Washington requirements for "paperwork," especially with regard to past activities with which they themselves have had little or no involvement. A prevalent belief that the documents never get read in Washington compounds the negative attitude toward writing them. Whatever the reasons, project history and analysis reports as currently produced are virtually useless.

AID has other potential sources of significant materials. In Chile, for example, early in 1964 the Mission Director assigned monitoring responsibilities to the Engineering Services Division for projects involving construction as their principal element, and all other activities to the Project Operations Division. The Engineering Services Division now publishes quarterly reports and the Project Operations Division bimonthly reports about the problems encountered in the implementation of the projects within their purview. These reports, along with communications between the Mission and AID/Washington, audits performed by the Controller's Office in AID and the General Accounting Office, contractors' reports, and technical reports pre-

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[14] Project History and Analysis Reports from a number of other Latin American countries were also examined and found to be equally unsatisfactory.

pared by or on behalf of AID and its predecessors, could furnish a wealth of information with which to assess program operations.

However, it takes months of patient digging through hundreds of scattered reports, documents, and audits before any picture emerges. Many of the documents are difficult to locate or filed in locations away from Washington and the Missions, without adequate inventories or facilities for retrieval. Furthermore, the search for information is often more frustrating than illuminating. The diverse materials, written for purposes other than evaluation, frequently omit key factors. Moreover, it is not uncommon for different branches of AID to present divergent views on the same question, with no attempt made to reconcile discrepancies. For instance, almost a year after a project agreement had been signed by which AID made available the equivalent of more than $1 million, contracts had been let for only half the subprojects covered by the agreement. The Engineering Services Division/USAID attributed the delay to the fact that the responsible Chilean agency "has experienced considerable difficulty in interesting contractors in these small projects." At the same time, the Controller's Office in the Mission was attributing the delay to the fact that the Chilean Government did not have funds.

While the lack of a systematic method for utilizing the lessons of its experiences weakens AID's ability to assess its own performance and to make intelligent operational decisions, the absence of any orderly account of the experiences within a country creates the following problem:

C. As matters now stand, constant shuffling of employees in AID leaves dangerous knowledge vacuums regarding past operations.

After examining the mountain of uncorrelated material generated by the Chilean assistance program, one wonders how persons newly assigned to Chilean operations—whether AID staff, survey teams, or contract technical personnel—acquire even the most essential pieces of knowledge. The argument favoring a "fresh look" may have some merit, but "a fresh point of view" based on ignorance of preceding developments seems a hazardous way to conduct a multimillion-dollar operation.

Throughout the study of the Chilean program examples of significant knowledge gaps emerged. For example, a recurrent theme throughout the examination of the Alliance for Progress in Chile has been reluctance of Chilean authorities publicly to identify projects as resulting from U.S. assistance, although project agreements specifically call for such identification. As attested to by numerous audit reports and Mission reports, bridges, roads, airports—indeed, practically everything but school construction—bore no required marker announcing their connection with U.S. assistance or the Alliance for Progress. (The entire matter of identification will be discussed later, p. (68.)

One such case involved a loan of the equivalent of about $14 million to CORVI, Chile's Housing Corporation, for granting housing loans to private owners whose housing had been affected by the 1960 earthquakes. An audit report in June 1963 revealed that CORVI had not sent letters to the more than 6,000 receipients identifying their loans with U.S. assistance. In discussion with the responsible Chilean of-

ficial, the auditor quotes CORVI's then vice president as saying that he "thought that the identification letters should not be sent to recipients of loans since it may bring unpleasant consequences." [15]

Since the audit was more than 2 years old, an inquiry was made of AID as to whether, in the interim, CORVI had complied with the project agreement with respect to identification of the loans with U.S. assistance. A simple "yes" or "no" answer would have sufficed. In reply, the Mission wrote on October 18, 1965:

> One of the problems we have regarding Alliance identification on all our projects is the lack of a coordinator within the Chilean Government. Under the previous administration, one man was assigned the responsibility for proper identification of projects within the purview of the Ministry of Public Works. The new administration has not appointed such a person.

In view of the history of Chilean refusal to identify projects throughout the entire course of the earthquake reconstruction program and subsequently, and in view of the fact that the question regarding CORVI referred to June 1963 (during the period of Chile's previous administration), the Mission's attribution of the problem to the present lack of a Chilean coordinator is astonishing. Obviously, the Mission is unaware that its predecessor (or predecessors) was plagued with the identical situation under Chile's former administration. As long as the Mission deludes itself into thinking that the appointment of a Chilean coordinator will solve the problem, the real cause will remain unacknowledged and unattacked.

D. AID/Chile's ability to monitor and expedite on-going activities is inadequate.

In principle, the assignment of monitoring and expediting responsibilities to individuals within the Project Operations and Engineering Services Divisions is a good and useful technique. In practice, however, the Mission is equipped neither quantitatively nor qualitatively to perform at anything approaching optimum standards.

The Engineering Services Division consists of four U.S. employees—a chief engineer, his deputy, an architectural engineer for school construction, and an engineering technician. The professional staff is augmented by five local employees consisting of a civil engineer, two architects, and two construction inspectors. These men are responsible for monitoring hundreds of subprojects far flung over Chile's lengthy expanse. The 1965 $80 million loan alone contains 313 separate construction subprojects which the Engineering Division must inspect. Among these are 33 transverse highways in 15 of Chile's 25 Provinces, the most northerly to the most southerly; 15 sectors of the Longitudinal Highway, from Chile's northern border southward to the Island of Chiloé; 5 regional colleges; and 126 primary schools spread over 22 Provinces. Meanwhile, hundreds of other subprojects from the earthquake reconstruction loan and grant and Public Law 480 agreements continue to require attention. Furthermore, the engineers must devote time to another important duty, that

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[15] Agency for International Development. U.S. Aid Mission to Chile. Office of the Controller, Audit Branch. Report of Audit No. 94, CORVI Reconstruction Loans, p. 9.

of advising on the feasibility of construction projects in Chile's capital investment budget for selection as AID-funded enterprises.

Under the circumstances, it is not humanly possible for the engineers to exercise meaningful oversight.

The Project Operations Division, employing three U.S. development officers and several local professionals, is responsible for expediting the implementation of nonconstruction development grant activities. The responsibility for the conduct of each project is vested in one individual, the project monitor. This procedure is an improvement over former conditions in which each technical assistance activity was practically an autonomous bailiwick, with the Mission Director largely dependent upon the technician conducting the activity for information about its problems and progress—a situation hardly conducive to objective evaluation.

Nevertheless, the present method has certain inherent weaknesses. The small staff of the Project Operations Division cannot be expected to possess all the technical training necessary to monitor intelligently the wide range of activities within the Division's responsibility. Where prospects are conducted by contract technicians in highly specialized fields (for instance, customs or tax administration), the project monitor is still largely at the mercy of the contract technicians' reports of their own progress. As we shall see later (p. 72) in a discussion of the fate of the project, Modernization of the Controller General's Office, existence of the monitoring function within the Project Operations Division accomplished nothing by way of reassessing the project as the need for changes became apparent. In this case, the thoroughly frank observations of the contract adviser, as recorded in the Project Operations Division's own bimonthly reports, should have signaled the need for reevaluation of the project.

The following case history illustrates the inability of the Project Operations Division to monitor effectively an activity calling for knowledge and skills not possessed by a member of the staff.

In June 1963 a project agreement was signed between the Ministry of Agriculture, the Institute of Agricultural Development (INDAP), and the U.S. Mission in which AID agreed to provide $90,000 for the establishment of demonstration farms to be used as pilot projects throughout the agricultural provinces of Chile.

AID's Country Assistance Program book, November 1963, describes the project as follows:[16]

> A new subactivity was started in fiscal year 1963 and will continue into fiscal year 1964 designed to establish 30 or 35 complete farm demonstration units. The selection of units is almost complete. These demonstrations are considered to be effective educational devices for record bookkeeping, adequate building facilities, farm management, farm planning and proper use of agriculture credit. These demonstrations are designed to educate both the farmers and the Extension Service personnel.
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> Prior to setting up a demonstration project a complete plan for the proposed operation will be completed. This plan will

[16] Department of State, Agency for International Development. Country Assistance Program, Chile, pt. II (unclassified), November 1963, pp. 231, 232.

include types of livestock and crop programs to be carried out, economic feasibility analysis, home management advice as to food preservation, gardening, etc., recommended farm management practices, estimates of income and expense, as well as funding for each demonstration project.

The "on-the-farm demonstrations" will include all phases of agriculture production. Included in these will be poultry production, beef production, swine enterprises, truck farming, dairying, pasture improvement and home improvement depending on the zone, climate conditions, available markets, etc. These projects will provide needed basic information on cost, income, etc., to the Extension Service, and other agencies of the Chilean Government.

* * * * * * *

Fifty percent of the funds used to provide permanent improvements as part of the demonstration, such as fences, farrowing houses, hen houses, etc., that become attached to the real estate will be considered as a grant to the demonstrator for the use of his farm for demonstration.

The remaining 50 percent will be considered a loan and will be repaid in a determined period of years as agreed upon in the farm plan.

Twenty-five percent of the funds used to purchase foundation livestock and/or equipment, seed and fertilizer for pasture improvement will be a grant. The remaining 75 percent will be a loan to be repaid as determined in the farm plan.

All funds are to be loaned through INDAP without interest.

Under the basic provisions of the project agreement, it was also agreed that the farmer cooperators were to be mutually agreed upon by INDAP and the then existing Rural Improvement Division of USAID. Furthermore, inasmuch as all funds provided INDAP under the agreement were on a grant basis, the repayments made by the farmer cooperators were to be used to promote further "on-the-farm demonstrations."

Subsequent to the project agreement, the Rural Improvement Division of USAID was dissolved and its functions assigned to the Project Operations Division.

The August 3, 1964, bimonthly report by the Project Operations Division is enthusiastic:[17]

> This project demonstrates the practical application of supervised agricultural credit *as applied to an approved farm improvement plan.* It covers 25 small livestock or dairy farms, jointly selected by representatives of INDAP, the Ministry of Agriculture, and the Mission. A plan is developed for each farm and a loan of about $3,000 from INDAP to the farmer is used to finance the desired improvements. The demonstration farm then is used as a model to stimulate similar improvements throughout the area. Loan

[17] USAID/Chile. Project Operations Division. Bimonthly Project Status Report (third bimonthly report) ; Aug. 3, 1964, p. 28.

repayments go into a revolving fund which will be used to finance other demonstrations after U.S. assistance is terminated.

INDAP, Ministry of Agriculture, and Mission representatives have agreed upon selection criteria for the demonstrations. To date 15 have been chosen, of which *6 are in operation.* Ten farms remain to be selected.

> In June *USAID and INDAP staff inspected the La Serena demonstration farm, and were favorably impressed by the new construction, the books kept by the owner, and community interest in the farm.*
>
> *This project is progressing smoothly. Zonal officials of the Chilean Government are enthusiastic about existing or proposed demonstrations in their area. The major concern of the USAID staff in the remaining months of the project will be to insure the widest possible publicity of individual demonstrations.* [Italics added.]

Two months later, on October 5, 1964, the Project Operations Division reported the project "running smoothly," and that:[18]

> Fifteen farms have been selected and *nine are in operation.* INDAP and the Ministry of Agriculture's zonal agents have preliminarily selected the remaining 10 farms. *Mission staff members have inspected three of these at random and are satisfied that the selection criteria agreed upon are being followed.* [Italics added.]

Almost simultaneously, on October 7, 1964, the Mission Controller published an audit report of the farm demonstration project.[19] The auditors proved to be less gullible than the Project Operations Division. Contrary to the glowing descriptions of progress incorporated in the bimonthly monitoring reports by the Project Operations Division, the auditors found that project in shambles.

According to the audit report, the approved plan for the subprojects called for by the project agreement did not exist in INDAP's or USAID's files. Furthermore, the memorandum to USAID from INDAP, dated June 1, 1964, reporting six demonstration farms operating at that time (near La Serena, Talca, Cauquenes, Angol, Victoria, and Osorno) was in error. Apparently, the Project Operations Division relied wholly on INDAP's memorandum for the statistic which appears in its August 3, 1964, report.

On-site inspection by the auditors revealed:

(1) On August 4, 1964, no work had been initiated at the farm near Cauquenes. "The Zonal Deputy Director of INDAP informed us that the original loan application which had been forwarded to Santiago for approval had been lost and that it had been recently necessary to prepare a new loan application." With droll understatement, the auditors comment: "In our opinion this cannot be considered as a demonstration farm 'presently operating under this project.'"[20]

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[18] Ibid. (fourth bimonthly report), p. 19.

[19] Agency for International Development, USAID/Chile, Office of the Controller, Audit Branch. Report of audit No. 106, rural extension (on the farm demonstration), Oct. 7, 1964.

[20] Ibid., p. 3.

(2) At the farm near Talca, necessary hen houses were being constructed and/or repaired, but again this could not be considered as an operating farm demonstration project.

(3) At the farm near Victoria, the only steps taken toward fulfillment of this project had been the purchase of six pigs in January 1964.

(4) Projects at La Serena, Angol, and Osorno were operating, but the auditors "found no evidence to indicate that they had been actually used as demonstration units for other farmers." The audit report continues: [21]

> Under INDAP loan provisions the farmer cooperator is required to maintain a record of all visitors to the project, giving their names, the size of their farm, date of visit, phases of the project in which the visitor was interested, and any other pertinent data for the record. At no location visited did we find such a record. INDAP regulations also require that the farmer demonstrator maintain a simple and clear system of accounting by which profit or loss on the demonstration can be determined. The only location at which we found such accounting records was at the farm * * * near Osorno. *In this connection, the Project Operations Division's "Bi-Monthly Project Status Report," dated August 3, 1964, indicates that accounting records have been established at the demonstration farm in La Serena. However, the farmer could not produce such records at the time of our visit on August 7, 1964.* [Italics added.]

In conclusion, the audit report observes perceptively: [22]

> In the absence of a complete written and operating plan as to how these farms will be used as an educational device in the zonal area in which they are located, the possibility exists that the net result of this agreement will reduce itself to a situation in which certain preferred farmers were given and loaned without interest funds which will improve their farms and increase their income, but do very little to improve the agricultural development of Chile.

The auditors' final statement advises: [23]

> It is our opinion that closer surveillance of this project should be carried out by the Project Operations Division.

The only trouble with the last statement is that the Project Operations Division, without a trained agriculturist on its staff, could not monitor the farm demonstration project any more effectively *after* the auditors' discoveries than it could *before* the auditors blew the whistle.

This much of the history of the project suffices to illustrate the point that the Project Operations Division can function effectively only in those areas for which qualified people are available.

For the curious who do not like to be left hanging in midstory, the denouement of the ill-fated farm management project illustrates, and will be discussed under, the following finding:

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[21] Ibid., p. 4.
[22] Ibid., p. 5.
[23] Ibid.

E. Where adequate technical assistance is lacking throughout the life of a project, the activity is likely to get derailed and not accomplish its objectives.

The farm management demonstration project exemplifies the importance of maintaining a competent technical adviser on hand until a project becomes operational.

After the audit report uncovered the existing muddle, a chastened Project Operations Division reported on December 1, 1964, that INDAP had been informed that the project would be limited to 15 approved farms and that about half the $90,000 originally obligated would be deobligated.[24] Thereafter, Mission representatives pressed INDAP to "increase the rate of disbursement, and terminate the project." [25] By "terminate" the Project Operations Division obviously meant end all U.S. connection with the ill-starred endeavor, not bring the activity to a successful conclusion.

In its April 1965 report, the Project Operations Division stated: "Progress has been delayed due to mixed lines of authority between INDAP and the Ministry of Agriculture in the field." [26] The Project Operations Division is silent on any possible AID defects which might have contributed to the debacle.

Here is a good example of USAID's inability to evaluate its own performance. However much in-fighting there was between INDAP and the Ministry of Agriculture, the farm demonstration project fell to pieces primarily because the dissolution of the Rural Improvement Division at USAID left no trained agriculturist on hand to guide its implementation. The project was undertaken to demonstrate to Chilean extension personnel the possibilities of this type of extension device—in the words of AID's own description of the project quoted above, "to educate both the farmers and extension personnel." It makes little sense to expect extension personnel to implement an activity which was designed in the first place to teach them how.

The rural canneries project referred to earlier is another example of the crucial importance of providing adequate technical assistance. While expectations for that particular project were overblown from the outset, the departure of the technician responsible for keeping the project on its track at about the time the equipment began to arrive certainly contributed to the later disarray.

F. Relinquishment by AID of its monitoring responsibilities can have disastrous consequences.

Especially when funds have been provided to host government agencies for relending to individuals, controls exercised over the end use of credits often have been inadequate. Even where requirements for granting subloans are fairly strict, once loans are approved and funds released, there appears to be little effective followup on end use.

The fate of a Chilean farm labor housing program, undertaken in 1958 with part of the proceeds from the second Public Law 480, title I, Sales Agreement, illustrates this finding. AID made available 321,000 escudos (the local currency equivalent of $600,000)[27] for granting credits to private landowners to construct housing for their farm

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[24] Op. cit. (fifth bimonthly report), Dec. 1, 1964, p. 15.
[25] Ibid. (seventh bimonthly report), Apr. 2, 1965, p. 12.
[26] Ibid.
[27] The average exchange rate prevailing at the time was US $1.00=0.535 escudos.

laborers. At the inception of the program, borrowers had to contribute 50 percent of the cost of each house in cash, materials, or labor, and loans could not exceed 2,000 escudos (approximately $3,740) per house. In July 1961, these terms were amended to raise the loans to 2,800 escudos per house and to reduce the farmowner's contribution to 25 percent.

On June 23, 1965, the Mission Controller's Office published an audit of the project covering the period from inception through December 31, 1964. At that time 60 loans had been authorized, totaling 190,800 escudos (the equivalent of $356,636). The auditors made on-site inspections of the uses made of the borrowed funds by 55 individual debtors out of the total of 60 recipients. Of the 55 borrowers visited, 21—or 38 percent of the total number visited—had not complied with their obligations. For example, eight did not complete construction of their housing, although four of these had received 100 percent of their loans. Three borrowers, who had been paid a total of 5,000 escudos from 8,400 escudos authorized, did not build the agreed housing and had not refunded the funds received. One individual built a house in the city instead of on his farm for occupancy by a worker. Four who completed their housing are living in them; two are renting them; one built a wooden warehouse and poultry yard for his own use. At the time of the audit, over 40 percent of the borrowers were delinquent in their payments.

The following sample descriptions from the audit report convey the appalling misuse of U.S. assistance:

> The debtor requested the loan to construct three houses for farmworkers. The auditor made the on-site visit in January 1965 and saw evidence of only one house constructed but it was not occupied by the only farmworker and his family existing on the farm. This house is furnished with a gas cooking range, a refrigerator, and a separate duplex toilet with hot water. It has also a big swimming pool at one side of the house. It is occupied by the owner and his family in summer time and on weekends in wintertime. The auditor interviewed the borrower, who is a doctor, in his apartment in Concepción. He stated that he was teaching the "inquilino" and his family how to live in a good clean house and then, further on, he would transfer it to the farmworker. (At present the farmworker is occupying an old small adobe and wooden house with no accommodations whatsoever, and it is in such condition that rain leaks through the roof.) The debtor also stated he was going to construct a house for himself on the upper part of the place where he is living on the farm at present.[28]
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> * * * * * * *
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> The loan was requested to construct one house for a farmworker. The auditor made the on-site visit in January 1965 and disclosed that the house has never been occupied by the only "inquilino" existing on his small farm. The auditor

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[28] Agency for International Development, U.S. Aid Mission to Chile, Office of the Controller, Audit Branch. Report of Audit No. 133, Farm Labor Housing, June 23, 1965, p. 11.

took pictures of the house where the farm worker and his family are living, consisting of an old wooden house with two bedrooms and one separate kitchen. The zinc roof is in such a bad condition that the rain leaks in and paper bags have been nailed on the inside walls and ceiling in order to protect the family against the rain and sand. The owner is a doctor and the farm worker informed the auditor that the new house, built with CORVI funds, and located at the side of the Bío-Bío River, is rented every year in the summertime to different people. One hundred percent of the loan was paid to the borrower during the years 1960 and 1961.[29]

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The loan was requested to construct three houses for farmworkers. The on-site visit was made by the auditor in December 1964 and it was verified that two houses were built according to the type contemplated in the agreement and one had been destroyed by fire in August 1963. This house had been occupied by a farmworker and his family and all his personal and household effects were reduced to ashes. Of the two remaining, one was occupied by a farmworker, and the other, which does not seem to have been constructed for an "inquilino," has never been inhabited by one of them. This house has a very nice look, built of good quality wood, all varnished, with a big porch, three bedrooms and one big dining room with double windows of about 2 square meters and the doors of two rooms, which have outside access from the porch are equipped with Yale locks. The family who had lived in the house consumed by the fire is at present occupying poor quarters made of wood and covered with zinc plates of the one destroyed. The auditor asked Mr. Ernesto San Martín, administrator of the farm, why was it that he had not moved the worker and his family to that empty good house and he said that the "inquilinos" were afraid of living in it. The owner rented the farm to Mr. Mariano Paredes and the auditor was informed by one of the farmworkers that the house was occupied in the summertime by the owner's family to pass their vacations. One hundred percent of the loan was paid by CORVI to the debtor who has not paid the monthly installments from April 1963 through December 1964.[30]

Incidents such as these give rise to the oft-heard charge that U.S. foreign aid "helps the rich to grow richer." When absentee landowners divert to their personal advantage 38 percent of the funds intended to benefit their farm laborers, such charges cannot be dismissed as imaginary or Communist propaganda. Furthermore, given the monumental housing requirements of its rural population, Chile can ill afford the high incidence of diversion of scarce funds to unauthorized purposes. The situation could have been prevented with adequate controls over the use of the credits.

That the auditors catch the culpable during on-site inspections several years later is small consolation. Disallowing the misspent funds

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[29] Ibid., p. 12.
[30] Ibid., p. 13.

will not fulfill the original purposes of the loans. Nor will it erase the fact that U.S. assistance has not benefited the people for whom it was intended.

Of the escudos generated by the $55 million program loan, $7 million were assigned for relending to small and medium farmers (about 500 subloans) and some $8 million were assigned to relending to small and medium industries (about 600 subloans). Similarly, of the escudos generated by the $80 million program loan, almost $34 million were assigned for relending to farmers and $26 million to small and medium industries. USAID is not monitoring the work carried out under these subloans. In view of past experience, one does not have to be prophetic to predict that a thorough audit would disclose a tragic degree of misuse, abuse, and waste of scarce resources.

By now AID should have had enough alarming experiences to learn that certain Chilean agencies cannot be depended upon to exercise adequate control over the end use of investments. The Agency, however, excuses inadequacies of this type with two principal arguments. It is averred that rendering assistance to underdeveloped countries presupposes administrative imperfections; that if the United States insists upon the efficient management concepts characteristic of developed societies, much of the program would have to be eliminated. Secondly, it is alleged that Chilean sensibilities preclude too heavy insistence on the presence of U.S. personnel with oversight responsibilities.

These arguments are unconvincing. Presumably the Chilean Government is aware that economic and social progress can be attained only by careful husbanding of domestic and foreign resources. Presumably, too, the Chilean Government is anxious to end conditions in which few benefits reach the people, who in turn grow increasingly cynical and impatient. Yet abuses such as those perpetrated in the farm labor housing program are both wasteful and frustrate Chilean efforts to achieve social justice.

It is foolish and self-defeating for Chile and the United States to acquiesce to a situation in which the clever or well-connected take advantage of weak government administration to promote their selfish interests. For the United States to continue assistance with no assurance that funds will be expended for intended purposes merely perpetuates a bad situation, without buying the kind of development sought by both Chile and the United States.

G. When host nations are reluctant to identify projects with the Alliance for Progress, the resultant absence of public knowledge of the extent of Alliance activities undermines the political and psychological foundations of the Alliance.

Chilean authorities have been reluctant to identify projects as financed with funds provided by the United States or as related to the Alliance for Progress.

Many of the loan and project agreements specifically provide that appropriate signs shall be erected at worksites during the construction period and upon completion. In cases where U.S. funds are reloaned to private individuals, letters identifying the source of financing are supposed to be sent to all recipients by the responsible Chilean agency.

Provisions calling for public acknowledgment of the role of the United States and of the Alliance for Progress in Chilean develop-

ment do not stem, as is too often assumed, from a desire on the part of the United States for gratitude. Rather, identification is a realistic means of enhancing the possibilities of the Alliance for Progress.

The Alliance for Progress was designed as an alternative to Communist blandishments and revolutionary chaos. The Alliance's main goal is to promote economic development and social justice in order to satisfy the justifiable demands of the Latin American people for a better life. But it will take time before the effects of structural changes and long-range development are felt. In the meantime, public support must be generated for unpopular—but necessary—measures, and impatience must be allayed. To obtain this vital civic backing, a sense of hope must be engendered—a conviction that the Alliance for Progress does indeed hold promise for a better future.

Latin American people, accustomed to high-sounding rhetoric and campaign promises which do not materialze, are understandably cynical. To gain their support, the Alliance for Progress must demonstrate its serious intentions with visible achievements.

But people cannot know what the Alliance is trying to accomplish on their behalf unless they are informed of its activities. Projects bearing the Alliance imprint would furnish the evidence of Alliance efforts.

There are also sound reasons for publicizing the role of the United States in the Alliance for Progress. Latin American leaders have regarded their chances for transition from stagnating to dynamic economies as slim without U.S. assistance. For almost two decades prior to the Alliance for Progress, Latin American leaders hammered at this point at every inter-American meeting, while at home they decried the lack of interest of the United States in their problems. They also warned that their people, despairing of solutions for their plight, could erupt in chaotic fury or seek redress by embracing communism. Accumulating grievances regarding U.S. indifference led to bitterness and misunderstandings, poisoning relations between the United States and its Latin American neighbors.

Advertising the role of the United States in the Alliance for Progress can help to relieve the sense of hopelessness and abandonment which has permeated Latin America. Far from being offensive to national pride, public awareness that the United States is furnishing sustained, sympathetic support for their own efforts will give the Latin American people encouragement. Furthermore, widespread dissemination of the fact that the United States is cooperating in the region's struggle for economic and social justice should put to rest old resentments—resentments which the Communists find convenient tools for exacerbating tensions in the hemisphere.

Despite the multifarious Alliance for Progress projects underway in Chile as a result of the $100 million earthquake reconstruction loan, the $40 million CORFO loan, the $35 million and $80 million program loans, loans for capital projects, and the local currency proceeds from the sale of P.L. 480 commodities, it is not uncommon in Chile to hear the lament that the Alliance for Progress is not doing anything. This is not surprising in view of the prevailing situation. Bridges, ports, agricultural facilities, public buildings, thousands of miles of roads, indeed, many of the numerous subprojects financed with U.S. assistance are still unmarked. Letters have not been sent

to some 7,600 homeowners, identifying the source of the financing of loans to reconstruct their houses which were damaged or destroyed in the 1960 earthquakes. Nor have letters been sent to the approximately 3,500 recipients of loans for the reconstruction and rehabilitation of private industrial, agricultural, and commercial facilities.

AID's own documents are replete with examples of the disinclination of Chilean officials to identify Alliance for Progress undertakings as such. For instance, the Mission Controller's Office found, with respect to the $40 million CORFO loan: [31]

> * * * Members of the staff of the Mission Controller have traveled the length of Chile and made on-site visits to most of the projects involved in AID loan No. 55. At the time of our visits we found no identification whatsoever at the project sites which indicated that the projects were financed by funds provided by the United States or that the project had any relation to the Alliance for Progress. The loan agreement specifically provides that the borrower will erect signs to this effect at all sites where subloan projects are being carried out and that the borrower will furnish AID with photographs of such signs.

The Engineering Services Division of the Mission, while monitoring the Longitudinal Highway project, showed signs of impatience. This agreement provided 31.1 million escudos (about $18.3 million) from the earthquake reconstruction loan to finance approximately 65 percent of earth movement and drainage, base stabilization, and portland concrete paving in about 610 kilometers of the Southern Longitudinal Highway between Los Angeles and the Island of Chiloé. The agreement also included the construction of 1,462 lineal meters of concrete bridges. In its first quarterly report, dated September 30, 1964, the Engineering Services Division states: [32]

> The Highway Department has been very negligent about erecting Alliance signs on these projects, in spite of repeated promises to do so. This Division has proposed that the Highway Department erect Alliance signs on the outskirts of population centers identifying that particular segment as having been constructed with U.S. assistance. The Highway Department has agreed to carry out this proposal but to date the signs have not been erected. Should the Highway Department not comply within the near future, this Division will recommend that the Mission withhold further reimbursement on this project.

In its second quarterly report, December 31, 1964, the Engineering Services Division states: [33]

> After repeated efforts by this Division to obtain road sign identification and after, on the part of the Highway Depart-

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[31] Agency for International Development, U.S. Aid Mission to Chile, Office of the Controller, Audit Branch. Report of audit No. 114, interim audit report on loan 413–H–017. Formerly AID–55, Chilean Development Corporation (CORFO), as of Nov. 30, 1964. p. 5.

[32] USAID/Chile, Engineering Services Division. Status report of construction projects (first quarterly report), Sept. 30, 1964. p. 6.

[33] Ibid. (Second quarterly report), Dec. 31, 1964, p. 5.

> ment, repeated promises and failures to erect such signs, we will recommend that the Mission withhold further reimbursement pending compliance.

By the third quarterly report, March 31, 1965, the Engineering Services Division's language had softened, as follows: [34]

> Identification of United States on highway projects has been poor. We shall continue our efforts to get the major projects under this agreement appropriately identified.

At the end of 1965 the Engineering Services Division was still saying: [35]

> Identification of U.S. on highway projects has been poor. We are continuing our efforts to get the major projects under this agreement appropriately identified.

Retreat by the Engineering Services Division from its strong stand in 1964 is not unexpected. The Mission has maintained a consistent policy with respect to not pressing for identification. Chilean sensitivities or "possible political repercussions" are advanced as reasons for not insisting on compliance with the terms of project agreements. AID thus promotes the fiction that U.S. assistance is something shameful, or even a weapon in the hands of the extreme left with which to flay Latin Americans who accept U.S. cooperation.

This situation is absurd. On the one hand, we have been told that anti-Americanism is rampant because of U.S. indifference. On the other hand, we are told that Chilean political figures run the risk of unpopularity if they acknowledge U.S. assistance.

The Mission has made repeated, polite attempts to induce officials of various Chilean agencies to comply with the provisions calling for identification. But the Mission has been reluctant to take sterner measures within its authority. The Agency believes, apparently, that so long as projects further the ultimate economic goals of the Alliance for Progress, it would be counterproductive to make an issue of the matter of identification. But the political and psychological objectives which inspire the provisions for identification are equally significant.

It is heartening to note that President Frei, in his message to the nation on his first anniversary as President of Chile (November 4, 1965), reflected the spirit of the Alliance for Progress, stating:

> Without renouncing any of our fundamental positions, we have maintained a loyal and frank friendship with the United States. In that country we have found understanding for our endeavor and an economic cooperation which is fundamental for the country. We must recognize this.

Marking the myriad projects undertaken with U.S. assistance would go a long way toward helping the Chilean people "recognize" the "understanding" and "economic cooperation which is fundamental for the country" of which President Frei speaks.

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[34] Ibid. (Third quarterly report), Mar. 31, 1965, p. 5.
[35] Ibid. (Sixth quarterly report), Dec. 31, 1965, p. 4.

H. Technical assistance, to achieve any success, must be welcomed and strongly supported by officials in the host government who are responsible for instituting innovations. AID has deluded itself into believing that acquiescence to the initiation of projects means backing for the activities. As a result, projects languish because of lack of interest or hostility on the part of host country nationals.

The Foreign Assistance Act states that U.S. assistance shall be made available "upon request" (sec. 102). AID can produce such "requests" for every undertaking in Chile. However, the Chilean "requests" for technical assistance were actually initiated by AID personnel.

This is not to say that AID engaged in intentional deception. Rather, the sequence of events suggests that AID, in its zeal to make the Alliance for Progress operative, promoted the technical assistance programs.

At the outset of the Alliance for Progress, Chile and the United States held differing interpretations of the document signed at Punta del Este in August 1961. Chile, as did many other Latin American signatories of the charter, placed emphasis on the U.S. commitment to furnish more funds for Latin American development. AID, on the other hand, stressed Latin American self-help measures. Meanwhile, AID—experience with the earthquake reconstruction program fresh in mind—thought it knew where the major weaknesses in Chile's planning and management procedures lay. Hence, when the Chilean Government approached AID for massive assistance under the Alliance for Progress, it seemed only natural to discuss with Chilean officials technical assistance projects aimed at eventually eliminating the necessity for concessionary lending.

If the Chileans deduced that their petition for large budgetary assistance hinged upon accepting some technical assistance projects, was not this the strategy of the Alliance for Progress? In fact, the Chilean Government responded with "requests" for technical assistance in the areas in which AID felt Chile could most profit.

The only trouble with the process is summed up in the old axiom: You can lead a horse to water but you can't make him drink. Indeed, most of the projects in AID's "comprehensive program to improve the use of public sector resources" have encountered reluctance on the part of host nationals to fulfill their commitments.

The fate of the project to modernize the Controller General's Office illustrates the futility of attempting to institute changes which are not truly sought.

The efficiency and effectiveness of the Chilean Government's development process depends upon the speed, precision, and comprehensiveness of its fiscal management processes as applied to anticipated income, expenses current and expected, and the character of inventories. In this regard, Chile's Controller General's Office (Contraloría) performs key functions: it maintains the national accounts, performs the governmentwide postaudit, reviews and interprets administrative orders and legislation affecting the conduct of public services, and reviews and records all personnel transactions. The Contraloría is, by constitutional provision, autonomous—in effect, a fourth branch of government—and the controller generalship is filled by lifetime appointment.

The Contraloría has the responsbility to maintain accurately the Chilean Government's national accounts and summarize in one place the Government's financial position. However, its reports cover only a portion of the public sector, failing to include the receipts, expenditures, and financial position of the semiautonomous agencies. These agencies, although subsidized by transfers from the Government's general funds, make their own financial reports to their respective boards of directors. Furthermore, the divided responsibility for and serious deficiencies in the recording of basic transactions results in financial reporting so incomplete as to be of only minimal value.

The Contraloría's financial reports are normally issued so late as to impede seriously the conduct of fiscal affairs within Government agencies, serving more historical purposes than for current use in reflecting the complete financial position of the Government. The Contraloría makes one annual accounting, issued 6 months after the end of the year. Only then can the final and full release be made of the previous year's appropriations, and only then is the Government's financial position—as of 6 months earlier—revealed.

Moreover, the Contraloría's accounts do not reflect the real state of fiscal affairs since there is no system of balance sheet accounting, except for cash items. Lacking are statements of other kinds of assets to the Government's account, such as the inventory of all Government-owned property, or of accounts receivable or advance payments on goods and services not yet delivered.

Because there is no program of postaudit at site, the Contraloría's auditing practices fail to carry out effectively its constitutional responsibilities for verifying legality and correctness of receipt and disbursements of funds in the public sector. Much time and effort is expended by staff in detailed preaudit of documents, with much of the work repetitive. Ministries preaudit their expenditures in preparing payment documents, this documentary preaudit is then performed again at the Treasury, only to be repeated after payment in the office of the Contraloría. Meanwhile, scant attention is paid to verifying the transaction after the fact and through physical inspection.

A further weakness in the Contraloría's performance is in administration of the civil service laws which set standards governing the appointment, compensation, movement, treatment, discipline and rights and obligations of public employees. Administration is overcentralized, time consuming, and burdensome. Excessive delays in processing civil service personnel actions retard staffing and hamper effective utilization of personnel. Salaries are not systematically related to responsibilities and work performance.

Under a project agreement signed in November 1962, AID and the Controller General's Office undertook a cooperative program to modernize the Contraloría. Project activity began in June 1963 with the arrival of a staff from Public Administration Service, a U.S. management firm, to assist in the design and implementation of effective financial management and reporting systems to be established throughout the Chilean Government. The project contemplated a 3-year contract, to cost an estimated $455,000.

A work plan prepared by the contractor in the first month was approved by the Controller General and the AID Mission, and work began under the approved plan in August 1963. The plan was designed to achieve the following results by 1966: (1) issuance of financial reports that cover the entire public sector and that are timely, accurate, and suited to management and policy needs; (2) installation of a modern general accounting system including proprietary and budgetary accounts; (3) budgetary accounting, including obligation accounting, were to be instituted as an essential element for financial control; (4) establishment of a system for carrying out comprehensive post-audit at site; (5) delegation of action authority on personnel matters was to be granted to ministries under a system of inspection and controls by the Contraloría. The work plan neatly laid out 54 performance items that were to be time phased, beginning in August 1963.

The first year, devoted to identifying and analyzing financial and management practices in the Contraloría, went smoothly. In about June 1964 when it came time for implementation, the program began to lag behind because of a lack of decisions by the Controller General.[36]

Nevertheless, in July 1964, the Controller General accepted the advisory group's proposal for a new accounting system, a procedure required by the contract before work could commence. At the point where action was to be taken, the advisory group began to encounter resistance.

The December 1, 1964, report by the Mission's Project Operations Division states:[37]

> During the period covered by this report no movement toward the installation of previously proposed accounting reforms approved by the Controller General was possible. The beginning of installation has been rescheduled from May 1964, to January 1965, on account of delays attributable to the change in the executive and to the seasonal preoccupation with the national budget.

As we shall see, the advisory group and the Project Operations Division were attributing the delays to the wrong reasons. Still sanguine regarding the possibility of introducing the "approved" reforms, the same Project Operations Report continues:

> The change in the program so far has been in the sequence of planned activities. Instead of consecutive installation and testing of each segment of the system as it is designed and approved and as preparations are completed, the development of the overall system has gone forward.

By February 1965, hope of accomplishing the central purpose of the project, i.e., improving the accounting system of the Government, began to ebb, and a new reason was discovered for the delay. The Project Operations Division Report of February 3, 1965, states:[38]

> The effectiveness of the project now appears to hinge upon the answer to a memorandum which the contractor presented recently to the Controller General. This memorandum

[36] Memo to AID/Washington from the Mission, TOAID A–135, Aug. 2, 1965.
[37] USAID/Chile, Bi-Monthly Project Status Report, p. 4.
[38] Ibid., Feb. 3, 1965, p. 4.

points out that a firm schedule for phased adoption of agreed-upon accounting reforms is naturally a prerequisite to consideration of the third (final) year work program now being prepared. Subsequent conferences between the contractor and the Controller General, and the Director General of Accounting and Auditing, reaffirmed endorsement of the proposed system, but pointed out an obstacle which is considered to be beyond the power of the Contraloría to remove. This obstacle is a short paragraph in the 1959 Budget Law rescinding the requirement to account for commitments. The recision has been interpreted by the Controller General as a prohibition. As budgeting control on the basis of commitments is largely the foundation upon which the new system is designed, the obstacle must be removed to permit installation of proposed accounting reforms.

Two courses are considered: (1) To test the legal intent of the above-mentioned recision as to whether or not it constitutes a prohibition, and if it does, then, (2) to propose enabling legislation.

This legislation has been drafted by the project personnel in the form of a complete new budget law, which contains a section devoted to the definition of, and accounting for, commitments. Its formal presentation for consideration by the Controller General and the Minister of Finance may now be timely.

The next bimonthly report of the Project Operations Division states: [39]

> The long awaited decision of the Controller General concerning the implementation of accounting reforms has been received. It is negative. Thus the continuation of this project beyond April 29, 1965, now appears to depend upon an agreement between the Controller General and the Mission relative to a work program.

In July 1965, the Controller General ended the suspense by announcing *his* decision to terminate the contract.

One's sympathy goes out to the advisory group, so diligently intent upon fulfilling their contractual obligation to help modernize the functions of the Controller General's Office so that it could execute efficiently its key role in Chile's economic and social development. From the documents, however, it is apparent that neither the advisory group nor the Mission realized that the Controller General was equally intent upon impeding any move that might reduce the Contraloría's power. The advisory group and the Mission accepted the version that delays were due to "the change of executive" and "to the seasonal preoccupation with the national budget." When these no longer served as reasons, the Controller General produced the "legal" angle.

The advisory group, accepting the new reason for delay at face value, then proceeded to devise means for removing the legal ob-

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[39] Ibid., Apr. 2, 1965, p. 5.

stacle. In this respect, it should be noted that the project agreement included among the responsibilities of the Contraloría: [40]

> Inaugurate and support the requisite studies, analysis and investigations incident to project goals; to install agreed upon recommendations for improvement and to *seek legislation when required.* [Italics added.]

The advisory group, however, was not authorized by the project agreement to draft required legislation on its own initiative. That they did so and then lobbied for it outside the Contraloría vexed the Controller General, as the following excerpt from his letter to the Mission Director terminating the agreement reveals: [41]

> I must refer, furthermore, to another circumstance which has led me to this decision * * * It is a matter of my complete disagreement with the procedure followed by the [advisory group] in providing background information relative to its activities and reports, including those which I had rejected, to authorities and organizations outside of the Controller General's Office. This procedure represents an outright violation of the terms of the contract because, as specified in the agreement with the Mission, it was the responsibility of only the Controller General's Office to arrange the necessary contacts with other public services at higher levels for the purpose of gaining their cooperation as quickly as possible in the pursuit of the objectives of the project, so that the advisory firm could not, without my knowledge or permission, take any action in this direction on its own initiative. This breach is all the more serious, if one bears in mind the fact that, apart from the agreement, they proceeded to do the draft of a law about matters not included therein which contains ideas that, in my opinion, imply not only *an unjustified curtailment of the functions that are incumbent on the Office of the Controller General but also a violation of the terms of the 21st article of the Political Constitution of the State.* [Italics added.]

The matter had now escalated into a *constitutional* question. Here was an area to which even the Contraloría's responsibility to seek required legislation could not be stretched.

The Public Services Administration advisory group never discerned that their proposed innovations were perceived by the Controller General as a threat to his agency's status; they never understood that the delays in implementing the program were intentional, however politely couched. Probably nothing in the advisory group's domestic experience qualified them to comprehend a situation in which their services were purchased but not desired.[42] Had the advisory group been content to play out a charade, rendering whatever assistance was possible without touching vital areas, they could have ex-

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[40] Project Agreement between AID and the Controller General's Office, an agency of the Government of Chile, Project No. 513–Q–75–AB, Agreement No. FMC 1–63, Nov. 16, 1962.

[41] Letter from Chilean Controller General to Director of U.S. Economic Mission to Chile, dated July 14, 1965.

[42] AID, through its monitoring function, should have perceived the cultural phenomenon and reassessed the project as the need for changes became apparent. (See finding D, p. 60, for AID's weakness in monitoring and expediting on-going projects.)

tended their contract to the full 3 years or beyond (a not unknown phenomenon in the foreign aid program). Not content to mark time and collect their salaries, the advisory group innocently forced a showdown.

After 2 years, the expenditure of $292,000, and the frustration of some fine talent, the Agency, in its Country Assistance Program book for fiscal year 1967, notes: [43]

> The rejection of the central purposes of the project is a significant setback in U.S. attempts to establish effective financial management, reporting and auditing systems for all Chilean agencies.

The language of that statement is revealing. So long as "the attempts to establish effective financial management, etc." are thought of as *United States attempts*, not *Chilean* attempts supported by U.S. cooperation, AID will be unable to distinguish between those projects which Chileans genuinely want and will support, and those which Chileans accept because of AID's importuning, then will not follow through on.

The wasteful expenditure of the talent and time of competent technical advisers in projects not supported by high-level officials in the host government intensifies another problem in the aid program which is discussed in the following finding.

I. The assumption is erroneous that the United States can provide suitable technical advisers as needed to help modernize archaic practices and build new institutional structures throughout the less-developed world. This misconception leads to dangerous over-calculation within AID, in Congress, among the American people, and in host nations with respect to what the foreign aid program can accomplish.

In its March 1963 report to the President, the Committee To Strengthen the Security of the Free World [44] stated: [45]

> It will take an extraordinary mobilization of U.S. and other talent to make such external advice sufficiently broad and incisive to be effective in the near future.

This "extraordinary mobilization" has not taken place.

Since the Agency for International Development was created in 1961, it has placed increasing reliance on contracting the services of advisers for technical assistance programs from private U.S. institutions rather than trying to maintain a pool of specialists on the Agency payroll. In explaining the rationale for substituting contract personnel for U.S. direct-hire employees, AID Administrator David Bell stated: [46]

> There has been a trend—which I have strongly encouraged in recent years—toward using the contract arrangement to a

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[43] Part II, Sept. 1965, p. 46.

[44] The committee, chaired by Gen. Lucius D. Clay, was created by President Kennedy on Dec. 10, 1962, to advise the President, the Secretary of State, the Secretary of Defense, and the Administrator of the Agency for International Development on U.S. Government foreign operations programs in the economic and military fields.

[45] Department of State, report to the President of the United States from the Committee To Strengthen the Security of the Free World, Mar. 20, 1963, p. 11.

[46] 89th Cong., 1st sess. Senate Committee on Foreign Relations. Hearings on the Foreign Assistance Program, Mar. 15, 1965, p. 185.

larger extent. This has two great advantages from the standpoint of the AID program.

First, by contracting with universities, with cooperatives, with labor unions, with profit and nonprofit business, and private institutions, we can draw upon higher talents and greater competence than we could maintain on our permanent payroll. This is particularly valuable in the case of technical assistance projects where you need the highest and the best talent you can get from the American economy and society if you are to achieve the results you are after.

Second, from an administrative standpoint it is vastly preferable to have a contract to handle and to carry out a technical assistance project because then when the project is finished and the contract is ended, the persons involved are not Government employees with some claim on continued Government employment.

Part of the difficulty that we have today with personnel in our Agency clearly stems from the fact that 10 years ago people were taken on as direct hire, U.S. Government employees, to do a particular project. When that project was ended, they were shifted to some other work for which, in many cases, they were less well qualified, and they have continued in this sort of status to this day, in many instances not doing a first-class piece of work. In the process they have lost, many of them, the special technical competence that they had originally in a professional field, so that they do not now have the option of returning to their professional field, and they are involved in a program in which they are less than fully satisfactory Government employees.

Now, this is the kind of situation which faces us today, and we are trying to do something about it, as this committee knows. But, nevertheless, it is a fact and one which we can avoid insofar as we handle our technical assistance projects by contracting with organizations that can get the competence or have it already. And when the project is finished, the people involved have another career and another employer to take care of them. So it is for the two reasons: (1) we believe we can get better competence this way; and (2) it fits far more naturally the nature of the work and the kind of system of doing business that is appropriate for our Agency, that we are relying more on contracting today than we have in the past.

Congress has supported the trend away from maintaining a reservoir of technical expertise within the Agency, The Foreign Assistance Act of 1961 provided:

> In providing technical assistance under this Act in the field of education, health, housing, or agriculture, or in other fields, the head of any such agency or such officer shall utilize, to the fullest extent practicable, the facilities and resources of the Federal agency or agencies with primary responsibilities for domestic programs in such fields.

The following year, in order to promote a greater use of private resources in the foreign aid program, Congress made mandatory that AID "utilize wherever practicable the services of U.S. private enterprise (including, but not limited to, the services of experts and consultants in technical fields such as engineering)." [47]

By the Foreign Assistance Act of 1963, Congress refined the provisions pertinent to furnishing technical assistance, as follows: [48]

> In providing technical assistance under this act, the head of any such agency or such officer shall utilize, to the fullest extent practicable, goods and professional and other services from private enterprise on a contract basis. In such fields as education, health, housing, or agriculture, the facilities and resources of other Federal agencies shall be utilized when such facilities are particularly or uniquely suitable for technical assistance, are not competitive with private enterprise, and can be made available without interfering unduly with domestic programs.

Past experience with direct-hire personnel does indeed argue for hiring specialized skills only as needed for specific tasks. At the same time, Federal agencies and private U.S. institutions—such as universities—would seem to be veritable cornucopias of professional talent.

However, as evidenced by operations in Chile, it is not easy to find suitable people in private life or in the Government bureaucracy willing to serve in AID's overseas programs. For example, recruiting problems delayed the *Customs Administration* project (p. 40). That 2-year project agreement, signed in April 1963, contemplated having a 3-man advisory team ready to begin activity in February 1964; the team was not completed until May 1965 with the arrival of a customs enforcement adviser.

AID is not alone in the difficulties it has encountered in recruiting competent people for overseas assignments. The Ford Foundation turned to Austria and France as well as to the United States to assemble an advisory team for one of its projects in Chile. In an attempt by the Inter-American Development Bank to put together a 5-man team [49] to help Chile develop the institutional capability to administer the Bank's $10 million loan for credits for small farmers and agricultural cooperatives, a year elapsed before the Bank succeeded in getting only one adviser into Chile.

Congress, meanwhile, has helped to promote the assumption that the United States has a boundless source of specialized talent available for overseas assignment. For example, the Foreign Assistance Act of 1961 declares it to be the policy of the United States "to encourage the development and use of cooperatives, credit unions, and savings and loan associations." [50] Since these activities are generally foreign to the experience of less-developed nations, the host countries need technical guidance as well as seed capital to create these institutions.

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[47] Sec. 301(a)(3) of the Foreign Assistance Act of 1962; now sec. 601(b)(6) of the Foreign Assistance Act of 1961, as amended.

[48] Sec. 302(a) of the Foreign Assistance Act of 1962; now sec. 621 of the Foreign Assistance Act of 1961, as amended.

[49] Consisting of one chief technician, two agricultural credit supervisors, one specialist in group organization, and one specialist in supervised credit controls and compliance.

[50] Sec. 601(a), Foreign Assistance Act of 1961, as amended.

In the case of cooperatives, for example, AID tried to fulfill the congressional directive by means of a contract with the Cooperative League of the USA (CLUSA). CLUSA agreed to compile and keep current, from its members or the cooperative movement generally, a listing of prospective contractors, both firms and individuals, who are qualified and interested in overseas assignments with AID. Despite CLUSA's efforts, it took over a year to recruit a cooperative specialist for a Chilean project.

In fact, contracting competent technical advisers from other Government agencies or private organizations has serious limitations which must be recognized. Consider the difficulties inherent in participant agency service agreements—by which AID taps the resources of Federal agencies—and in university contracts.

Government employees and university professors who possess the required technical skills rarely have the necessary language qualifications. Furthermore, their domestic experience seldom fully qualifies them for the special demands of overseas programs. Some never are able to adapt to the changed environment. Others reach effective levels of performance only after wasteful expenditure of time in learning on the job. Then their tour of duty expires; anxious to return to their "real" jobs, they are replaced by novices who must begin anew the process of coping with unfamiliar circumstances and of gaining the confidence of host country counterparts.

Language deficiencies perhaps could be overcome by crash courses, at least in the less esoteric languages. The trial-and-error period for contract personnel could be shortened by orientation courses that provide a knowledge of the country involved, of the cultural attitudes that will be encountered, and of AID objectives.

But the problem goes deeper. University professors and employees of Government agencies are reluctant to invest time and energy in preparing for relatively short-term jobs that are largely unrelated to their work "back home." Many believe that overseas duties—largely tangential to their organizations' main affairs—will not count toward promotion, hence absence from the home office or campus could be detrimental to their careers. Family men in midcareer—the age from which a substantial portion of overseas advisers should come—are simply unwilling to uproot their families for temporary jobs abroad which they believe will limit their opportunity for advancement.

Nor is AID alone in experiencing difficulties as a result of its attempts to contract technical personnel from outside the Agency. The universities, too, can suffer from AID's efforts to draw upon their competence. When full-time, permanent faculty members are found who are willing to interrupt their teaching and research to undertake overseas duties, universities often have trouble hiring suitable replacements; qualified professors are usually reluctant to accept campus positions without tenure unless additional inducements are offered, and universities are rarely in a position to provide such incentives. Clearly, it is not in the national interest for universities to impoverish their teaching and research activities at home in order to participate in AID's development activities abroad.

The following excerpt from a paper prepared by the Land Tenure Center of the University of Wisconsin, one of AID's contractors, illuminates other difficulties in AID-university relations: [51]

> There is growing recognition in government and in universities of the difficulty of the development task and the nature and magnitude of the resources needed to meet it. No one actually believes that the services and skills required from a university can be stocked like so much equipment in a warehouse, to be brought out, priced, and purchased when and where needed. Nor does anyone believe that a sound unified university program can emerge from individual support for highly specific tasks by separate agencies of the Federal Government. Yet present support procedures assume these things to be true.
>
> A great deal of our overseas efforts can and should be individually contracted. But certain institutional resources must, if a university is to participate effectively, be created and permanently maintained for use as needs arise. These institutional resources, and the task of institution building for international service, cannot be readily financed by any mechanism the universities now have before them. Instead, each time a university organizes for an overseas venture, it must assemble personnel, equip them with language skills and other special local knowledge, acquire library materials and other necessary data, and set up an administrative structure to handle recruiting, budgets, finance, travel, shipping, clearance and customs, medical problems and the host of other matters inherent to overseas programs. When the project ends there is no choice but to wastefully dismantle this structure or engage in a frantic effort to keep it in operation beyond its planned term and find other jobs to justify its continued life.

If we truly believe that the effort to help modernize institutions in the developing world is in the national interest, we must discard the false premise that appropriate talent is presently available on a large scale, and we must acknowledge that current efforts to mobilize such skills are inadequate.

In Chile, AID has tried a novel technique for fulfilling its requirements for technical advisers—the Chile-California program, by which the State of California, under contract with AID, has undertaken to assist Chilean development. Before we rush to embrace the system as a panacea for AID's recruitment problems, it would be well to reflect on the following finding.

J. Engaging State governments to administer technical assistance operations abroad does not solve AID's problem of recruiting competent advisers. Furthermore, involvement of State institutions in the foreign assistance program introduces complex and debilitating elements of Federal-State relations.

In theory, the idea of enlisting the talent and institutional support of a State to administer a comprehensive technical assistance program in a developing nation with similar geographic conditions sounds

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[51] The University of Wisconsin, Land Tenure Center, "Federal Support for International Programs at the State Universities." Madison, Wis., Mar. 23, 1965, mimeograph.

attractive. AID is experimenting with the technique in the Chile-California program, whose origin, rationale, and structure are discussed above, pages 36–37.

Recently, several publicists and Members of Congress have applauded the Chile-California program without, however, citing specific accomplishments. Apparently they are enamored with the concept but have not investigated the results of the idea in operation. This spate of uncontradicted, casual reports could create an impression that a remedy for AID's recruitment difficulties has been discovered, if only AID would hasten to adopt similar arrangements with other States.

Lest we delude ourselves with respect to the efficacy of such schemes, it is imperative to examine the hard facts. In practice, the projects in which the Chile-California program has been involved have suffered from similar problems of recruitment and host country receptiveness encountered in other AID-sponsored activities. Two such projects are described above, pages 38–39. More important, there is a disorder in the Chile-California program—as could be sensed during the study mission to Chile—that goes beyond the normal frustrations inherent in overseas technical assistance operations.

AID, however, has not yet evaluated the program. In any case, it is probably unrealistic to expect Federal officials to produce an objectively critical analysis of a program involving the relations between the Federal Government and a State and fraught with political implications. Nevertheless, that the Agency for International Development has not been enthusiastic about the Chile-California arrangement is manifest in its disinclination to duplicate the venture elsewhere.

What is the trouble? A recent article by Eugene P. Dvorin, professor of government at California State College at Los Angeles, presents a penetrating and objective analysis of the unforeseen impediments plaguing the Chile-California program. The article appeared in the November 1965 issue of the Bulletin of Atomic Scientists, a publication unlikely to have a wide audience among either the general public or those concerned with the foreign aid program. It is, therefore, reproduced here so that Members of Congress and others may become cognizant of the hazards inherent in involving individual States in the foreign assistance program.

[From the *Bulletin of Atomic Scientists,* November 1965]

The Chile-California Experiment

(Eugene P. Dvorin)

> A new approach to foreign aid was initiated when California undertook to administer a technical assistance program to Chile. Its brief life—and the problems upon which it threatens to founder—are described here. The author is professor of government, California State College at Los Angeles.

One of the most far-reaching experiments in intergovernmental relations and technical assistance is now underway. Even though its future at the moment appears clouded, the significance of the experiment itself merits close scrutiny by those concerned with both federalism and foreign policy. Under the Chile-California Program a new triangle has emerged in the field of technical assistance to foreign nations, linking Sacramento, the capital of California, to Santiago, Chile, and Washington, D.C. Instead of Washington's traditional bilateral approach to technical assistance, the Chile-California Program is based upon tripartite cooperation—as one of the American states has assumed direct involve-

ment in providing technical assistance to a foreign nation—and conversely, it is the first time the national government has utilized the state as an arm of U.S. foreign policy.

Article One of the U.S. Constitution very clearly restricts the states in developing direct relations with foreign nations. The prohibitions forbid any state from entering into any treaty, or alliance, or agreement with a foreign nation without the consent of Congress. In this manner the U.S. has been able to speak with a single voice and with a truly national authority in international affairs without embarrassment or compromise of policy and objectives by the component U.S. states.

Over long periods of time American federalism has been marked by dynamism and fluctuating relationships between the two levels of government; there is little that has remained static or unchanging. Yet, few observers of the governmental process would have ever ventured to predict germination of a concept that the states might provide overseas technical assistance to further our national foreign policy. This is the heart of the Chile-California Program—a bold and experimental effort to produce a new look and new orientation in assisting the developing nations.

The implications of such an approach run deep and wide. In placing responsibility on the state to provide technical assistance to another country the national government gives credence, on a yet limited scale, to the idea of decentralization of foreign aid. Having never been attempted previously, a new kind of triangular international relationship emerges which exhibits a truly awesome potential for a fresh and new invigorating approach. Perhaps it should not go unnoticed that the experiment has taken place during a time when congressional uneasiness over foreign aid has markedly increased.

THE HOPEFUL INCEPTION

President John F. Kennedy was largely responsible for getting the Chile-California Program off the ground. He viewed the program as falling under the broad umbrella of the Alliance for Progress which he had unfolded before the nation. He was enthusiastic about the creative new turn which state provision of technical assistance to Latin American nations would provide to the usual trial and error business of effective foreign aid. The friendship and mutual respect of California Governor Edmund G. Brown and President Kennedy probably lay behind the presidential query as to the possibility of California linking up with Chile as part of our foreign aid effort. The matching of California and Chile seemed appropriate. Both state and foreign nation border the Pacific and have certain common characteristics and problems: elongated geographical shapes, with a north-south road and communications network; large areas of wet and dry climate; similar agricultural products; and urban-rural diversity and competition which tended to intensify in recent decades. Further, a remarkably close and friendly historical relationship between California and Chile existed which provided the basic anchorage upon which the new program could be built.

Under Governor Brown's direction a number of task forces were dispatched to Chile. While displaying some reservations about California's participation in such a project, a number of fields were identified as the most needy and potentially fruitful: agriculture, education, highway transportation, water resources, and economic planning and budgeting. The task forces then identified the most pertinent problems in each field and laid out tentative blueprints for action.

In essence, the Chile-California program was viewed as requiring both public and private participation, although the public sector of the program was to be dominant. The public sector was to be financed entirely by the federal government through the Agency for International Development (AID) and by Chile which would match federal funds dollar for dollar. It was hoped that the private sector would be largely financed through a foundation to be established, based upon contributions from private sources. California's role was clear; while contributing no funds of its own, the state was to provide both administrative direction and personnel. Further, the state was to disburse the funds of the program in accordance with state-determined charges for services. The final contract represented negotiations between federal and state officials. In a very real sense, therefore, the state became a subcontractor to AID to carry out a technical assistance program financed by the federal government and Chile.

In actuality, this was not the first time a California state agency was utilized by the federal government for one of its own programs. The University of California and the state Department of Agriculture had frequently carried out selected projects in cooperation with national authorities. The innovation of

the Chile-California Program was that now the whole state assumed primary responsibility for both planning and implementation. In short, the authority and, therefore, the prestige of the state itself was put on the line. A failure to demonstrate the requisite competence for such an undertaking would be a blow to the prestige of state government. Was California in a position to enter the complex business of foreign aid in which it was totally inexperienced?

FORGING THE PARTNERSHIP

Many on the task forces had serious reservations regarding the concept of state participation in such a program. At the root, some trepidations and uneasiness revolved around the concept of state-national partnership which the program implied. Were the partners in foreign aid to be equal or was there to be a superior-subordinate relationship? A number of those persons involved in the earliest negotiations and discussions felt the state had no business entering this new area if state operations were to come under the existing framework, controls, or programs of AID in Chile. There were several arguments forwarded:

1. Authority must be commensurate with responsibility. If the state is to be made responsible for inauguration and operation of a program in Chile it must control the entire picture. Some Californians were apparently not too impressed by the existing AID operations in Chile; they were hesitant to have the state identified with any programs already underway.

2. The step of a state into the foreign aid arena was too radical a departure from traditional state responsibilities. The Chile-California project could well become a semi-permanent operation that would, in fact, do little to further the cause of state government at home while, at the same time, the state would literally be sticking its own neck out.

3. The program represented a threat to the professional and experienced foreign aid personnel of AID in both Santiago and Washington. One of the crucial problems would be to avoid possible thwarting of California's efforts by deliberate bureaucratic red tape. The well-established pattern of AID programs being reshaped by experimentation by the state would be viewed with a jaundiced eye by AID personnel. What would emerge would be an amateur vs. professional type conflict with the state as the ultimate loser in the long run.

Perhaps the best summation of existing thought was expressed in an official report to the Governor with the observation, "It is obvious that the project has as many pitfalls as it has promises." These sentiments were reflected in California's original insistence that its participation must be predicated on control of the entire AID mission in Chile. The mission chief, appointed by the Governor, was to have full authorty to conduct all business related to the Chilean AID mission, subject only to limitations laid down by law, or agreed to by the state and the U.S. government. Understandably, this may be labeled the "hard position." Just as understandably, AID opposed and would not accept such a policy; AID insisted that as the representative agency of the national government in foreign aid it could not accept complete and final state authority. Further, the embassy in Santiago had to remain fully responsible for U.S. foreign policy and California's endeavors had to fit into a broader picture of overall national objectives.

The project was in real danger of foundering. It was at this point that the combined efforts of Governor Brown and President Kennedy overcame the major differences; disagreements were ironed out to the extent that the program was officially inaugurated by the signing of the United States-California contract in December 1963. The compromise worked out was based upon AID recognition that the Chile-California Program would be allowed to develop its own unique characteristics while these were to be geared into the long-range Alliance objectives. It was further agreed that duplication would be avoided by AID phasing-out programs it had already been operating in Chile, for example, agriculture and education, if the state sought to undertake such responsibilities itself.

Under the terms of the contract California was to be reimbursed for its program responsibilities—including the maintenance of accounting controls by the California Department of Finance—according to federal financial standards as well as existing state operating procedures. Much of the agreement had to be played by ear as there were no precedents upon which to fall back. Existing fringe benefits for state personnel under California's civil service system were to be paid by the federal government, including contributions to the state retirement fund equal to the amount paid by the state and workmen's compensation.

Civil service personnel needed in the program were to be granted leaves of absence at the request of the Governor, but would remain state employees, whether serving in Sacramento or at the Santiago headquarters of the program. Some personnel, not under state civil service, became, in effect, subcontractors for the state. The newness of the program and its highly experimental nature precluded precise and immediate answers to all problems. Rather, many problems and issues would have to be solved on an ad hoc basis as the program evolved through its various phases. An advisory committee was appointed with representatives from both houses of the state legislature, the U.S. House of Representatives, and appointive and elective state officials.

THE PROJECTS UNDERTAKEN

The original director of the Chile-California Program, Preston N. Silbaugh, was able to announce, in his January 1965 report to the advisory committee, that the initial phases of the program were substantially completed, despite the obvious logistical and communications problems of dealing with three governments. The first phase of the program centered around the problems of formation and adjustment. By 1965, forty-five California specialists in various fields had worked over one hundred man-months in Chile—exclusive of private sector efforts and administrative support efforts—carrying out the actual performance responsibilities of the program. Both public and private resources of the state had been tapped. They may be broken down as follows:

1. Nineteen of the contracted personnel came from public and private institutions of higher learning in the state.
2. Ten specialists came from various departments and agencies of state government, which made the services of specially qualified personnel readily available as they were required.
3. Fifteen persons were recruited from private California consulting firms, research institutions, and industrial firms.
4. Four non-Californians were utilized, including two from the Brookings Institution in Washington, D.C.

California personnel worked with counterparts in Chile, totaling almost one hundred Chileans. The program was not conceived to be a grassroots effort but instead the contacts were to take place at the ministerial level. Thus, the Chilean government at the highest level was involved in the program from the beginning. Chilean and California personnel worked in jointly-shared offices provided by Chile.

The impact of political developments in Chile's domestic scene is noteworthy. A new Chilean government had come into power in the last months of 1964. As the technical assistance program was designed to reflect Chilean needs and policies, some reevaluation was necessary so that the program would reflect current political developments and realities. The new government of Chile contributed over one million dollars to the program, and the U.S. Congress and AID approved over one million dollars.

Mr. Silbaugh noted that the program was ready to move into its second phase, which may be termed institutional. Virtually all of the original projects contracted on an individual basis had been completed. These projects were mainly concerned with the identification of tasks to be completed and with the determination of priorities, in terms of time sequence. The first phase also included the development of plans to determine how the tasks were to be most effectively accomplished. The second phase, which actually began about March 1965, is primarily concerned with the action program per se based upon institutional rather than individual projects.

THE GLUM PROSPECTS

Despite the fondest hopes of those who were instrumental in initiating the Chile-California Program, it has entered into an era of crisis, the outcome of which cannot be discerned at the present time. Symptomatic of the ills which have beset the program is the fact that, in less than two years, the first two directors have resigned and the third is about to assume his responsibilities. At the heart of the problem is the AID-California mutual lack of confidence and suspicion which, although glossed over under the impact of the close Brown-Kennedy friendship, has reared its head since. The formal contractual arrangement settled little of the initial underlying disagreements. The contract itself can, of course, be interpreted in many ways, depending upon emphasis given to certain words. It is here that each side claims the contract supports its own position.

The California position may be simply stated: the program must remain a state operation, directed, administered, and carried out in the field by those who are intimately acquainted with California institutions, policies, and processes. For example, appointments under the program should be left to the unfettered discretion of the state. Among California officials closest to the program there is a feeling that AID has attempted to take over the program through use of a wide variety of pressures. Some of the most frequent complaints on this score are: alleged refusal to approve some vouchers for program expenditures; failure to grant security clearance in order to influence personnel appointments; interpreting the AID-California contract contrary to the original intent of the program; and failure to emphasize the role of the private sector to the degree Californians feel is required. What it all boils down to is a basic fear that the program is meant to end up as just another AID project, as slowly the state's discretion is narrowed and as the AID bureaucracy in Washington controls more and more of the program. Thus, in the eyes of some California officials, the Sacramento program office will be just another field office of AID.

While this observer, as a professor of state and local government, has a certain built-in sympathy for the state position, it is still overbalanced by the simple recognition that California can probably never be delegated large areas of discretion in the foreign policy field. Reduced to its irreducible components, the Chile-California Program is part and parcel of the overall general foreign policy of the United States. The issue is a sticky one which does not have a simple solution. Yet, even a cursory glance at the realities of the federal-state grants-in-aid system, which is now such a very large portion of intergovernmental cooperation in the U.S., reveals that ultimately the jurisdiction providing the funds will emerge dominant in the event of a conflict. The Chile-California Program closely resembles the grants-in-aid system. The power of the public purse is driven home each year to new hordes of freshman political science students, and they ignore its implications at their own peril. The resignations of virtually all of the top-level California officials, responsible for administration of the program, point up their belief that AID has gone too far in attempting to control the internal operations. Thus what began as a widely-heralded experiment in federal-state cooperation is viewed as ending up as part and parcel of AID orthodoxy.

If California had been willing to provide part of the money for the program (something which would possibly have been politically disastrous for the Brown administration) the state would obviously have been in a much stronger position vis-a-vis AID. In truth, the state expected to control the program while the financing was in the hands of the other two governments concerned. California's expectations, though understandable, were out of all proportion to fiscal reality. From another viewpoint, had a new agency been established to deal with the Chile-California Program, the agency outlook might have been otherwise. But, AID does work within an established framework and the California position does imply important exceptions to its operational frame of reference.

In broad perspective the Chile-California Program represents only a small portion of U.S. aid to Chile—the total 1965 package being about $125 million. Consequently, in the event of a complete breakdown in the program, the scale of assistance to Chile will not be radically altered. To those, however, who would like to see the states playing a more vital and dynamic role in the American governmental system, a significant experiment will have failed and the possibilities of a new form of decentralized technical assistance, based upon diversity of approach, will fall short of realization. At best, a middle position between the two extremes, in which both AID and California officials have confidence in each other, may emerge. But serious damage to the program has already resulted. In medical parlance, the program is not yet dead, but most assuredly, the prognosis for recovery gives cause for grave concern.

K. Lack of systematic coordination of the various international sources of technical assistance makes difficult formulation of a meaningful development strategy. The absence of coordination also has deleterious effects upon the host nation's development.

Chile has attracted a profusion of assistance from friendly governments, international organizations, private foundations, and religious and charitable organizations. The following table presents a summary of non-AID technical assistance activities in Chile.

Summary of Bilateral and Multilateral Technical Assistance Activities in Chile From External Sources Other Than AID

Table 12.—*Summary of non-AID technical assistance activities in Chile*

[Best information as of September 1965]

Activity title and description	Type of assistance	Source	Duration	Cost	Remarks
A. HUMAN RESOURCES					
1. Health:					
(*a*) Reproductive biology	Equipment and fellowships	Ford Foundation	June 1964–67	$170,000	University of Chile.
(*b*) Population problems	Experts and fellowships	Rockefeller Foundation		$76,000	Faculty of medicine.
(*c*) Occupational therapy	Expert	Britain	July 1965–66		National Health Service.
(*d*) Nurses training	Volunteers (10)	Peace Corps			Do.
(*e*) Training of the handicapped	Expert	International Labor Organization (ILO).	January 1964–June 1965.		Do.
(*f*) Rehabilitation of the handicapped, prosthetic appliances and occupational therapy.	Experts (2)	World Health Organization (WHO).	1965–66		Do.
(*g*) Public health	Consultant	do	9 months		
(*h*) Public health administration and applied nutrition.	Fellowships (3)	do			
(*i*) Institute of Occupational Health: Scientific research, personnel training, and technical assistance to the Government, industry, and private institutions.	Project manager, consultants (9), and equipment.	do		[1] $404,000 [2] $897,652	National Health Service, School of Public Health of the University of Chile.
2. Food programs:					
(*a*) CARE	Foodstuffs and equipment	CARE	Indefinite		Directed mainly to primary schools.
(*b*) Catholic Relief Services	do	CRS	do		Directed mainly to community projects.
(*c*) Church World Service-Lutheran World Relief.	do	CWS–LWR	do		Do.
(*d*) Seventh-day Adventist World Service.	do	SAWS	do		Do.
3. Education:					
(*a*) Physical and mathematical sciences.	Consultants and fellowships	Ford Foundation	October 1962–69	$1,225,000	Catholic University.
(*b*) Regional colleges	Consultants, equipment, and fellowships.	do	September 1961–68	$1,441,911	University of Chile.
(*c*) Institute of Economics	Consultants and fellowships	do	October 1961–65	$500,000	Do.
(*d*) Institute of Sciences and Mathematics.	Consultants, equipment, and fellowships.	do	March 1960–66	$500,000	University of Concepción.
(*e*) Demography (CELADE)	Support grant	do	February 1962–65	$260,000	University of Chile.
(*f*) Institute of Organization and Administration.	Consultants and fellowships	do	June 1963–66	$365,000	Do.

See footnotes at end of table.

TABLE 12.—*Summary of non-AID technical assistance activities in Chile*—Continued

Activity title and description	Type of assistance	Source	Duration	Cost	Remarks
A. HUMAN RESOURCES—continued					
3. Education—Continued					
(*g*) Educational planning	Consultants	Ford Foundation	June 1963–65	$250,000	National Commission for Educational Planning.
(*h*) Sociology	Consultants and fellowships	do	August 1964–70	$380,000	Catholic University.
(*i*) Social sciences, library services, administration.	Consultants, equipment, and fellowships.	do	August 1964–67	$782,600	University of Concepción.
(*j*) Economics training, educational research.	Consultants and fellowships	do	January 1965–70	$300,000	Catholic University.
(*k*) Educational testing	Equipment and fellowships	do	January 1965–68 February 1965–67	$170,000	University of Chile.
(*l*) History, biochemistry	Direct grant	Rockefeller Foundation		$58,000	Do.
(*m*) Economics, music, theater studies.	do	do		$44,000	Catholic University.
(*n*) Medicine, physics studies, etc.	Fellowships (12)	do			University of Chile.
(*o*) Medicine, sociology studies, etc.	Fellowships (7)	do			Catholic University.
(*p*) Chemistry	Equipment	Britain		£5,000	University of Chile.
(*q*) University and school teachers.	Professors (13)	Fulbright Commission			To teach in various universities and schools.
(*r*) Teachers training	Courses in the United States.	do			For 20 normal and primary teachers.
(*s*) Teachers training	Volunteer	Peace Corps			University of Chile.
(*t*) University teachers	Volunteers (12)	do			Assistant professors, Antofagasta, Valdivia.
(*u*) Comprehensive development of the University of Chile.	Consultants, equipment, and fellowships.	Ford Foundation		$1,500,000	Initiated July 1965 with University of California.
(*v*) Teacher training and curriculum development program.	do	do	1½ years	$579,650	Initiated July 1965. To Ministry of Education.
(*w*) Educational planning: Curriculum reform, advanced physics teaching, development of audiovisual aids in education, organization of industrial education, educational evaluation, University of Concepción reorganization program, and educational television.	Experts (9)	Food and Agricultural Organization (FAO).	1965–66		National Commission for Educational Planning.
(*x*) General education: Educational statistics, educational costs and financing.	Experts	do			

(y) Faculty of Engineering, University of Concepción: To assist principally through the provision of equipment and the services of expert consultants in the creation of a faculty of engineering within the University of Concepción.	Project manager	United Nations Educational, Scientific, and Cultural Organization (UNESCO).	November 1961–December 1966.	[1] $1,107,904 [2] $929,156	University of Concepción.
4. Professional training:					
(a) Technical, vocational training.	Consultants, equipment, and fellowships.	Ford Foundation	June 1964–66	$248,000	Technical University Federico Santa Maria.
(b) Training for food production	do	do	October 1964–67	$518,100	University of Chile.
(c) Vocational training	Equipment	Britain		£40,000	SCT Training Center in Valparaiso.
(d) Vocational training	do	do		£50,000	Do.
(e) Industrial school	do	do			Electro-Technical school, Santiago.
(f) Industrial school	do	do			Artes y Oficios, Santiago.
(g) Vocational training	Experts (7), equipment, and fellowships (25).	West Germany	May 1963–68		Escuela Industrial Chileno-Alemana.
(h) Apprentices training	Experts (3), equipment, and fellowships.	do	May 1963–66		
(i) Training in industry	Fellowships (8)	do	1½ years		For engineers and technicians.
(j) Metallurgical Center, Santiago.	Expert	Denmark			
(k) Metallurgical Center, Maipú	Experts (2) and equipment	do			
(l) Institute of Rural Education	Volunteers (42)	Peace Corps			To rural training centers.
(m) Institute of Rural Education	Volunteers (30)	West Germany			Do.
(n) "Fundación de Vida Rural"	Volunteers (10)	Peace Corps			Catholic University.
(o) Economic and social planning.	Fellowships (4)	U.N. Bureau of Technical Assistance Operations.			Latin American Institute of Economic and Social Planning.
(p) Industrial training	Experts (2)	International Labor Organization (ILO).			Metal Trades Center, SCT.
(q) Industrial productivity	Expert	do	January 1964–66		Servicio de Cooperación Técnica and CORFO.
(r) Training center for instructors, supervisors, and foremen: To create in Santiago a training center to cover planned requirements for instructors, supervisors, and foremen for Government and private industry, who will in turn undertake industrial training at the skilled manpower level.	Project manager, experts, or instructors in technical drawing, agricultural mechanics, electricity, welding, carpentry, lathe, metallurgy, diesel, and automobile mechanics.	do	August 1963–68	[1] $1,120,200 [2] $421,000	Servicio de Cooperación Técnica.
5. Community development:					
(a) Community facilities	Consultants and support grants.	Ford Foundation	May 1964–67	$777,250	Ministry of Public Works.
(b) Equipment	Equipment grant	Switzerland			To Andean program, Arica.
(c) Regional development, Punitaqui area.	Expert	U.N. Bureau of Technical Assistance Operations.	July 1965–66		Expert stationed in Ovalle. His activities will be related to UN-FAO world food program.
(d) Rural community program in the Andean highlands.	do	ILO	1965		Junta de Adelanto de Arica.

See footnotes at end of table.

TABLE 12.—*Summary of non-AID technical assistance activities in Chile*—Continued

Activity title and description	Type of assistance	Source	Duration	Cost	Remarks
B. NATURAL RESOURCES					
1. Agricultural and livestock:					
(*a*) Agricultural research program.	Experts	Rockefeller Foundation		$185,000	Ministry of Agriculture.
(*b*) Veterinary medicine	Fellowships (4)	do			
(*c*) Agronomy	Fellowships (8)	do			
(*d*) Livestock	Fellowship	Britain			
(*e*) Irrigation	Consultants	do		£24,000	Diguillin River Basin.
(*f*) Livestock and dairy school	Experts and equipment	West Germany	3 years		Agreement pending.
(*g*) Soils research	Expert	do	4 to 5 years		
(*h*) Nematology	Experts	do	do		4-man mission started March 1963. 2 or 3 years extension agreed.
(*i*) Livestock breeding	Expert	do	do		
(*j*) Administration	do	do	do		
(*k*) Vine diseases	do	do	3 months		Agreement pending.
(*l*) Sugarbeet diseases	do	do	do		Do.
(*m*) Soil erosion	do	Denmark	1 year		To begin October 1965.
(*n*) Angora rabbit breeding	Fellowship	do	1 month		
(*o*) General agricultural planning	Expert	Food and Agriculture Organization (FAO).	August 1964–December 1966.		
(*p*) Livestock development planning: Meat marketing, forage production, dairy production and cheese technology, animal pathology, and livestock production.	Experts (6)	do	November 1963–December 1966.		Ministry of Agriculture and CORFO.
(*q*) Colonization and land tenure	Expert	do	July 1960–February 1965.		
(*r*) Supervised credit	do	do	October 1964–October 1965.		Agrarian Reform Corporation (CORA) and National Institute for Agricultural Development (INDAP).
(*s*) Agricultural cooperatives	do	do	March 1964–June 1965		CORA.
(*t*) Irrigation	do	do	August 1965–August 1966.		Ministry of Agriculture.
(*u*) Whale research	do	do	8 months		Will begin shortly.
(*v*) Rural administration and extension.	do	do	1½ years		
(*w*) Dry zone pasture management.	do	do	20 months		
(*x*) Rural education, Arica highlands area	do	do	Will terminate end of 1965.		
(*y*) Agricultural education	do	do	Short term		

(z) Institute for Training and Research in Agrarian Reform: To create an institute to work in the field of agrarian reform in 2 principal directions by training professional and specialized personnel, and by carrying out research and analyses of specific problems and projects.	Project manager, experts (5) in land settlement, agrarian legislation, credit, cooperatives, rural sociology, and administration of agrarian reform programs.	do	June 1964–69	[1] $723,100 [2] $651,000	Consejo Superior de Fomento Agropecuario and CORFO.
(aa) Institute of Food Science and Technology: To create an institute of food science and technology in the faculty of agriculture of the University of Chile. The institute is operating through research programs, training, quality control, and direct advisory services to private industry.	Project manager and experts in food technology (2).	do	Started September 25, 1964.	[1] $482, 200 [2] $561, 000	University of Chile.
(bb) Institute of Soils Research: To strengthen soils research and carry out soils studies in close cooperation with the Ministry of Agriculture. Project not yet operational.	Project manager	do	4 years	[1] $765, 800 [2] $723, 000	Ministry of Agriculture.
(cc) Beef cattle production	Expert	do	20 months		
2. Forest resources:					
(a) Army Forestry School (Valdivia).	Experts (3) and equipment	West Germany	2 years		Agreement pending.
(b) Forestry faculty (University of Valdivia).	Experts (4 to 6)	do	do		Do.
(c) Forestry studies	Volunteers (10)	Peace Corps			To SF–FAO Forestry Institute.
(d) Forestry studies	Fellowship	Britain			
(e) Reforestation	do	Denmark	1 year		
(f) Forestry	Expert	FAO	16 months		
(g) Institute for the Development of Forest Resources and Industries: Forestry studies, including reforestation projects, research in forestry products, marketing and exports, inventories and controlled growth, grading, training, and direct advisory services for private industry.	do	do	September 1961–65	[1] $1, 136, 050 [2] $1, 570, 845	Ministry of Agriculture and CORFO.

See footnotes at end of table.

TABLE 12.—*Summary of non-AID technical assistance activities in Chile*—Continued

Activity title and description	Type of assistance	Source	Duration	Cost	Remarks
B. NATURAL RESOURCES—con.					
3. Water resources and underground energy:					
(*a*) Power distribution	Fellowship	Britain			
(*b*) Power studies	do	Switzerland			To ENDESA.
(*c*) Survey for geothermal development in northern Chile: To undertake the survey and drilling of the geothermal resources in the Provinces of Tarapacá and Antofagasta.	Experts	UNTAB	3½ years, approved June 1965.	[1] $1,664,300 [2] $1,012,000	CORFO.
4. Fisheries resources:					
(*a*) Fisheries	Fellowship	Japan			
(*b*) Fisheries processing and industrialization.	do	Denmark	15 days		
5. Mining:					
(*a*) Mineral survey	Associate expert	Sweden	1 year		To SF-U.N. Coquimbo mineral survey.
(*b*) Mineral resources survey of the Province of Coquimbo: Survey and study mineral deposits in the Province of Coquimbo and to contribute to geological knowledge of the region by means of geochemical and geophysical photogeological studies and by drilling on certain selected sites.	Project manager	U.N. Bureau of Technical Assistance Operations (UNTAB).	January 1964–December 1965.	[1] $507,100 [2] $298,000	Instituto de Investigaciones Geológicas and the Servicio de Minas del Estado.
6. Communications:					
(*a*) Telecommunications (Chilean Army).	Experts, equipment, and fellowships (5).	West Germany	May 1963–66		
(*b*) Telecommunications	Fellowship	Japan			
(*c*) Port operations	Consultants	Britain		£8,400	In Iquique.
(*d*) Port works	Expert	Japan	6 months		In Valdivia.
(*e*) Telecommunications	Experts (5)	do	4 months		To "Empresa Nacional de Telecomunicaciones."
(*f*) Railway operations	Consultants	Britain			To Chilean State railways.
(*g*) Television	Fellowships (2)	Denmark	3 months		
(*h*) Radio and television	Fellowship	do	2½ months		
(*i*) Aeronautical communications	Expert	International Civil Aviation Organization (ICAO).	1965		Junta de Aeronáutica Civil.

(j) Civil aviation	Fellowships (2)	do	6 months each		
(k) Telecommunications development.	Expert	International Telecommunications Union (ITU).	1965–66		
(l) Operation of telex systems	Fellowships (2)	do	4 months each		
C. INDUSTRY					
1. Small- and medium-scale industry:					
(a) Wool tops industry	Consultants	Britain		£5,000	In Punta Arenas.
(b) Financing, organization, and marketing problems of small industries and handicrafts.	Expert	UNTAB	May 1963–December 1966.		Servicio de Cooperación Técnica.
(c) Small industry machinery					
(d) Marketing of small industry products.	Consultants	UNTAB	December 1964	$10,000	CORFO.
(e) Small industry cooperatives	Expert	ILO	July 1964–65		Servicio de Cooperación Técnica.
(f) Small-scale industries development.	do	ILO	1 year		Do.
2. Large-scale industry:					
(a) Plastics	Consultants	Britain		£11,000	Feasibility study for CORFO.
(b) Tourism	Expert	Switzerland	1 year		To National Tourism Board.
(c) Foundry work and forging techniques.	2 short-term consultants	UNTAB	November 1964–February 1965.		Instituto Chileno del Acero.
3. Marketing, buying and selling organizations, cooperatives:					
(a) Production cooperatives	Direct grant	Ford Foundation	April 1963–65	$50,000	Urban cooperative, Work Promotion Institute (IPT).
(b) Production cooperatives	Volunteers (3)	Peace Corps			IPT.
(c) Savings and loans cooperatives	Volunteers	do			
(d) Institute of Cooperative Education	do	do			
(e) Agricultural cooperatives	Experts (3)	Israel	1 month		Training courses: 36 participants.
(f) Industrial promotion and agricultural marketing.	Experts (2)	UNTAB	Mar. 1964–65—August 1964–65.		Chilean Committee for the Latin American Free Trade Association.
4. Housing and public works:					
(a) Rural planning and housing	Consultants	Ford Foundation	April 1963–65	$40,000	To Ministry of Public Works.
(b) Prefabricated houses	Fellowship	Denmark	10 days		To attend seminar in Denmark.
(c) Low-cost housing: Reconstruction programs in zone affected by Mar. 28, 1965, earthquake.	Expert	UNTAB	Short term		
(d) Construction	do	ILO	2 years		Servicio de Cooperación Técnica.
D. PUBLIC ADMINISTRATION					
1. Statistics:					
(a) Preparation of financial and manufacturing statistics.	Experts (2)	UNTAB	June 1964–66—January 1964–66.		Budget Office, CORFO, Central Bank, and Department of Statistics of the Ministry of Economy.
(b) Labor statistics	Expert	ILO	February 1965–66		Central Office of Organization and Methods of the Ministry of Finance.
(c) Agricultural statistics	do	FAO	March 1964–65		Dirección General de Estadísticas.

TABLE 12.—*Summary of non-AID technical assistance activities in Chile*—Continued

Activity title and description	Type of assistance	Source	Duration	Cost	Remarks
D. PUBLIC ADMINISTRATION—con.					
2. Civil service:					
(*a*) Rationalization of Government offices and introduction of a career service.	Expert	UNTAB	1965–66		Central Office of Organization.
3. Agricultural policy:					
(*a*) Agricultural structures	Experts (3)	West Germany	2 years		Agreement pending.
(*b*) Agricultural economics	Fellowships (2)	do	1 year		
(*c*) Rural planning	Fellowships (7)	Israel	3 months		Joint OAS program.
(*d*) Water legislation	Expert	do			
(*e*) Agrarian reform	Volunteers (14)	Peace Corps			To CORA.
4. Economic planning:					
(*a*) Economic models, simulation techniques, and national accounts.	Experts (3)	UNTAB			Central Planning Office.
E. LABOR AND MANPOWER PLANNING					
(*a*) Manpower planning	Experts (2)	ILO	July 1965–Sept. 1965; July 1965–July 1966.		CORFO.
(*b*) Labor problems	Expert	ILO	1½ years		Ministry of Labor.
F. ATOMIC ENERGY					
(*a*) Radioisotopes	Equipment	International Atomic Energy Agency (IAEA).		$15,000	University of Chile, ENDESA, Instituto de Investigaciones Geológicas.
(*b*) Radiation protection	do	do			Servicio Nacional de Salud.
G. METEOROLOGY					
(*a*) Hydrometric and hydrometeorological stations: Creation of new and expansion of existing hydrological and climatological stations throughout Chile.	Experts (2): 169 hydrometric stations, 37 climatological stations, 250 pluviometric stations, 51 thermopluviometric stations, and special installations and laboratories.	World Meteorological Organization (WMO).	1960–65; 6-months extension agreed.	[1] $612,500 [2] $1,200,000	National Meteorological Service, Irrigation Department of the Ministry of Public Works, and ENDESA.
(*b*) Synoptic meteorology	Expert	do	6 months		

[1] U.N. Special Fund.
[2] GOC contribution.

Source: Agency for International Development, Country Assistance Program Book for Chile, fiscal year 1967, pt. 1, pp. 117.1–117.22.

Obviously, U.S. public agencies do not have a monopoly on technical skills. Recognizing this, Congress has encouraged the participation of private groups in the foreign assistance program. Likewise, the United States welcomes the contributions that other countries and international organizations can make in the developing countries.

Given the magnitude of Chile's requirements, it is easy to assume that any and all well-intentioned technical assistance is useful. In practice, however, the more-the-merrier approach by international donors has contributed to a proliferation of Chilean private, semi-private, and public bureaucratic agencies. This profusion of agencies—frequently supported by non-Chilean funds from private foundations, church groups, AID, and international organizations—results in overlapping functions, especially in administration. Furthermore, the agencies keep bidding scarce Chilean technical personnel away from each other and compete for the limited financing available in the Chilean budget. In consequence, there is a serious splintering of effort, with many projects started, inadequate followup, and few completions.

There is also a tendency for a Chilean agency to find itself at cross-purposes with other agencies on which it should depend for carrying out complementary functions. For instance, an agency established to provide extension services, next applies for a grant to make loans, then begins to set up cooperatives—in the process duplicating the services of other agencies, which are similarly engaged in extending their functions.[52] Interagency rivalry and a bureaucratic proclivity to expand are not, of course, peculiar to Chile. In Chile's case, however, foreign funds and foreign advice have been instrumental in fostering these practices.

The AID mission has attempted to develop techniques for meshing U.S. aid with other assistance activities in Chile, and a number of observers believe that the degree of coordination attained in Chile is among the more effective encountered in the foreign assistance program. The present method of coordination is accomplished largely on a personal basis. At least once a year the Mission's Program Office canvasses all the embassies to discuss their current and planned technical and capital assistance programs.[53] The Mission also tries to maintain a continual dialog regarding programs and plans with representatives of the major organizations providing technical assistance to Chile, such as the United Nations and the Ford and Rockefeller Foundations.[54]

The Mission also has available an annual report prepared by the United Nations Technical Assistance Board office in Santiago which describes bilateral, multilateral, private, and regional technical assistance activities in Chile. According to the Mission, the UNTAB report "gives us information which enables us to inform ourselves in more detail about a particular activity if the need arises." [55] The UNTAB

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[52] A research report entitled "Sources and Uses of Information by New Land Owners," prepared by Marion R. Brown, of the University of Wisconsin's Land Tenure Center (under contract with AID), documents the influence foreign funds and advice have had in the mushrooming of Chilean agencies with overlapping functions in the field of agricultural extension. (Typewritten, undated.)

[53] Letter from Acting Director, USAID/Chile, to Chief, Chilean Development Affairs, AID/Washington, Oct. 6, 1965.

[54] Ibid.

[55] Ibid.

report thus serves principally as a post facto guide to the activities of other governments and organizations. From the report AID can derive clues regarding where to avoid duplication of effort. But the UNTAB report does not furnish a basis for orchestrating the various international assistance programs *prior* to undertaking ventures. Other donors still undertake activities on an ad hoc basis, with little consideration of the effect which they may have on existing agencies or upon overall development.

Furthermore, it must be noted that the report by the United Nations Technical Assistance Board office is almost unique among countries receiving foreign assistance. UNTAB publishes a similar report of the activities of international donors only for Tunisia; one for Thailand is currently in preparation. Thus, even this limited instrument for coordination is absent in the overwhelming majority of recipient countries.

AID is not unaware that a meaningful development strategy cannot be formulated without knowing in some detail the problems being attacked—and neglected—by other assistance donors. As a pilot project, the Latin American Bureau of AID recently has produced an inventory of technical cooperation activities in Latin America conducted by the Ford, Kellogg, and Rockefeller Foundations (which together account for about 90 percent of such activities by U.S. private agencies), the United Nations, OAS, and U.S. Government agencies other than AID. It is planned to include technical assistance activities of DAC (Development Assistance Committee)[56] members in a future edition of the inventory.

L. Too little consideration is taken of the recipient nation's ability to administer the assistance rendered. The level of aid appears to be determined more by a country's aspirations (frequently soaring) than by a realistic appraisal of the capacity of local institutions to handle the infusion constructively.

The magnitude of assistance, in relation to Chilean capabilities, has been excessive for effective utilization. In our desire to help Chile achieve rapid results, we may well be defeating our mutual purpose by overtaxing Chilean agencies.

The Chilean program in the last 5 years is replete with unmet objectives. Failures are due to a number of interrelated factors, among them: ill-conceived projects; lack of trained manpower; mismanagement; inability or unwillingness of Chilean agencies to provide agreed-upon local currency costs; flagging interest due to frequent changes of local administrators, many of whom are eager to inaugurate their own pet schemes and uninterested or hostile toward those of their predecessors.

A recent study of the Ministry of Public Works, which manages 35 percent of all public works in Chile, is revealing; over 50 percent of the funds allocated for sanitary works and public buildings were *unexpended a year after the projects were scheduled for completion* because construction had not yet started or was incomplete. Meanwhile, because of rampant inflation, delays in construction mean higher construction costs. As a result, funds allocated for projects

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[56] DAC members include: Chairman, United States; Members: Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, United Kingdom, European Economic Community.

frequently are exhausted before projects are completed, and many projects must mark time at various stages until additional financing can be procured.

The case of CORVI, Chile's Housing Corporation, provides a telling example of the effect of massive infusions of capital. Prior to the earthquake of 1960, CORVI was a comparatively small, semiautonomous agency of the Ministry of Public Works. When the $100 million loan agreement was signed, CORVI was the only tool of the Chilean Government through which funds for housing could be funneled.

In 1961, CORVI was established as an independent corporation with flexible operating procedures, but under the general supervision of the Minister of Public Works. Subsequently, over $60 million of AID funds, as well as Chilean Government funds and a $2 million loan from the Inter-American Bank's Social Progress Trust Fund, have been handled by CORVI.

Forced to grow rapidly in order to carry out emergency housing programs after the earthquake, there arose a tendency to staff CORVI mostly with architects and engineers, who also took over the administrative and financial management. Consequently, CORVI developed serious deficiencies in project planning, programing, property management and general administration. While CORVI's performance in mass producing housing compares favorably with other Latin American housing agencies, its neglect to concern itself with community facilities and other social development matters frequently converted low income housing projects into "ready built slums." Large numbers of completed units stood empty for many months.

CORVI is particularly weak on the management side. Little provision has been made for maintaining and servicing its housing or for procedures or facilities for collecting monthly mortgage payments. Average monthly delinquency in collections is about 60 percent. The low collection rate, coupled with practices that have delayed or prevented the annual application of the legally required readjustment of mortgage payments, have led to CORVI's decapitalization. This, in turn, increases CORVI's requirements for fiscal subsidies, in large measure financed by AID's program loans.

In the agricultural field, AID has experienced long and frustrating delays and setbacks with numerous projects. Experience with one agreement should suffice to illustrate the difficulties encountered in saddling Chilean agencies with more than they can handle.

On May 15, 1962, AID agreed to provide 3,500,000 escudos (about $2.3 million) [57] to the Chilean Ministry of Agriculture and its semiautonomous agency, Institute for Agricultural Development (INDAP), to help finance construction of agricultural facilities. The basic agreement allocated 1,000,000 escudos; the balance of funds were to be made available as they were generated under the fourth Public Law 480, title I sales agreement, signed May 12, 1961. According to the project agreement, AID's assistance in the field of agricultural production and marketing was to assist the country in its effort to effect a 5.5 percent annual increase in its agricultural production.

Among the subprojects included in the original agreement were the following: construction of 36 dwellings for Ministry of Agriculture

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[57] Converted at the then current rate of exchange of $1.00=E° 1.55.

personnel; an agricultural information center in Santiago; an office building in Punta Arenas; a quarantine holding station in Copiapó; construction of buildings and facilities for demonstration and seed increase farms at Vallenar, Ovalle, Los Andes, Ninquihue, La Cabaña. Collipulli, Osorno, Puerto Octay, Chile Chico, Rio Los Ciervos, and Springhill; construction of a research substation and dwellings at Elqui-Vicuña; housing and building for wine processing at the Cauquences substation; fruit packinghouse and cold-storage plant in Los Angeles; a horticultural research center at Valparaíso; a fruit research center in Paine; construction for the central experimental station "La Platina" in Santiago; an experimental station in Chillán (including four dwellings for technicians); fish hatcheries in Curicó and Los Andes; construction of an animal quarantine center in Puerto Montt; construction of dairy plants in Victoria, Arauco, Temuco, Ancud, La Serena, Viña del Mar, Santiago, Maipú, Talca, Linares, Los Angeles, Valdivia, Osorno, and Fruitillar; and the construction of livestock slaughterhouses and cold storage plants at Temuco, Chillán, Concepción, and Victoria.

On December 27, 1963 (1½ years later), radical changes were made in the ambitious agreement. The authorized ceiling of 3.5 million escudos remained the same, but the subprojects to be financed were reduced to the following:

1. Experimental station "La Platina"	E°1,022,000
2. Dairy plant—Ancud	495,000
3. Dairy plant—Linares	120,000
4. Dairy plant—Los Angeles	60,000
5. Dairy plant—Valdivia	110,000
6. Dairy plant—Maipú	40,000
7. Slaughterhouse and cold-storage plant—Temuco	1,330,000
8. Sanitary barrier at Paipote	6,500
9. Sanitary barrier at Tarapacá	8,500
Subtotal	3,192,000
Contingency fund	308,000
Total	3,500,000

Even on this reduced scale, the project has dragged on interminably. By May 1966, 4 years after the original project agreement, the only subprojects completed are the La Platina experimental station, the milk plants at Los Angeles and Valdivia, and the two inspection stations at Paipote and Tarapacá. Of the 3.5 million escudos obligated to the project, only 1.7 million have been disbursed.

Various AID documents provide some clues and considerable confusion regarding the problems encountered in completing the remaining three dairy plants at Ancud, Linares, and Maipú, and the slaughterhouse and cold storage plant in Temuco.

Construction of the dairy plant at Ancud did not start until June 1963, a year after the project agreement had been signed. After a visit to the site in August 1964, Mission auditors reported: [58]

> It was estimated that 90% of the main construction of the building was completed. It was hoped that the total structure would be complete by the end of September, 1964. These

[58] Agency for International Development. U.S. AID Mission to Chile. Office of the Controller, Audit Branch. Report of Audit No. 109, Construction of Agricultural Facilities, Nov. 13, 1964, p. 4.

> estimates, of course, apply to the "obra gruesa," or construction of the building shell, and do not contemplate finishing and installation of machinery and equipment.

The delays, according to the Inspecting Engineer for the Ancud project, were due to the following reasons:[59]

> a. Work had been brought to a standstill for approximately two months because it was not possible to obtain the right quality of waterproof cement.
> b. There had been a continuing scarcity of structural steel and gravel for concrete.
> c. Inasmuch as construction was performed under the so-called "administrative basis," no fixed termination date was established for the construction. Accordingly no penalty clause was contained in the contract.
> d. Personnel problems had been encountered and the project foreman had been changed twice. Salary payments to workers had sometimes been delayed as many as 21 days.

In March 1965, almost 2 years after the project agreement had been signed, the Mission's Engineering Services Division reported:[60]

> The dairy plant at Ancud is 40% complete but by reason of inordinately complicated procedures involved in the agency's procurement of the required equipment, operational completion cannot be anticipated before the first quarter of 1966.

By the end of 1965, the Engineering Services Division again pushed forward the completion date for the Ancud dairy plant, stating:[61]

> * * * final termination date will be extended to December, 1966, because of foreseeable delay in installation of the machinery.

Construction of the dairy plant at Linares began 2 years prior to the project agreement under discussion—in May 1960, with funds in the amount of E° 30,000 from the second Public Law 480, title I loan. However, work stopped in September 1960 due to lack of funds. After the receipt of an additional 120,000 escudos from the fourth Public Law 480, title I loan, work was reinitiated in November 1962. Work was again stopped in May 1964, "pending completion of studies being made by CORFO as to whether that agency would make a loan to the dairy cooperative for completion of the subproject."[62] A Mission audit, covering the period through June 30, 1964, noted:[63]

> It is obvious that the delay of more than four years on this project has contributed not only to the loss of potential production by the dairy plant but to a very substantial increase in construction cost. As of the date of our audit, no firm estimate has been made as to when the plant will be in operation or how much money will be required to complete the project.

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[59] Ibid.
[60] USAID/Chile. Engineering Services Division. Status Report of Construction Projects (Third Quarterly Report) Mar. 31, 1965, p. 11.
[61] Ibid. (Sixth Quarterly Report), Dec. 31, 1965, p. 10.
[62] AID/Chile. Office of the Controller. Report of Audit 109. Op. cit., p. 5.
[63] Ibid.

AID documents make no mention of the fate of the Maipú dairy plant until the June 30, 1965, report by the Engineering Services Division. That report relates, without elaboration, that the Maipú dairy plant is 40 percent completed and, subject to receipt of equipment, should be operational by the end of 1965.[64]

But 3 months later (September 1965), the Engineering Services Division gave up trying to estimate a completion date for either the Maipú or Linares dairy plants, deciding instead to delete the two subprojects from the agreement:

> * * * after inspection and study by this Division disclosed that financial, operational, and other problems would not permit finishing these projects within reasonable time.[65]

However, the next quarterly report by the Engineering Services Division (December 31, 1965) contains the cryptic statement: "Loans to milk plants at Linares and Maipú have been made." [66] Loans have been made by whom? Certainly not by AID, since the original agreement of May 1962 was still in effect.

In response to a cable requesting clarification, the Embassy in Santiago cabled: [67]

> 1. As of September 30, 1965 report because appeared Linares cooperative would have no funds available for its cost participation in construction and because the GOC [Government of Chile] loaning agency considered that the corporate operation entity, Maipú plant, was not then complying with loan stipulations, Mission considered deletion those two subprojects.
>
> 2. Subsequently, because the GOC agency initiated production and market feasibility studies, still in progress, both these plants, directed toward completion both plants, Mission reconsidered deletion, taking the position that the purposes of AID loan had been accomplished as noted in December 31, 1965 report.
>
> 3. GOC agency information extremely illusive and inconclusive. Mission will continue to follow developments re these two plants.

The "explanatory" cable only compounds the confusion. Paragraph 2 of the cable apparently means that the Linares and Maipú subprojects have not been deleted from the agreement. The reason given for the decision not to delete the two subprojects—"*that the purpose of the AID loan had been accomplished as noted in 12/31/65 report*"—is in its own right "extremely illusive and inconclusive." *All* that the December 31, 1965 report states with respect to the Linares and Maipú dairy plants is the single sentence quoted above: "Loans to Milk Plants at Linares and Maipú have been made." Furthermore, it seems rather late in the operation for the responsible Chilean Government agency to be undertaking production and market feasibility

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[64] Engineering Services Division. Op. cit. (Fourth Quarterly Report), p. 11.
[65] Ibid. (Fifth Quarterly Report), Sept. 30, 1965, p. 12.
[66] Ibid. (Sixth Quarterly Report), p. 10.
[67] To the Secretary of State, Washington, from AmEbassy, Santiago. TOAID 1062, May 24, 1966.

studies with respect to the plants. Moreover, whatever became of the studies, mentioned by the Mission auditors *in 1964*, "being made by CORFO as to whether that agency would make a loan to the Linares dairy cooperative for completion of the subproject"?

The remaining subproject, the Temuco slaughterhouse and cold storage plant, also has encountered difficulties, although the nature of these problems is impossible to ascertain from AID documents. Three years after the project agreement had been signed, the Engineering Services Division reported: [68]

> The Temuco plant is only 30% complete and because of delays in procurement of equipment, cannot be operational before December, 1966.

The last available Engineering Services Division Report (December 31, 1965) states: [69]

> Construction of Livestock Slaughter and Cold Storage Plant at Temuco has been re-initiated, final termination date will be extended to December, 1966 because of foreseeable delay in installation of machinery.

The foregoing brief summary of the agricultural facilities agreement illustrates the chaos resulting from heaping responsibilities upon agencies with weak organizational structures.

Nor has AID's experience in the agricultural field in Chile been unique. In December 1963, the World Bank signed a $19 million loan with CORFO, the funds to be re-lent to farmers for such purposes as pasture improvement, building improvements, and the purchase of farm machinery and local and imported livestock. The IBRD has become deeply concerned because the loan has been very slow in disbursement. For example, while the latest available statistics indicate that the number of tractors in Chile has diminished from 15,200 in 1928 to 11,800 in 1962, none of the $7 million of the IBRD loan allocated for purchase of machinery has been disbursed. The IBRD recently dispatched a relatively large mission to Chile to find out where the trouble lies and to try to eliminate the obstacles.

The Inter-American Development Bank also has encountered problems. On May 16, 1962, the IDB and Chile signed a loan agreement providing $10 million from the Social Progress Trust Fund to CORFO for financing a supervised agricultural credit program for small farmers and farm cooperatives, to be administered by INDAP. For 2 years the loan languished. By the end of 1964 less than $2.5 million had been disbursed. During 1964 the IDB amended the loan to reduce the amount by $3.5 million and to provide technical assistance to the borrower.

Clearly, if Chile is to utilize effectively large amounts of development assistance, the nation must first build institutions capable of managing the infusions of external capital. While sympathizing with the Chilean desire to compress several centuries of the industrial revolution into a decade, the hard fact is that overburdening fragile institutions is self-defeating.

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[68] Op. cit. (Fourth Quarterly Report), June 30, 1965, p. 11.
[69] Ibid. (Sixth Quarterly Report), p. 10.

M. AID has had great difficulty in defining and maintaining meaningful criteria with which to relate U.S. assistance to the recipient nations' self-help measures. Program lending, initiated in 1963 and now the overwhelming component of the U.S. program in Chile, is a highly dubious device for linking assistance to performance.[70]

Under the Charter of Punta del Este, it will be recalled, U.S. assistance is made concomitant with the Latin American nations taking self-help measures.

President Johnson, in his state of the Union message to Congress on January 12, 1966, emphasized the connection between U.S. aid and self-help in the developing countries, saying:

> I recommend that you give a new and daring direction to our foreign aid program, designed to make a maximum attack on hunger and disease and ignorance *in those countries that are determined to help themselves*. . . . [italics added].

Congress also has recognized that U.S. assistance, to be an effective instrument for long-range economic development, must be complemented by measures conducive to growth on the part of the recipient nation. Title VI (Alliance for Progress) of the Foreign Assistance Act of 1961, as amended, provides that—

> in furnishing assistance under this title, the President shall take into account (1) the principles of the Act of Bogota and the Charter of Punta del Este, and in particular the extent to which the recipient country or area is showing a responsiveness to the vital economic, political, and social concerns of its people and demonstrating a clear determination to take effective self-help measures.[71]

Congress obviously could not enumerate in precise terms the "effective self-help measures" necessary to qualify 19 countries in which vastly diverse circumstances prevail. Hence, the statutory provision was left general in scope, permitting AID discretionary power to establish criteria for individual countries.

AID has attempted three approaches in the Chilean program.

1. BASIC STRUCTURAL CHANGES

At the outset of the Alliance for Progress, the Agency tried to take into consideration the major structural changes required for dynamic economic development, such as agrarian, tax, and administrative reforms. To illustrate the difficulties encountered in this approach, consider the matter of agrarian reform.

As justification for the $35 million loan in 1963, AID listed agrarian reform among the indications of the Alessandri administration's self-help measures. As evidence, AID advanced passage of the Agrarian Reform Law of 1962 and the Chilean Government's target of transforming 5,200 landless farmers into farmowners during 1963.

In 1963 Chile attained less than 20 percent of its own stated goal with respect to land redistribution, with the pace even slower during

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[70] AID has also utilized program loans in Brazil, Colombia, Turkey, Tunisia, Korea, India, Pakistan, Israel, and Afghanistan.

[71] Sec. 251(b)(1).

1964. Apparently, passage of the Agrarian Reform Law had resulted more from pressure generated by the Alliance for Progress than from any conviction on the part of Chilean officials of the need for fundamental change or a determination to bring that change about. In effect, the law served more the interests of external policy—establishing Chile's good intentions with respect to self-help measures—than as an instrument for an attack on one of Chile's basic structural problems.

It can be argued that the external pressure which led to the Agrarian Reform Law of 1962 has been beneficial in the long run; however halfheartedly administered during the Alessandri administration, the law did lead to public debate which in turn helped to create the public awareness necessary for an eventual vigorous approach to the agrarian situation. Indeed, both the leading candidates in the 1964 presidential campaign advocated extensive agrarian measures. Nevertheless, AID's citation of agrarian reform as an "effective self-help measure" to justify the 1963 program loan was considerably premature. In fact, AID subsequently became silent on agrarian reform either as an indicator of Chile's self-help measures or as a condition for further U.S. assistance.

The trouble with using agrarian reform as well as other basic structural changes as criteria upon which to base U.S. assistance stems from the difficulty of measurement. For example, what actions in the agrarian field would constitute "effective self-help"? Who is to judge what legislation is desirable and feasible, what actions are politically tenable? If a recipient country vigorously battles tax evasion but does little in the way of substantive tax legislation to increase revenues and to make the tax system more equitable, how are the positive and negative factors to be weighed against each other? If a recipient country takes aggressive action to correct bad situations in several major fields while completely neglecting others, by what yardstick is the country's overall performance to be appraised? Suppose the administration in a recipient country succeeds in getting the enactment of basic reforms only to find its efforts vitiated by incompetence or glacial resistance on the part of the bureaucracy responsible for carrying out the reforms. In this situation, how are good intentions to be weighed against frustrating realities?

2. QUANTITATIVELY MEASURABLE FISCAL AND MONETARY TESTS

When basic structural reforms proved to be an elusive framework upon which to condition U.S. assistance, AID tried another approach. The new method conditioned disbursement of loan funds upon Chile's accomplishing several narrowly defined fiscal and monetary goals aimed at stabilizing domestic prices and effecting exchange reform.

To be eligible for the $35 million program loan in 1963, Chile was to abide by the terms of an International Monetary Fund standby agreement whereby an upper limit was set on the expansion of Central Bank credit and a flexible exchange rate was to be maintained. Furthermore, to be eligible for successive installments of the loan, Chile was required to attain certain specified levels of surplus in its fiscal operating account by stated dates during the year.

In hearings before the Senate Foreign Relations Committee on June 11, 1963, Secretary of State Rusk sounded an optimistic note in the following colloquy.[72]

> Senator SPARKMAN. Mr. Secretary, I have before me a clipping by a New York Times reporter, and according to that Senator Eduardo Frei of Chile, top contender for the Presidency in 1964, has described the Alliance for Progress as inoperative. He believes that the large U.S. expenditures in Chile are not accomplishing what they were intended to accomplish.
>
> I just wonder if you would give the committee some comment on that.
>
> Secretary RUSK. Senator, it is a little difficult for me to comment tactfully on a comment made by a man who has announced himself as a candidate to run for the Presidency of Chile.
>
> But we have been encouraged by the prospect in Chile, as a result of the efforts that they have been making in the last 2 years.
>
> Their inflation has been brought under better control. I think the AID relationship is working effectively. There is a good deal of self-help that has been made effective there.
>
> The effect of the earthquake repair funds are now beginning to be felt in the southern part of the country, and I would think Chile is one of the countries in which it will be possible to show quite tangible results from the total Alliance program.
>
> Senator SPARKMAN. *Frankly, I was surprised at the statement, because I thought that Chile was one country in which the program has taken hold quite well.*
>
> Secretary RUSK. *That is correct, sir.* [Italics added.]

For the $55 million program loan in 1964, the procedure was similar. Release of successive installments of the loan was again made contingent upon Chile's (1) abiding by an IMF ceiling on Central Bank credit expansion; (2) maintaining a flexible exchange rate policy, measured by any net change in the amount of international reserves plus payment arrears during the year; and (3) reaching agreed upon levels of savings in its fiscal current account, this time to include operating surpluses of the government's decentralized agencies as well.

The terms of the 1963 and 1964 program loans eliminated the ambiguities inherent in attempting to relate U.S. assistance directly to major structural innovations. Chile now knew what was expected of it, and Chile's performance could be measured by numerical indices.

The new approach, however, brought new problems. It will be remembered that external assistance, as conceived in the Charter of Punta del Este, is supposed to ease and to promote the tough job of structural change. In this respect, the experience in Chile calls into question the relevance of narrowly defined monetary and fiscal performance tests. Such tests are measurable, but what can they really accomplish by the way of promoting economic development?

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[72] 88th Cong., 1st sess. United States Senate. Hearings before the Committee on Foreign Relations on S. 1276, a bill to amend further the Foreign Assistance Act of 1961, as amended, and for other purposes. P. 28.

Ideally, the requirement for maintaining a specified level of international reserves could lead the recipient nation to promote exports, or to undertake effective agricultural reform in order to expand production and reduce the drain of foreign exchange for food imports. Similarly, the operating surplus requirement might induce the recipient nation to undertake fiscal reforms in order to increase revenues; to introduce administrative reforms in order to improve the efficiency of government operations; to strengthen and stimulate the private sector to play a vigorous role in development; and to take measures to increase public and private savings.

In the Chilean case, results were disappointing. Although Chile formally met the performance tests, during 1963 and 1964 the annual rate of inflation ran to approximately 40 percent (greater than in the two previous years), the trade deficit widened, and the economic growth rate slackened. In short, the monetary and fiscal commitments assumed by Chile promoted neither stabilization nor development.

As a matters developed, it became apparent that there are many ways in which a recipient nation can meet monetary and fiscal performance tests without making a frontal attack on the underlying structural conditions which distort development. Chile was able technically to meet the performance tests by heavy drawing on foreign loans, by obtaining a $15 million increase in the AID program loan in 1964, and by receiving advance payments of taxes from the copper companies.

Even if the performance tests had succeeded in inducing Chilean monetary and fiscal restraint, would this not have constituted essentially an attack on the symptoms of Chilean economic malaise rather than upon its root causes? In other words, narrowly based fiscal and monetary tests—however important a step to contain inflation—are tangential to the kind of structural changes which U.S. assistance is supposed to encourage and support.

Meanwhile, by concentrating exclusively upon such tests as conditions for assistance, it is likely that we influence key people in the recipient government to focus their attention similarly instead of addressing themselves to more basic problems.

At the end of 1963, U.S. policymakers were discouraged at the lack of progress under the Chilean stabilization and development program, in support of which substantial American assistance had been made available. Before AID had recovered from its bewilderment at the outcome of its integrated stabilization-development program, it was time to negotiate for the 1964 assistance package. As an examination of all available documentation makes evident, AID's dilemma was acute. On the one hand, experience with the 1963 operation had shaken confidence in narrowly defined monetary and fiscal tests as indicators of Chile's "clear determination to take effective self-help measures." [73] On the other hand, the Agency entertained no illusions regarding the willingness of the Chilean administration, during an election year, to undertake meaningful reforms which might be unpopular with any sector of the Chilean people.

Since AID had no faith in the efficacy of monetary and fiscal tests and no expectation of fundamental reforms on the part of the Chilean Government, AID could not have been anticipating that U.S. assist-

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[73] Foreign Assistance Act, sec. 251(b)(1).

ance would serve developmental purposes. Yet AID established essentially the same conditions for the 1964 program loan as in the previous year. Clearly, the 1964 assistance package ($55 million program loan; $15 million Export-Import Bank line of credit; $15 million Treasury exchange agreement) must have been based solely on political considerations—to maintain Chile's current levels of economic activity and investment and to support the balance of payments so that financial deterioration and unemployment would not occur in an election year.

Whatever the validity of the political arguments for supporting a holding operation in Chile during the election year, AID obviously still had not found a workable method for relating U.S. assistance to well-conceived performance criteria.

Indeed, on March 15, 1965, an AID spokesman virtually admitted that U.S. assistance to Chile during the Alessandri Administration had not produced the basic reforms contemplated by the Alliance for Progress. In testimony on foreign assistance before the Senate Foreign Relations Committee (after inauguration of the Frei administration), Mr. William D. Rogers, Deputy U.S. Coordinator of the Alliance for Progress, stated:

> The Latin Americans now realize that U.S. assistance, regardless of how generous, will not do the job of development, and they themselves are coming around and making the hard decisions. * * * In Brazil we are now dealing with a government which for the first time since the Alliance began seriously understands the problems of development, the problems of stabilization, the problems of reform, and is doing something about it. * * * That same sort of thing is happening in Chile. We now have there *for the first time* a progressive reform-minded Government which is really dedicated to the Alliance. [Italics added.]

3. THE BROADENED APPROACH

In fact inauguration of the Frei administration in November 1964 brought renewed optimism. Frei, elected by a landslide vote, was strongly committed to economic and social development through widespread basic reform of Chilean institutions. He surrounded himself with a number of competent, respected advisers who were equally anxious to remove impediments to dynamic growth. Here, it seemed, was an opportunity to put into action the concept of the Alliance for Progress—Chilean self-help measures reinforced and made easier by U.S. assistance.

AID took the opportunity of working with a reform-oriented Government to broaden its approach. The Agency continued the program-lending technique, but extended the conditions for disbursement of funds to include aspects of Chile's overall development policy as well as specific performance tests in fiscal and monetary matters.

As in the earlier program loans, the $80 million loan signed in January 1965 was to be released in four installments: the first $20 million immediately after the loan agreement was signed, the other three at the end of each quarter providing "the borrower shall furnish in the course of a quarterly review of progress, evidence satisfactory to AID regarding the achievement of the intentions of the borrower in respect

to the implementation of its economic and social development program as established in the letter from the Minister of Finance to the Chairman of CIAP dated November 26, 1964 * * *."[74]

In its letter of intent to the Inter-American Committee for the Alliance for Progress (CIAR),[75] Chile assumed three quantitatively measurable commitments and over a dozen commitments on broad policy matters. The measurable commitments were: (1) in order to hold price increases to no greater than 25 percent during 1965, to follow a monetary policy designed to limit the increase in money supply to 25 percent during the year, with the specific indicator of adherence to this norm to be the limiting of money supply increase to 9 percent in any 3-month period, with off-setting reductions in the rate of increase in the remainder of the year so as to remain within the 25 percent total; (2) to maintain a flexible exchange rate policy, the quarterly test of performance being that no net change take place in Chile's international reserves and payment arrears (with restraints on imports not to be used to reduce the validity of the performance test); (3) to accumulate surpluses in public sector operating accounts according to the following schedule:

[Millions of escudos]

Quarter ending—	Fiscal sector	All other public sectors
Mar. 31, 1965	80	90
June 30, 1965	260	180
Sept. 30, 1965	485	330
Dec. 31, 1965	765	478

In the event that public sector savings or foreign financing fell below anticipated levels, the total 1965 public investment program was to be reduced by the amount of the shortfall.

On broad policy issues, Chile pledged to undertake the following actions:

(1) Spur agricultural production by (*a*) improving the prices of agricultural products in relation to industrial products through a gradual increase in agricultural prices that reflect market conditions, and (*b*) by improving marketing conditions through increased facilities and assistance in the organization of agricultural cooperatives.

(2) Establish new wage policies to end the automatic 100 percent parity between price rises and wage increases, to be effective in 1966.

(3) Revise by July 1965 the 10-year plan for the period 1965–70, with detailed plans and programs for the 1966–67 period.

(4) Prepare a public investment budget covering the 2-year period 1966–67 based on the principle that necessary measures will be taken to insure that an increasing proportion of total public investment will be financed from internal savings (after amortization).

(5) Formulate a definitive public investment program reflecting the importance of the more productive sectors of the economy (such as agriculture, industry, mining, secondary and technical education and training) and, in this connection, give preferential consideration to such sectors in the allocation of escudos generated by external assistance.

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[74] AID Loan No. 513–L–025, Jan. 15, 1965, sec. 3.3.
[75] Complete text of the letter appears in the appendix, p. 211.

(6) Consistent with the revised 1966–67 public investment program, accelerate the preparation of development projects for both internal and external financing and assist in the preparation of development projects by the private sector. A minimum of $50 million in development projects is expected to be available for consideration by international organizations and governments for external financing by the end of 1965.

(7) Stimulate increased private savings and investments in productive enterprises by appropriate policy measures and through the establishment of a private investment fund, to which the Government will provide a minimum of 70 million escudos to be channeled to the private sector for both capital and technical assistance.

(8) Seek the agreement of interested governments and international agencies to a multilateral rescheduling of the external debt falling due in the next few years. In this connection, the Central Bank was to improve its control system to assure that future service of suppliers' credits will not impose an excessive burden on balance of payments; and measures would be taken to include nondiscriminatory minimum terms regarding grace and amortization periods on all new credits and would specify a reasonable annual ceiling on the amount of such new debt.

(9) Increase revenues in 1965 by a substantial amount over and above normal growth by a series of tax measures, including: (*a*) reevaluation of tax obligations to take account of inflation which had occurred between the assessment and the payment of the tax, (*b*) institution of a temporary tax on capital assets, and (*c*) a major effort to collect overdue taxes and reduce tax evasion.

(10) In order to increase longer term revenue collections, reexamine the existing tax structure and plan substantive tax reform measures to be implemented over the next few years. For example, legislation would be introduced during 1965 to place income tax on a more current basis (pay-as-you-go) and to rationalize the tax-exemption system.

(11) Examine the rate structure for the decentralized agencies with the aim of revising rates to raise the level of collections so that they would more fully reflect the cost of production during 1965. In addition, the Government intended to develop by September 1965 a detailed plan for substantially reducing the deficits in state enterprises during 1966 and 1967.

(12) Examine the Government's entire administrative structure with the aim of reducing general operating costs, and institute during 1965 budget controls and procedures which would place the public investment budget on a project basis and would subject all commitments for investment spending to prior authorization by the Bureau of the Budget.

In addition, Chile pledged to provide later in the year information on educational reform, social security reform, banking reform, and on planned antimonopoly legislation.

How effective was this broadened approach in inducing Chile to make desirable reforms?

Chile complied with the three quantitatively measurable tests. But Chile's ability to meet the tests while circumventing their purposes illustrates again the irrelevance of such tests. The rate of inflation was

held to 25.9 percent, but monetary expansion was far in excess of planned limits. (Inflation, it seems, was held in check largely by price controls, bottling up inflationary pressures for the future.) Chile handily met the test for exchange rate performance, increasing its international assets and decreasing payment arrears. But the escudo was not permitted to depreciate realistically (the entire point of the exercise) and at year's end the escudo was more overvalued in relation to domestic prices than it had been at the beginning of the year. (Apparently, Chile was able to meet the exchange rate performance test through import controls and improved copper prices and exports.) On the third test, fiscal savings fell somewhat short of the target, but as Chile pledged, investments were reduced by about an equivalent amount.

Chile's performance on the various other commitments ranged from satisfactory to poor, with some falling into the category of "yes, but—." Among actions on the plus side, the Chilean Government adjusted the prices of agricultural products upward; established a new wage policy for 1966 aimed at breaking the automatic 100-percent parity between price and wage increases by means of a sliding scale by which lowest paid workers will receive a 100-percent increase in cash, the middle-income groups will get part of a 100-percent increase in cash and part in savings deposits, and higher paid groups will receive less than 100 percent; rescheduled Chile's foreign debts falling due in the next few years; substantially increased revenues [76] by raising assessments on property, tightening tax enforcement, instituting a temporary tax on capital assets, and readjusting tax payments due in 1965 by 19 percent (half the cost-of-living increase in 1964) to take into account monetary depreciation due to inflation.

On the other hand, it was decided not to introduce pay-as-you-go legislation, while the new draft law to rationalize the tax exemption system leaves the largest set of tax privileges—those granted the construction industry and new property owners—almost intact. The Chilean Government has not yet prepared legislation for reforming the chaotic social security system, nor has it prepared the promised analysis of principal problems in the decentralized agencies and steps to eliminate these problems. Reorganization of the Central Bank to strengthen its ability to regulate money and credit has not been achieved. Nor has the Chilean Government established the proposed private investment fund to promote private productive enterprises. Legislation has been sent to Congress to regulate the stock market, protect stockholder interests, and establish norms for stock offerings to the public, but a draft antimonopoly law has not been submitted to Congress. While some progress has been achieved in improving planning and budgeting procedures, the Chilean Government still lacks centralized procedures for indentifying projects, translating generalized sector development plans and investment levels into a series of definite projects, and for including projects in operational budgets in order of priority and on the basis of their relation to the country's development plan. The promised capital budget covering 1966–67 has not materialized.

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[76] During the first 6 months of 1965, tax yield was 65.7 percent over the same period in 1964. After deflating for the cost-of-living index, the real increase experienced during this period was about 26 percent.

Given the admirable zeal, intelligence, and fervent desire for reform on the part of many of the officials on President Frei's team, why was progress in fulfilling commitments so spotty? The usual factors contributing to underdevelopment in the first place played a role, among them: the heavy weight of tradition, opposition of vested interests, bureaucratic inertia and resistance to change, incapacity, the inability of the handful of key officials to tackle so many activities at once (when, as repeated experience in developing countries demonstrates. little gets done without constant guidance, surveillance, and push from above).

In addition, Frei encountered severe obstacles to his program in the Chilean Congress. Until May 1965 Frei faced a hostile holdover Congress. Even after the installation of the new Congress, Frei held a minority in the Senate. As a result, the copper agreements—to which Frei gave the highest priority since the anticipated income from increased copper production would help to pay for his development program—became stymied in the Senate by a coalition of leftwing and conservative members.

For the rest of the year the copper legislation monopolized congressional attention as well as the efforts of a number of key officials. Action on other legislation was practically suspended. The normative law (empowering the President to carry out governmental reorganization and reforms by executive decree) did not pass, and the President had to resort to makeshift efforts to reorganize Chile's inefficient bureaucratic machinery.

Now Frei must submit reorganizational legislation piecemeal, creating a logjam of legislation. Moreover, recent introduction of the highly controversial agrarian reform law and a constitutional amendment providing for delayed payments instead of immediate cash for expropriated land promises to cause other legislation to tread water for another year.

Having recognized the extenuating circumstances which impaired Chile's ability to fulfill the commitments attached to the 1965 loan, where does that leave the strategy of program lending based upon a mix of measurable tests and overall policy performance? The question is not whether reasonable excuses can be found for the recipient's failures, but whether or not the program loan technique of the "carrot" (program loan dollars) and "stick" (self-help measures or else) is workable.

The most that can be said for the latter-day strategy is that it sets up a broad framework of what is expected of the recipient in the way of self-help measures, while the quarterly review process forces attention to critical areas which might otherwise go ignored.

But shortcomings in the technique far outweigh these advantages. The long and diverse list of commitments assumed by the recipient vitiates the "carrot and stick" concept upon which program lending is based. Since it is unlikely that any government could perform in a satisfactory manner simultaneously on the diverse commitments enumerated, from the outset both recipient and donor know that something less than perfect performance is anticipated. But what? How is overall performance to be evaluated, and by whose yardstick? Thus, both participants know that overall performance is subject to elastic interpretation, but neither knows at what point AID would be justi-

fied in exercising its option to reduce or eliminate assistance.[77] This ambiguity undermines the credibility of the implied threat of sanctions for unsatisfactory performance.

Program lending also, ironically, provides the recipient nation the leverage with which to neutralize AID's "stick." Program loans are announced with great fanfare. The general public in the host nation, of course, is not apprised of the little detail which links disbursements to country performance. (How many people in the United States, for that matter, are aware of such intricacies?) Imagine the uproar, hostility, and friction that could be generated by a U.S. decision to apply sanctions? The truth about the fine print would never catch up with the howls of "imperialism" and "intervention." At the same time, all the blame for the country's ills (caused by its own government's mismanagement which led to the sanctions) would be heaped upon "rich, heartless" United States. In short, the political fiasco which could result from a U.S. decision to terminate aid acts as an effective brake upon the United States taking that step. This fact can hardly have escaped the attention of shrewd officials in the recipient nations.

While the "stick" is a paper tiger, the "carrot" is a dubious incentive. The commitments undertaken as conditions for assistance cannot be carried out under the controlled conditions of a scientific laboratory. Many factors having nothing to do with the availability of U.S. assistance influence the recipient's performance. Public opinion, the pressures of special interest groups, and the composition and temper of the Congress are among the many variables with which the recipient administration must cope.

The plain fact is that the desirable economic measures set forth as conditions for continued U.S. assistance involve political determinations, and nothing in our experience gives us superior knowledge of the best political strategy to pursue in an alien environment. Only the government of the recipient nation can estimate the potential economic, social, and political benefits or risks from its own domestic actions. In these circumstances, the prospect of U.S. assistance is a very minor factor, if any, in a government's decision to meet or not to meet the commitments upon which program loans are conditioned.

While the various techniques of program lending have not solved the problem of relating U.S. assistance to the recipient's domestic performance, program lending has created a new and fundamental defect in the foreign aid program, discussed in the following finding.

N. Program lending circumvents section 611(a)(1) of the Foreign Assistance Act, encourages the dissipation of investment into low priority projects, and erodes the recipient's incentive to formulate its investment program in terms of sound projects.

Section 611(a)(1) of the Foreign Assistance Act requires that no agreement or grant constituting an obligation of the U.S. Government in excess of $100,000 may be entered into if it requires "substantive technical or financial planning" until "engineering, financial and other plans necessary to carry out such assistance" and "a reasonably firm estimate of the cost to the U.S. Government" have been completed.

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[77] Even total nonperformance might not bring sanctions, since it is not inconceivable that in such case the resulting economic deterioration and social tensions in the recipient country might lead AID to pump in more assistance.

This provision is designed to assure that foreign aid funds will be utilized in sound development projects.

Projects for which AID has released local currency generated by Chilean program loans have not been subjected to section 611 evaluation. In answer to an inquiry regarding the relation of section 611 criteria to Chilean program loans, AID replied: [78]

> The analysis required by Section 611(a)(1) must be related to the purpose for which the assistance is provided and since these Program Loans were made to enable the Government of Chile to carry out its economic stabilization, reform and development plans, the analysis of these plans has been a major focus of the economic reviews conducted prior to authorization of the loans. The level of assistance required to assist the government to adequately fulfill the objectives of these plans is thus ascertained. The Chilean government's monetary and fiscal policies are closely examined as are the types of measures initiated and those planned in furtherance of economic development and social reform. These last mentioned elements of the analysis are pertinent to the justification for the loan as a part of the Alliance for Progress.
>
> In each instance, the analysis and the plans have been summarized in program assistance papers which were submitted to the AID Administrator and the Interagency Development Loan Committee before the loans were approved * * *.
>
> You have also requested information regarding local currency counterpart funds. As a matter of law, Section 611(a) does not apply to country-owned local currency. However, as a policy matter, such funds are jointly programmed by the Government of Chile and the staff of the AID Mission to Chile for priority projects within Chile's capital investment budget.
>
> Turning to the CORFO loan which provided funds to CORFO for relending, Section 611(a)(1) was met by an analysis of the institution which received the funds. In this case, the requirements were satisfied by an analysis of CORFO's technical competence as well as its demonstrated capability in administering its relending activities during its more than 25 years of operation.

Accordingly, there is no assurance that the escudo equivalents of the $210 million generated by the $40 million CORFO loan, the $35 million, $55 million, and $80 million program loans (or the counterpart funds accruing from sale of Public Law 480 foodstuffs) have been destined for sound projects capable of spurring long-range development. That such funds are jointly programed by the Government of Chile and the staff of the AID Mission to Chile for projects within Chile's capital investment budget is little guarantee.

AID is keenly aware that a number of Chilean agencies are presently incapable of identifying, evaluating, and planning priority projects. AID's recognition of this critical weakness is attested to by the Agency's efforts to institute a coordinated program of technical assist-

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[78] Letter to Senate Subcommittee on Foreign Aid Expenditures from Charles N. Goldman, Assistant General Counsel for Latin America, Agency for International Development, Feb. 2, 1966.

ance aimed at strengthening Chile's capabilities in this field. But, as we have seen, AID's technical assistance program has practically collapsed.

Chile's investment budget remains largely a random shopping list of unevaluated, unrelated projects submitted by various agencies and ministries. The combined forces of the AID Mission staff and the Chilean Government cannot conjure up meaningful priorities from such raw material. Moreover, it is patently impossible for the small engineering staff at the Mission, along with its other duties, to scrutinize carefully in the short time available the many, far-flung projects in the Chilean capital budget.

Of late the Mission staff has become more adept at selecting for financing the conspicuously better projects from the Chilean investment budget, whatever their priority status might be. In this way, AID may escape direct association with white elephants, but the procedure in no way improves the composition or quality of the Chilean Government's investment program. Instead, it aggravates a bad situation by releasing Chilean domestic resources for financing the ill-conceived and pork-barrel ventures on the list.

It must be remembered that we are not discussing a primitive country, bereft of training and experience, that could not reasonably be expected to prepare the necessary complex documentation. Some Chilean agencies, like CORFO and ENDESA, have long and successful experience in preparing large projects for external financing. These agencies are perfectly capable of drawing up projects and attracting financing from such traditional sources as the World Bank and the Export-Import Bank (and when they have felt the need, they have not been adverse to requesting advisory services).

The problem lies with other Chilean agencies that are accustomed to being financed from budget allocations and have never felt the necessity to arrange external financing. Some of these agencies do not have the capacity to develop sound projects because they have never had to. Others have a nucleus of capability which could be activated if it had to be. Almost all, with hired consultants or technical advisers, could evolve the proficiency to identify and evaluate good projects. But most Chilean agencies prefer to rely, in traditional fashion, upon whatever political influence they can muster to obtain a slice of the budget rather than upon the merits of their programs.

Meanwhile, program lending erodes Chile's incentive to undertake the necessary steps to formulate its investment program on a rational basis. Quick access to funds to meet general external resource "requirements"—via program loans—lessens the pressure upon the Chilean Government to prepare sound projects meeting development loan criteria. So long as dollars are available through the program loan route, the Chilean Government feels no urgency to build an institutional capability for projectizing its bids for foreign financing.

This lack of urgency is reflected in the ineffective utilization of advisers sent to help Chilean agencies develop the capacity to identify, evaluate, plan and implement high priority projects. It is also reflected in the sluggish utilization of the $3 million feasibility studies loan made by AID in March 1964. As of December 31, 1965—almost 2 years after the agreement was signed—only $90,000 had been disbursed, while none of the $750,000 in the loan which could be used

to finance the costs of technical assistance to Chilean agencies involved in planning had been allocated for that purpose.

Another serious and related consequence of program lending has been the undermining of the proposed consortium of international lending agencies and governments to be organized under the auspices of the World Bank. Formation of an international consultative group had several excellent objectives: to impress Chilean authorities with the urgency of producing sound projects which would merit external financing; to get the United States out of the business of financing annual increments in Chile's capital budget, unrelated to specific projects meeting development loan criteria; and to assure that assistance would be used to foster long-range development rather than to alleviate recurrent budgetary and balance-of-payments deficits. To date, the consultative group has not materialized, largely because of Chile's inability to produce sound projects for international consideration.

The situation is deeply ironic. The demise of the consortium idea suits Chilean purposes. Chile much prefers receiving external assistance not tied to specific projects, a situation which the consortium was designed to end. Furthermore, dealing with AID within an international group promised to be a good deal tougher than negotiating bilaterally where considerations other than economic can be raised. Meanwhile, continuation of U.S. program loans made it unnecessary for Chile to prepare projects suitable for international financing. The result: no projects, no consortium. In effect, the program loans helped to scuttle the international consortium, the instrument by which the United States intended to get out of the business of supplying assistance unrelated to specific projects.

Chileans, of course, have the sovereign right to spend or misspend their resources in any way they choose. The United States, on the other hand, has an equally sovereign right to choose not to be a party to folly.

Escape by the program loan route from section 611 requirements is no service to Chile in the long run. Capital is being frittered away without generating the development by which Chile could pay its mounting debt and attract fresh capital. A time of reckoning must come. When it does, no one should be surprised to hear recriminations hurled at the United States for "saddling" Chile with a heavy debt.[79]

O. The use of foreign aid funds for foreign policy purposes rather than developmental purposes undermines the concept of the Alliance for Progress and complicates the process of justifying foreign assistance to Congress and to the American people.

As the Charter of Punta del Este and every policy declaration by officials of the U.S. Government state, the fundamental concept of the Alliance for Progress is timely and adequate U.S. assistance to reinforce Latin America's own efforts to make drastic changes in their antiquated economic and social systems.

Each time the United States disregards Alliance criteria, it throws into disarray the entire framework of the Alliance. Bail-out operations for political purposes to some countries tend to weaken ability

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[79] Much as many Latin American debtors, after finding themselves bankrupt and unable to meet their obligations in the 1930's, accused U.S. banks of being overly generous with loans in the 1920's for alleged imperialistic motives.

to make self-help criteria stick in others. Not without logic, Latin Americans are wont to demand: "You helped them, what about us?"

Emergency aid also puts a premium upon alleged political imperatives. An old Latin American joke holds that the best way to pry aid from Uncle Sam is to keep alive a "Communist scare." The joke is not without a kernel of truth, and the situation it implies contains a dangerous corollary—the knowledge that the United States will come to the rescue to head off chaos and/or communism has traditionally been a reason countries have been able to avoid and postpone harsh decisions on fiscal discipline and reform.

In Chile, as we have noted, AID continued budget support and balance-of-payments assistance during the 1964 election year to prevent economic deterioration which would have sparked unemployment and discontent and, presumably, a swing to the far left politically. The assistance was also designed to present the incoming Chilean administration with an economy in reasonably good shape.

This proffer of foreign aid to a regime devoid of reform content produced an embarrassing twist. At the outset of the Frei administration, many of Frei's key people assumed that their declared determination to tackle Chile's basic problems was in itself sufficient evidence to qualify Chile for massive external aid. Pointing to continuing U.S. assistance to Chile during the Alessandri administration despite that regime's evasion of measures which would alter the status quo, Frei's lieutenants questioned why the United States should insist on stiffer conditions with a Chilean administration devoted to the objectives of the Alliance for Progress.

Even more important is the question of the validity of AID's assumptions with respect to assistance to Chile during 1964. Many of Frei's people do not share the contention that such assistance staved off a swing to the far left. Rather, they believe that the Chilean people voted for Frei out of conviction. Of course, there is no way to prove one way or the other what influence the impact of foreign assistance may have had upon the Chilean electorate. It does appear, however, that a Chilean assessment of political events in Chile is more accurate than that of outsiders. Furthermore, it is to be fervently hoped that the Chilean evaluation—that the electorate made its choice irrespective of the fact U.S. assistance temporarily papered over real conditions in the country—is the right one. Otherwise, Frei's mandate rests upon fragile support indeed.

Moreover, it is an open question whether it was in the best interest of the Chilean people and the incoming Frei administration to present them with a tottering economy pasted together temporarily by emergency assistance. It could be argued that a *visibly* desperate situation would have resulted in Frei getting the powers he needed to initiate quick, far-reaching reforms.

Meanwhile, the confusion between political and economic objectives has serious consequences. First, it creates a climate of self-delusion within AID. Examination of AID documents during the period when the Agency recognized that our assistance to Chile was basically for political purposes reveals the tortuous reasoning to which the Agency was compelled to resort in order to justify the funds on economic grounds. Unhappily the dubious justifications, after constant

reiteration, begin to acquire within the Agency an aura of truth, making realistic appraisal of programs impossible.

Second, the confusion between political and economic objectives makes difficult the establishment of a meaningful standard of achievment. Projects undertaken primarily on political grounds require a different type of management control than those justified on economic grounds. When distinctions are blurred, it is hard from a management viewpoint to ascertain a project's success or failure.

Finally, the confusion of objectives is in large degree responsible for increasing disenchantment with the foreign aid program. When Congress and the American people are led to expect economic achievements which are not forthcoming, their disillusion is a natural outcome.

P. Chile's developmental effort, like that in most developing countries, is hampered by a burgeoning population growth. It is heartening to note that Chile is taking steps to come to grips with the problem.

Chile's annual population growth rate is 2.5 percent. If this rate continues, the country will double its present population in about three decades. Four out of ten Chileans are under 15 years of age. This means a heavy burden on the adult population to feed, clothe, and educate the unproductive young. Thus, the high birthrate, by producing a high level of dependency, promotes consumption at the expense of savings and investment. Meanwhile, the economy must expand rapidly to provide employment for the increasing number of youths entering the labor market each year.

Induced abortions, estimated to number 130,000 a year (about 43 percent of all live births), account for approximately two-fifths of all maternal mortality. One-fifth of all Chile's maternity hospital beds are said to be utilized by women suffering from after-effects of abortions, or around 50,000 cases a year.

In November 1964, President Frei announced a large-scale birth control campaign in Santiago's slums, to be part of the nation's health service. As a result of a pilot project conducted in the San Gregorio section, it was found that 50 percent of women admitted to having had abortions. Roughly 9 percent had their first pregnancy before the age of 15. Among the women of the settlement reached under the pilot project, a majority indicated their approval of the program. Another National Health Service survey indicated that in Greater Santiago in 1964, there had been 48,000 consultations on birth control, and almost 13,000 women were offered various methods of contraception, with uterine coils the most favored.

There has been little opposition from the Catholic Church and, in fact, Catholic physicians have participated actively in all aspects of existing programs. Birth-control education programs have recently been instituted in several medical institutions as part of the training for physicians and nurses.

In November 1965, the head of Chile's National Health Service announced a major birth control program to begin in 3 highly populated sections of Greater Santiago having a combined population of 362,000 persons, including 77,000 women between 15 and 44 years. National Health Service clinics will provide birth-control information and

services to all women who seek it. Only doctors can authorize the use of contraceptives. A decision on their use will be left to the individual. The program also will introduce sex education and hygiene classes in schools.

In his state of the Union message on January 12, 1966, President Johnson proposed that we "help countries trying to control population growth, by increasing our research—and by earmarking funds to help their efforts." AID already has tendered assistance to two organizations in Chile dealing with population problems. In January 1965, AID granted $400,000 to the Center for Economic and Social Development of Latin America (DESAL), located in Santiago, for the purpose of establishing a Latin American research center on population growth. DESAL, headed by a Jesuit, is presently engaged in research on the sociological, anthropological, and psychological factors which influence family size and population growth in Latin America. A United Nations-sponsored program for training Latin American demographers (CELADE), also based in Santiago, received in June 1964 a grant from AID of $100,000 for 18 months. In December 1965, AID contributed another $100,000 to support CELADE's program.

Q. The principal catalyst for transforming archaic societies is national leadership.

Foreign capital and know-how can help the development process. But only national leaders can make the fundamental political decisions vital to peaceful economic and social transformation. Researchers, technicians, and economists can design programs, but only national leaders can galvanize public support for innovations—only they can convert their people's amorphous desire for development into a will to achieve economic growth and social justice.

The crucial need for national leadership committed to development goals is so self-evident as to seem hardly worth mentioning. But U.S. foreign aid continues to flow to countries impoverished in leadership, and AID has yet to learn the futility of such assistance.

However commendable the desire of the American people to alleviate misery, the indiscriminate scattering of resources can bring, at best, ephemeral relief. And a world dole is not the purpose of the foreign aid program.

R. Given the key role played by national leaders, it is incumbent upon them to understand, and to convey to their people, the harsh facts about development.

By now we should have learned that economic growth cannot be conjured from nonexisting resources. Sad and inequitable as it may be, an implacable fate has richly endowed some countries with accessible resources, and shortchanged others.

In time, today's wastelands may become tomorrow's El Dorados. In the meantime, unhappily, mankind's present level of technology does not permit thriving exploitation of the resources at hand in many countries in the world. For instance, we simply do not at present know enough about tropical agriculture to convert tropical areas into fruitful farms—and most of the underdeveloped countries are largely tropical. If this sounds incongruous in this space age, it is nevertheless a bitter fact which must be digested.

The dissimilarities in environment between the industrialized countries and most of the other nations—which spawned the disparity in development in the first place—now complicate efforts by the former to help development in the latter. The developed countries, whose technology and specialists were shaped largely by domestic needs, do not have the kind of expertise essential today in the underdeveloped parts of the world.

In the summer of 1965, AID and the Center for International Studies of the Massachusetts Institute of Technology jointly sponsored a 6-week conference dedicated to studying the agricultural problem in the underdeveloped world. The final report of the conference contains the following sobering observations: [80]

> To meet the needs of an expanding population and at the same time provide for some improvement in per capita food consumption, agricultural productivity must increase at the rate of 4 to 5 percent annually. This is a larger rate of increase than any country has sustained over a period of years. Only vastly improved technology developed by research and applied by a large part of the world's farmers will enable agriculture to meet this challenge.
>
> What kind of research will be most fruitful? Should the major effort be on short- or long-term projects? Here we were faced with a difficult problem in priorities. The underlying questions are: How much can agriculture advance by the diffusion and adaption of existing knowledge, and how much is advance dependent on new knowledge—knowledge that we do not have now and that must be acquired by fundamental long-range research?
>
> The conference was impressed by the great areas in which our knowledge is so limited that little if anything can be done. The soils of the tropical rain forests are an example; present knowledge does not seem to provide any alternative to the existing methods of cultivation. Only much fuller understanding of rain-forest ecology, demanding a long-term research effort, would make possible a substantial advance in production.
>
> In other areas our basic knowledge is good and needs only adaptive research to apply to local conditions to produce substantial increases in yields. The opportunity for wider use of fertilizer in some areas is an example. Yet even such short-run gains will provide only short-term solutions. Almost everywhere, it seems, yields based on adaptations of existing technology would reach a ceiling in the relatively near future.
>
> The gestation period of basic research is long. Development of new plant varieties, for example, takes years, yet only through such research can new advances in technology be available when the yields from short-term measures are exhausted. We believe therefore that a major effort in long-

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[80] Massachusetts Institute of Technology, Center for International Studies. Policies for Promoting Agricultural Development, Report of a Conference on Productivity and Innovation in Agriculture in the Underdeveloped Countries. June 1965, p. 53.

> range research must be gotten under way at once, and that developing nations must make a higher commitment of money and of scientific and trained manpower to agricultural research and education.

Even in this era of intercontinental missiles and lunar expeditions, there is simply no shortcut to economic growth, no "instant" development.

Much ingenuity and effort will have to be exerted before vast regions can be made productive. Then more time will be required to teach millions to practice the lessons learned from experimentation.

It is imperative that donor and recipient stop deluding themselves with respect to the levels of development possible to attain (at least in the foreseeable future), and the time factor involved in arriving there. Moreover, it is essential to cease grasping for panaceas to escape distasteful truths. Common market schemes, commodity agreements, and formulas fixing the percentage of GNP that developed nations shall contribute to foreign assistance will not change the fundamental fact that economic growth cannot leapfrog manpower requirements or present technological knowledge.

Once reality is faced, it is up to the national leaders in each aspiring country to transmit the facts to their people. Unless fanciful expectations are trimmed to realizable goals, people will continue to measure achievements by their own unrealistic desires. By that yardstick, they will continue to find even genuine accomplishments wanting. The inevitable upshot is more dissatisfaction and social tension, which in turn discourage progress.

V. CONCLUSIONS AND RECOMMENDATIONS

U.S. sympathy for the aspirations of the Chilean people is evident. Chile is receiving the highest per capita U.S. aid in Latin America and is among the eight nations in which U.S. worldwide assistance is concentrated.[1] In the 4 fiscal years more or less encompassing the Alliance for Progress (1962–65), a total of $618.5 million direct U.S. assistance has been obligated for Chile. Of this, $563.4 million was for economic assistance; the remaining $55.1 million was for military assistance. In a sense, even military aid—whatever may be its undesirable aspects—can be considered of economic benefit, since military assistance releases for productive investment the recipient nation's own resources which would have been expended for military purposes.

Disappointingly, there is little to indicate that U.S. assistance is having a meaningful impact upon Chilean economic and social development.

Some advocates of foreign aid argue that the flow of capital from industrialized nations is too parsimonious to enable recipient countries to forge ahead. The foregoing study demonstrates that the magnitude of assistance has little connection with the results obtained. Rather, it is clear that an excessive infusion of funds overburdens fragile institutions, creates a profusion of new activities for which trained manpower is not available, and ends by dissipating efforts to the point where virtually no permanent benefits result. Furthermore, large-scale assistance vitiates the host country's initiative to attack basic problems. Meanwhile, after a time, recipient nations come to depend upon concessionary aid and to regard it as their "right," thus multiplying the economic and political risks of eventual disengagement.

The study also reveals the dangerous misconceptions with respect to what technical assistance can accomplish. In fact, the United States currently is not prepared to carry out a meaningful technical assistance program. Ironically, most advisers are too far advanced technically and intellectually for what is required in underdeveloped countries. They are also too ignorant of local conditions and customs and serve too short periods to make any significant impact.

The reasons which initially inspired the foreign aid program remain valid. World peace—hence, U.S. national security—can be affected by the course events take elsewhere on this shrinking globe. Thus, the United States has a profound interest in assisting orderly progress toward alleviating human misery in order to avert turns to extremism. The question is not whether to abandon the foreign aid program, but how to make it function to achieve the desired goals.

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[1] 84 percent of the proposed fiscal year 1967 total for development loans is planned for 8 countries: Brazil, Chile, Colombia, India, Korea, Nigeria, Pakistan, and Turkey.

The following recommendations, while an outgrowth of the Chilean program, are generally applicable throughout AID's operations in developing countries.

A. The size of the U.S. assistance program must be tailored, not to the recipient country's aspirations or to its balance-of-payments and budgetary gaps, but to the capacity of the nation to absorb an influx of funds in sound development projects.

B. The United States should emphasize to recipient nations that they cannot expect U.S. financing of annual increments in their capital budgets unrelated to specific projects meeting development loan criteria.

C. A method must be devised for coordinating the numerous instruments of international assistance into a rational and concerted effort.

The solution ultimately rests with the recipient country. Until it produces a comprehensive development plan for the utilization of its own and foreign resources, the temptation to undertake scattershot projects will persist. However, it should be possible to establish a meeting ground where the host nation, international agencies, friendly governments, and principal private sources can coordinate their efforts prior to undertaking them.

D. AID should develop a system for accumulating, storing, retrieving, and disseminating the experiences and knowledge gained by its own staff members, contract personnel, and private and international organizations engaged in foreign assistance.

E. AID should not undertake any project or loan when the Agency cannot provide adequate technical assistance either because it is unable to recruit competent people or because the host government is unwilling to accept foreign advisers.

F. The United States must develop means for mobilizing specialized skills in a timely manner for use in overseas technical assistance programs.

A reservoir of suitable talent on the necessary scale does not at present exist. If it is in the national interest to conduct technical assistance programs, then energetic and systematic efforts must be made to develop and maintain the special competence required. If universities are to be used extensively and effectively in AID's overseas programs, action must be taken to strengthen their capacities for research and for training and improving the competence of their staffs in the unique specialities required.

G. A comprehensive program of research and analysis in international rural development is essential to providing assistance in the agricultural field.

Under Point IV, the first U.S. venture in agricultural assistance, it was widely assumed that the methods which have given the United States so preeminent a place in world agricultural production could be transferred to other countries. The resulting frustrations and disappointments should have convinced us that U.S. experiences often are not applicable to conditions prevailing in other lands.

Since accelerating agricultural production remains a top priority in most underdeveloped countries, it is imperative that a comprehensive program of research and analysis be undertaken to support AID's overseas programs.

H. AID should conduct a systematic training program for its employees and contract personnel to acquaint them with the Agency's overall objectives, and the language, local conditions, culture, and past foreign aid experiences in the country of assignment.

I. Innovations should be tried on a pilot basis before embarking upon broad undertakings.

The test-case approach avoids a diffusion of efforts in which little is accomplished and resources and manpower are dissipated. Furthermore, a large scheme is more likely to be opposed by the local bureaucracy as a threat to its position and customs, while a small project is more likely to engage its support. Finally, if a pilot project fails, it can be abandoned without the waste of many resources or the loss of prestige and morale by AID and the local bureaucracy.

J. Before initiating a technical assistance project, it is imperative that AID gauge accurately the intensity of the host government's commitment to the plan.

AID's tendency to confuse its own zeal for the recipient's interest can only lead to disappointment and growing tensions between the United States and the host government.

K. AID should not consider spot-check audits by the Mission's Office of the Controller as substitutes for monitoring the end-use of subloans.

As discussed in finding F, unmonitored subloans have a tendency to be utilized for purposes other than those intended, to the disadvantage of the recipient nation's development and the embarrassment of the United States. Subsequent disallowance of expenditures by AID after discovery by auditors of misuse does not bring the development which the subloans were designed to achieve. Monitoring by AID of ongoing projects, on the other hand, would prevent improper diversion of funds before they occur.

L. Public identification with the United States or the Alliance for Progress (whichever is appropriate) of projects and programs financed with U.S. assistance should be a sine qua non for continued aid.

M. Political considerations for proffering assistance must be divorced from economic purposes.

Where there is a decision to proceed with assistance for political purposes rather than strictly development purposes, AID should justify its case in unequivocal terms in congressional and interagency presentations.

N. The purposes of our economic assistance must be carefully defined so that AID personnel will have specific guidelines to follow in administering the program and recipient nations will know what to expect.

O. Perhaps the most urgent requirement for a sound foreign assistance program is to damp expectations all around with respect to what foreign aid can accomplish.

The United States and recipient nations at present act on the heady assumption that speedy economic growth and social progress are possible everywhere. Public pronouncements by governments and international organizations seldom inject a cautionary note. Newspaper and magazine articles are wont to measure progress in the underdeveloped countries against a mythical ideal.

Yet adverse climatic conditions, topography, and other natural limitations restrict the potential of some countries for development. Furthermore, provoking transformations in societies frozen in centuries-old archaic patterns will take time and, frequently, more knowledge regarding induced development than mankind presently possesses. Moreover, much as we may fervently wish otherwise, there is simply no way to eliminate the period needed to train manpower and to create the institutional base essential for utilizing modern technology and the capital to implement it.

Foreign assistance *can* help the underdeveloped nations attain some durable achievements. What is required is patience, steady purpose, and a realization that the millenium is not on the horizon if only we would do more, faster.

So long as unrealistic assumptions prevail, plans will be mounted in haste, objectives will be pursued willy-nilly, and the inevitable frustrations and failures will engender mutual recriminations. Eventually, donors and recipients alike will become disillusioned with the foreign aid program—the donors pulling out, the recipients turning to the extremism that foreign assistance is designed to avert.

APPENDIXES

APPENDIX 1

The Foreign Assistance Act of 1961, as Amended

Text of Public Law 87–195 [S. 1983], 75 Stat. 424, approved September 4, 1961, as amended by the Foreign Assistance Act of 1962, Public Law 87–565 [S. 2996], 76 Stat. 255, approved August 1, 1962; Public Law 87–793 [Postal Service and Federal Employees' Salary Act of 1962; H.R. 7927], 76 Stat. 832, approved October 11, 1962; Public Law 88–205 [H.R. 7885], 77 Stat. 379, approved December 16, 1963; Public Law 88–426 [Government Employees' Salary Reform Act of 1964; H.R. 11049], 78 Stat. 400, approved August 14, 1964; Public Law 88–448 [Dual Compensation Act; H.R. 7381], 78 Stat. 484, approved August 19, 1964; Public Law 88–633 [H.R. 11380], 78 Stat. 1009, approved October 7, 1964; Public Law 88–638 [Amendments to Agricultural Trade Development and Assistance Act of 1954, as amended; S. 2687], 78 Stat. 1035, approved October 8, 1964, and Public Law 89–171 [H.R. 7750], 79 Stat. 653, approved September 6, 1965

AN ACT To promote the foreign policy, security, and general welfare of the United States by assisting peoples of the world in their efforts toward economic development and internal and external security, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "The Foreign Assistance Act of 1961".

PART 1

Chapter 1—Policy

Sec. 101. Short Title.— * * * [Repealed—1963]

Sec. 102. Statement of Policy.—It is the sense of the Congress that peace depends on wider recognition of the dignity and interdependence of men, and survival of free institutions in the United States can best be assured in a worldwide atmosphere of freedom.

To this end, the United States has in the past provided assistance to help strengthen the forces of freedom by aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible governments.

The Congress declares it to be a primary necessity, opportunity, and responsibility of the United States, and consistent with its traditions and ideals, to renew the spirit which lay behind these past efforts, and to help make a historic demonstration that economic growth and political democracy can go hand in hand to the end that an enlarged community of free, stable, and self-reliant countries can reduce world tensions and insecurity.

It is the policy of the United States to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive capabilities, and by minimizing or eliminating barriers to the flow of private investment capita.

It is the sense of the Congress that the institution of full investment guaranty programs under title III of chapter 2 of this part with all recipient countries would be regarded as a significant measure of self-help by such countries improving the climate for private investment both domestic and foreign.

In addition, the Congress declares that it is the policy of the United States to support the principles of increased economic cooperation and trade among countries, freedom of the press, information, and religion, freedom of navigation in international waterways, and recognition of the right of all private persons to travel and pursue their lawful activities without discrimination as to race or religion. The Congress further declares that any distinction made by foreign nations between American citizens because of race, color, or religion in the granting of, or the exercise of, personal or other rights available to American citizens is repugnant to our principles. In the administration of all parts of this Act these principles shall be supported in such a way in our relations with countries friendly to the United States which are in controversy with each other as to promote an adjudication of the issues involved by means of international law procedures available to the parties.

Accordingly, the Congress hereby affirms it to be the policy of the United States to make assistance available, upon request, under this part in scope and on a basis of long-range continuity essential to the creation of an environment in which the energies of the peoples of the world can be devoted to constructive purposes, free of pressure and erosion by the adversaries of freedom. It is the sense of the Congress that in furnishing assistance under this part excess personal property shall be utilized wherever practicable in lieu of the procurement of new items for United States-assisted projects and programs. It is the further sense of the Congress that assistance under this part shall be complemented by the furnishing under any other Act of surplus agricultural commodities and by disposal of excess property under this and other Acts.

Also, the Congress reaffirms its conviction that the peace of the world and the security of the United States are endangered so long as international communism continues to attempt to bring under Communist domination peoples now free and independent and to keep under domination peoples once free but now subject to such domination. It is, therefore, the policy of the United States to continue to make available to other free countries and peoples, upon request, assistance of such nature and in such amounts as the United States deems advisable and as may be effectively used by free countries and peoples to help them maintain their freedom. Assistance shall be based upon sound plans and programs; be directed toward the social as well as economic aspects of economic development; be responsive to the efforts of the recipient countries to mobilize their own resources and help themselves; be cognizant of the external and internal pressures which hamper their growth; and shall emphasize

long-range development assistance as the primary instrument of such growth.

It is the sense of Congress that in the administration of these funds great attention and consideration should be given to those countries which share the view of the United States on the world crisis and which do not, as a result of United States assistance, divert their own economic resources to military propaganda efforts, supported by the Soviet Union or Communist China, and directed against the United States or against other countries receiving aid under this Act.

The Congress further declares that in the administration of programs of assistance under this Act the highest practicable emphasis should be given to: programs providing for loans or loan guarantees for use by institutions and organizations in making repayable low-interest rate loans to individuals in friendly foreign countries for the purchase of small farms, the purchase of homes, the establishment, equipment and strengthening of small independent business concerns, purchase of tools or equipment needed by individuals for carrying on an occupation or a trade or financing the opportunity for individuals to obtain practical education in vocational and occupational skills, and to those programs of technical assistance and development which will assist in carrying out and in preparing a favorable environment for such programs. While recognizing that special requirements, differing development needs and political conditions in various assisted countries will affect the priority of such programs and of each country's relative ability to implement them, it is further the sense of Congress that each such assisted country should be encouraged to give adequate recognition to such needs of the people in the preparation of national development programs.

The Congress reaffirms its relief in the importance of regional organizations of free peoples for mutual assistance, such as the North Atlantic Treaty Organization, the Organization for Economic Cooperation and Development, the European Economic Community, the Organization of American States, the Colombo Plan, the South East Asia Treaty Organization, the Central Treaty Organization, and others, and expresses its hope that such organizations may be strengthened and broadened, and their programs of self-help and mutual cooperation may be made more effective in the protection of the independence and security of free people, and in the development of their economic and social well-being, and the safeguarding of their basic rights and liberties.

It is the sense of the Congress that, in the administration of programs of assistance under chapter 2 of this part, every possible precaution should be taken to assure that such assistance is not diverted to short-term emergency purposes (such as budgetary purposes, balance-of-payments purposes, or military purposes) or any other purpose not essential to the long-range economic development of recipient countries.

The Congress urges that all other countries (including private enterprise within such countries) able to contribute join in a common undertaking to meet the goals stated in this part. In particular, the Congress urges that other industrialized free-world countries increase their contributions and improve the forms and terms of their

assistance so that the burden of the common undertaking, which is for the benefit of all, shall be equitably borne by all. It is the sense of Congress that, where feasible, the United States Government invite friendly nations to join in missions to consult with countries which are recipients of assistance under this part on the possibilities for joint action to assure the effective development of plans for the economic development of such recipient countries and the effective use of assistance provided them; and that the President may request the assistance of international financial institutions in bringing about the establishment of such missions.

It is the sense of the Congress that assistance authorized by this Act should be extended to or withheld from the government of South Vietnam, in the discretion of the President, to further the objectives of victory in the war against communism and the return to their homeland of Americans involved in that struggle.

It is the sense of the Congress that assistance under this or any other Act to any foreign country which hereafter permits, or fails to take adequate measures to prevent, the damage or destruction by mob action of United States property within such country, should be terminated and should not be resumed until the President determines that appropriate measures have been taken by such country to prevent a recurrence thereof.

CHAPTER 2—DEVELOPMENT ASSISTANCE

TITLE I—DEVELOPMENT LOAN FUND

SEC. 201. GENERAL AUTHORITY.—(a) The President shall establish a fund to be know as the "Development Loan Fund" to be used by the President to make loans pursuant to the authority contained in this title.

(b) The President is authorized to make loans payable as to principal and interest in United States dollars on such terms and conditions as he may determine, in order to promote the economic development of less developed friendly countries and areas, with emphasis upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities. In so doing, the President shall take into account (1) whether financing could be obtained in whole or in part from other free-world sources on reasonable terms, including private sources within the United States, (2) the economic and technical soundness of the activity to be financed, including the capacity of the recipient country to repay the loan at a reasonable rate of interest, (3) whether the activity gives reasonable promise of contributing to the development of economic resources or to the increase of productive capacities in furtherance of the purposes of this title, (4) the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives, (5) the extent to which the recipient country is showing a responsiveness to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures, and (6) the possible effects upon the United States economy, with special reference to areas of substantial labor surplus, of the loan involved.

Loans shall be made under this title only upon a finding of reasonable prospects of repayment.

(c) The authority of section 610 may not be used to decrease the funds available under this title, nor may the authority of section 614(a) be used to waive the requirements of this title.

(d) Funds made available for this title shall not be loaned or reloaned at rates of interest excessive or unreasonable for the borrower and in no event shall such funds (except funds loaned under section 205 and funds which prior to the date of enactment of the Foreign Assistance Act of 1964 were authorized or committed to be loaned upon terms which do not meet the minimum terms set forth herein) be loaned at a rate of interest of less than 2½ per centum per annum commencing not later than ten years following the date on which the funds are initially made available under the loan, during which ten-year period the rate of interest shall not be lower than 1 per centum per annum, nor higher than the applicable legal rate of interest of the country in which the loan is made.

(e) In carrying out this title, the President shall not allocate, reserve, earmark, commit, or otherwise set aside, funds aggregating in excess of $100,000 for use in any country under this title unless (1) an application for such funds has been received for use in such country together with sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner, or (2) the President determines with respect to each such allocation, reservation, earmarking, commitment, or set-aside that it is in the national interest to use such funds pursuant to multilateral plans.

(f) No assistance shall be furnished under this title for a project unless the President determines that such project will promote the economic development of the requesting country, taking into account the current human and material resource requirements of that country and the relationship between the ultimate objectives of the project and the overall economic development of the country, and that such project specifically provides for appropriate participation by private enterprise.

(NOTE.—The amount appropriated by the Foreign Assistance and Related Agencies Appropration Act, 1966, appears as a footnote to such authorization in the Foreign Assistance Act of 1961, as amended. Sec. 103 of the Foreign Assistance and Related Agencies Appropriation Act, 1966, states: "Except for the appropriations entitled 'Contingency fund', 'Alliance for Progress, development loans', and 'Development loans, not more than 20 per centum of any appropriation item made available by this title shall be obligated and/or reserved during the last month of availability.")

SEC. 202. AUTHORIZATION.—(a) There is hereby authorized to be appropriated to the President for the purposes of this title $1,200,000,000 for the fiscal year 1962, $1,500,000,000 for the fiscal year 1963, $925,000,000 for the fiscal year 1964, and $1,500,000,000 for each of the next two succeeding fiscal years, which sums shall remain available until expended: *Provided*, That any unappropriated portion of the amount authorized to be appropriated for any such fiscal year may be appropriated in any subsequent fiscal year during the above period in addition to the amount otherwise authorized to be appropriated for

such subsequent fiscal year: *Provided further*, That, in order to effectuate the purposes and provisions of sections 102, 201, 601, and 602 of this Act, not less than 50 per centum of the funds appropriated pursuant to this subsection for the fiscal years ending June 30, 1965, and June 30, 1966, respectively, shall be available for loans made to encourage economic development through private enterprise.

(b) Whenever the President determines that it is important to the advancement of the United States interests and necessary in order to further the purposes of this title, and in recognition of the need for reasonable advance assurances in the interest of orderly and effective execution of long-term plans and programs of development assistance, he is authorized to enter into agreements committing, under the terms and conditions of this title, funds authorized to be appropriated under this title, subject only to the annual appropriation of such funds.

(c) Upon conclusion of each such agreement involving funds to be appropriated, the President shall notify the Foreign Relations and Appropriations Committees of the Senate and the Speaker of the House of Representatives of the provisions of such agreement, including the amounts of funds involved and undertakings of the parties thereto.

(d) Except as otherwise provided in this part, the United States dollar assets of the corporate entity known as the Development Loan Fund which remain unobligated and not committed for loans repayable in foreign currencies on the date prior to the abolition of such Fund shall be available for use for purposes of this title.

SEC. 203. FISCAL PROVISIONS.—All receipts from loans made under and in accordance with this title shall be available for use for the purposes of this title. Such receipts and other funds made available under this title for use for the purposes of this title shall remain available until expended.

SEC. 204. DEVELOPMENT LOAN COMMITTEE.—The President shall establish an interagency Development Loan Committee, consisting of such officers from such agencies of the United States Government as he may determine, which shall, under the direction of the President, establish standards and criteria for lending operations under this title in accordance with the foreign and financial policies of the United States. Except in the case of officers serving in positions to which they were appointed by the President by and with the advice and consent of the Senate, officers assigned to the Committee shall be so assigned by the President by and with the advice and consent of the Senate.

SEC. 205. USE OF INTERNATIONAL LENDING ORGANIZATIONS.—In order to serve the purposes of this title and the policy contained in section 619, the President, after consideration of the extent of additional participation by other countries, may make available, in addition to any other funds available for such purposes, on such terms and conditions as he determines, not to exceed 15 per centum of the funds made available for this title to the International Development Association, the International Bank for Reconstruction and Development, or the International Finance Corporation for use pursuant to the laws governing United States participation in such institutions, if any, and the governing statutes thereof and without regard to section 201 or any other requirements of this or any other Act.

SEC. 206. REGIONAL DEVELOPMENT IN AFRICA.—The President is requested to seek and to take appropriate action, in cooperation and consultation with Africa and other interested nations and with international development organizations, to further and assist in the advancement of African regional development institutions, including the African Development Bank, with the view toward promoting African economic development.

TITLE II—TECHNICAL COOPERATION AND DEVELOPMENT GRANTS

SEC. 211. GENERAL AUTHORITY.—(a) The President is authorized to furnish assistance on such terms and conditions as he may determine in order to promote the economic development of less developed friendly countries and areas, with emphasis upon assisting the development of human resources through such means as programs of technical cooperation and development. In so doing, the President shall take into account (1) whether the activity gives reasonable promise of contributing to the development of educational or other institutions and programs directed toward social progress, (2) the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range development objectives, (3) the economic and technical soundness of the activity to be financed, (4) the extent to which the recipient country is showing a responsiveness to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures and a willingness to pay a fair share of the cost of programs under this title, (5) the possible adverse effects upon the Uinted States economy, with special reference to areas of substantial labor surplus, of the assistance involved, and (6) the desirability of safeguarding the international balance of payments position of the United States. If the President finds that assistance proposed to be furnished under this title would have a substantially adverse effect upon the United States economy, or a substantial segment thereof, the assistance shall not be furnished.

(b) In countries and areas which are in the earlier stages of economic development, programs of development of education and human resources through such means as technical cooperation shall be emphasized, and the furnishing of capital facilities for purposes other than the development of education and human resources shall be given a lower priority until the requisite knowledge and skills have been developed.

(c) Not to exceed $1,000,000 of the funds made available for the purposes of this section in any fiscal year may be used for programs designed to promote the peaceful uses of atomic energy outside the United States and such programs may be carried out only in accordance with the requirements of this section.

SEC. 212. AUTHORIZATION.—There is hereby authorized to be appropriated to the President for use beginning in the fiscal year 1966 to carry out the purposes of section 211 not to exceed $210,000,000 which shall remain available until expended.

SEC. 213. ATOMS FOR PEACE.—* * *[Repealed—1962]

SEC. 214. AMERICAN SCHOOLS AND HOSPITALS ABROAD.—(a) The President is authorized to furnish assistance, on such terms and con-

ditions as he may specify, to schools and libraries outside the United States founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States.

(b) The President is authorized, notwithstanding the provisions of the Mutual Defense Assistance Control Act of 1951 (22 U.S.C. 1611 et seq.), to furnish assistance, on such terms and conditions as he may specify, to hospitals outside the United States founded or sponsored by United States citizens and serving as centers for medical education and research.

(c) There is hereby authorized to be appropriated to the President for the purposes of this section, for the fiscal year 1966, $7,000,000, to remain available until expended.

SEC. 215. LOANS TO SMALL FARMERS.—It is the policy of the United States and the purpose of this section to strengthen the economies of less developed friendly counrties, and in friendly countries where the economy is essentially rural or based on small villages, to provide assistance designed to improve agricultural methods and techniques, to stimulate and encourage the development of local programs of self-help and mutual cooperation, particularly through loans of foreign currencies for associations of operators of small farms, formed for the purpose of joint action designed to increase or diversify agricultural productivity. The maximum unpaid balance of loans made to any association under this section may not exceed $25,000 at any one time; and the aggregate unpaid balance of all loans made under this section may not exceed $10,000,000 at any one time.

SEC. 216. VOLUNTARY AGENCIES.—(a) In order to further the efficient use of United States voluntary contributions for relief and rehabilitation of friendly peoples, the President is authorized to use funds made available for the purposes of section 211 to pay transportation charges from United States ports or, in the case of excess or surplus property supplied by the United States, from foreign ports to ports of entry abroad, or, in the case of landlocked countries, to points of entry in such countries, on shipments by the American Red Cross and United States voluntary nonprofit relief agencies registered with and approved by the Advisory Committee on Voluntary Foreign Aid.

(b) Where practicable the President shall make arrangements with the receiving country for free entry of such shipments and for the making available by that country of local currencies for the purpose of defraying the transportation cost of such shipments from the port of entry of the receiving country to the designated shipping point of the consignee.

SEC. 217. USED EQUIPMENT.—The President is authorized to use funds made available for the purposes of section 211 to conduct a study and investigation to determine the feasibility of establishing programs for the furnishing to less developed friendly countries and areas of used tools, machinery, and other equipment to be donated by private enterprises, or acquired through normal channels of trade, and the extent to which such programs are likely to be utilized by and contribute to the economic development of the receiving country. The President shall submit to the Congress at the earliest practicable date a report of the results of such study and investigation, together with such recommendations for legislation as he deems advisable.

TITLE III—INVESTMENT GUARANTIES

SEC. 221. GENERAL AUTHORITY.—(a) In order to facilitate and increase the participation of private enterprise in furthering the development of the economic resources and productive capacities of less developed friendly countries and areas, the President is authorized to issue guaranties as provided in subsection (b) of this section of investments in connection with projects, including expansion, modernization, or development of existing enterprises, in any friendly country or area with the government of which the President has agreed to institute the guaranty program. The guaranty program authorized by this title shall be administered under broad criteria, and each project shall be approved by the President.

(b) The President may issue guaranties to eligible United States investors—

(1) assuring protection in whole or in part against any or all of the following risks:

(A) inability to convert into United States dollars other currencies, or credits in such currencies, received as earnings or profits from the approved project, as repayment or return of the investment therein, in whole or in part, or as compensation for the sale or disposition of all or any part thereof,

(B) loss of investment, in whole or in part, in the approved project due to expropriation or confiscation by action of a foreign government, and

(C) loss due to war, revolution, or insurrection:

Provided, That the total face amount of the guaranties issued under this paragraph (1) outstanding at any one time shall not exceed $5,000,000,000, and

(2) where the President determines such action to be important to the furtherance of the purposes of this title, assuring against loss of any loan investment for housing projects with appropriate participation by the private investor in the loan risk and in accordance with the foreign and financial policies of the United States, or assuring against loss of not to exceed 75 per centum of any other investment due to such risks as the President may determine, upon such terms and conditions as the President may determine: *Provided*, That guaranties issued under this paragraph (2) shall emphasize economic development projects furthering social progress and the development of small independent business enterprises: *Provided further*, That no payment may be made under this paragraph (2) for any loss arising out of fraud or misconduct for which the investor is responsible: *Provided further*, That the total face amount of the guaranties issued under this paragraph (2) outstanding at any one time shall not exceed $300,000,000; and guaranties issued under this paragraph (2) for other than housing projects similiar to those insured by the Federal Housing Administration, shall not exceed $175,000,000: *Provided further*, That this authority shall continue until June 30, 1967.

(c) No guaranty shall exceed the dollar value, as of the date of the investment, of the investment made in the project with the approval of the President plus earnings or profits actually accrued on said

investment to the extent provided by such guaranty, nor shall any guaranty of an equity investment extend beyond twenty years from the date of issuance.

(d) The President shall make suitable arrangements for protecting the interests of the United States Government in connection with any guaranty issued under section 221(b), including arrangements with respect to the ownership, use, and disposition of the currency, credits, assets, or investment on account of which payment under such guaranty is to be made, and any right, title, claim, or cause of action existing in connection therewith.

SEC. 222. GENERAL PROVISIONS.—(a) A fee shall be charged for each guaranty in an amount to be determined by the President. In the event the fee to be charged for a type of guaranty authorized under sections 221(b) and 224 is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

(b) All fees collected in connection with guaranties issued under section 221(b) and 224, under sections 202(b) and 413(b)(4) of the Mutual Security Act of 1954, as amended, and under section 111(b)(3) of the Economic Cooperation Act of 1948, as amended (22 U.S.C. 1509(b)(3)) (exclusive of fees for informational media guaranties heretofore or hereafter issued pursuant to section 1011 of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1442) and section 111(b)(3) of the Economic Cooperation Act of 1948, as amended), shall be available for meeting management and custodial costs incurred with respect to currencies or other assets acquired under guaranties made pursuant to sections 221(b) and 224 of this part, sections 202(b) and 413(b)(4) of the Mutual Security Act of 1954, as amended, and section 111(b)(3) of the Economic Cooperation Act of 1948, as amended (exclusive of informational media guaranties), and to pay the costs of investigating and adjusting (including costs of arbitration) claims under such guaranties, and shall be available for expenditure in discharge of liabilities under guaranties made pursuant to such sections, until such time as all such property has been disposed of and all such liabilities have been discharged or have expired, or until all such fees have been expended in accordance with the provisions of this section.

(c) In computing the total face amount of guaranties outstanding at any one time for purposes of paragraph (1) of section 221(b), the President shall include the face amounts of outstanding guaranties theretofore issued pursuant to such paragraphs, sections 202(b) and 413(b)(4) of the Mutual Security Act of 1954, as amended, and section 111(b)(3) of the Economic Cooperation Act of 1948, as amended, but shall exclude informational media guaranties.

(d) Any payments made to discharge liabilities under guaranties issued under sections 221(b) and 224 of this part, sections 202(b) and 413(b)(4) of the Mutual Security Act of 1954, as amended, and section 111(b)(3) of the Economic Cooperation Act of 1948, as amended (exclusive of informational media guaranties), shall be paid first out of fees referred to in section 222(b) as long as such fees are available, and thereafter shall be paid out of funds, if any, realized from the sale of currencies or other assets acquired in connection with any payments made to discharge liabilities under such guaranties as long as such funds are available, and thereafter shall be paid out of funds hereto-

fore appropriated for the purpose of discharging liabilities under the aforementioned guaranties, and thereafter out of funds realized from the sale of notes issued under section 413(b)(4)(F) of the Mutual Security Act of 1954, as amended, and section 111(c)(2) of the Economic Cooperation Act of 1948, as amended, and finally out of funds hereafter made available pursuant to section 22(f).

(e) All guaranties issued prior to July 1, 1956, all guaranties issued under sections 202(b) and 413(b)(4) of the Mutual Security Act of 1954, as amended, and all guaranties heretofore or hereafter issued pursuant to this title shall be considered contingent obligations backed by the full faith and credit of the Government of the United States of America. Funds heretofore obligated under the aforementioned guaranties (exclusive of informational media guaranties) together with the other funds made available for the purposes of this title shall constitute a single reserve for the payment of claims in accordance with section 222(d) of this part.

(f) There is hereby authorized to be appropriated to the President such amount, to remain available until expended, as may be necessary from time to carry out the purposes of this title.

(g) In making a determination to issue a guaranty under section 221(b), the President shall consider the possible adverse effect of the dollar investment under such guaranty upon the balance of payments of the United States.

SEC. 223. DEFINITIONS.—As used in this title—

(a) the term "investment" includes any contribution of capital commodities, services, patents, processes, or techniques in the form of (1) a loan or loans to an approved project, (2) the purchase of a share of ownership in any such project, (3) participation in royalties, earnings, or profits of any such project, and (4) the furnishing of capital commodities and related services pursuant to a contract providing for payment in whole or in part after the end of the fiscal year in which the guaranty of such investment is made;

(b) the term "expropriation" includes but is not limited to any abrogation, repudiation, or impairment by a foreign government of its own contract with an investor, where such abrogation, repudiation, or impairment is not caused by the investor's own fault or misconduct, and materially adversely affects the continued operation of the project; and

(c) the term "eligible United States investors" means United States citizens, or corporations, partnerships, or other associations created under the laws of the United States or any State or territory and substantially beneficially owned by United States citizens, as well as foreign corporations, partnerships, or other associations wholly owned by one or more such United States citizens, corporations, partnerships, or other associations: *Provided*, that the eligibility of a foreign corporation shall be determined without regard to any shares, in aggregate less than 5 per centum of the total of issued and subscribed share capital, required by law to be held by persons other than the United States owners.

SEC. 224. HOUSING PROJECTS IN LATIN AMERICAN COUNTRIES.—(a) It is the sense of Congress that in order to stimulate private home ownership and assist in the development of stable economies in Latin

America, the authority conferred by this section should be utilized for the purpose of assisting in the development in the American Republics of self-liquidating pilot housing projects, the development of institutions engaged in Alliance for Progress programs, including cooperatives, free labor unions, savings and loan type institutions, and other private enterprise programs in Latin America engaged directly or indirectly in the financing of home mortgages, the construction of homes for lower income persons and families, the increased mobilization of savings and the improvement of housing conditions in Latin America.

(b) To carry out the purposes of subsection (a), the President is authorized to issue guaranties, on such terms and conditions as he shall determine, to eligible United States investors as defined in section 223 assuring against loss of loan investments made by such investors in—

(1) pilot or demonstration private housing projects in Latin America of types similar to those insured by the Federal Housing Administration and suitable for conditions in Latin America;

(2) credit institutions in Latin America engaged directly or indirectly in the financing of home mortgages, such as savings and loan institutions and other qualified investment enterprises;

(3) housing projects in Latin America for lower income families and persons, which projects shall be constructed in accordance with maximum unit costs established by the President for families and persons whose incomes meet the limitations prescribed by the President;

(4) housing projects in Latin America which will promote the development of institutions important to the success of the Alliance for Progress, such as free labor unions, cooperatives, and other private enterprise programs; or

(5) housing projects in Latin America 25 per centum or more of the aggregate of the mortgage financing for which is made available from sources within Latin America and is not derived from sources outside Latin America, which projects shall, to the maximum extent practicable, have a unit cost of not more than $6,500.

(c) The total face amount of guaranties issued under this section outstanding at any one time shall not exceed $400,000,000: *Provided*, That no payment may be made under this section for any loss arising out of fraud or misconduct for which the investor is responsible: *Provided further*, That this authority shall continue until June 30, 1967.

TITLE IV—SURVEYS OF INVESTMENT OPPORTUNITIES

SEC. 231. GENERAL AUTHORITY.—(a) In order to encourage and promote the undertaking by private enterprise of surveys of investment opportunities, other than surveys of extraction opportunities, in less developed friendly countries and areas, the President is authorized to participate in the financing of such surveys undertaken by any person on such terms and conditions as he may determine: *Provided*, That his participation shall not exceed 50 per centum of the total cost of any such survey. The making of each such survey shall be approved by the President.

(b) In the event that a person who has undertaken a survey in accordance with this title determines, within a period of time to be deter-

mined by the President, not to undertake, directly or indirectly, the investment opportunity surveyed, such person shall turn over to the President a professionally acceptable technical report with respect to all matters explored. Such report shall become the property of the United States Government, and the United States Government shall be entitled to have access to, and obtain copies of, all underlying correspondence, memorandums, working papers, documents, and other materials in connection with the survey.

SEC. 232. AUTHORIZATION.—There is hereby authorized to be appropriated to the President for use beginning in the fiscal year 1965 to carry out the purposes of this title not to exceed $2,100,000, which shall remain available until expended.

SEC. 233. DEFINITIONS.—As used in this title—

(a) the term "person" means a citizen of the United States or any corporation, partnership, or other association substantially beneficially owned by United States citizens; and

(b) the term "survey of extraction opportunities" means any survey directed (i) to ascertaining the existence, location, extent, or quality of any deposit of ore, oil, gas or other mineral, or (ii) to determining the feasibility of undertaking operations for the mining or other extraction of any such mineral or for the processing of any such mineral to the stage of commercial marketability.

TITLE V—DEVELOPMENT RESEARCH

SEC. 241. GENERAL AUTHORITY.—(a) The President is authorized to use funds made available for this part to carry out programs of research into, and evaluation of, the process of economic development in less developed friendly countries and areas, into the factors affecting the relative success and costs of development activities, and into the means, techniques, and such other aspects of development assistance as he may determine, in order to render such assistance of increasing value and benefit.

(b) Funds made available to carry out this section may be used to conduct research into the problems of population growth.

TITLE VI—ALLIANCE FOR PROGRESS

SEC. 251. GENERAL AUTHORITY.—(a) It is the sense of the Congress that the historic, economic, political and geographic relationships among the American peoples and Republics are unique and of special significance and that the Alliance for Progress offers great hope for the advancement of the welfare of the peoples of the Americas and the strengthening of the relationships among them. It is further the sense of Congress that vigorous measures by the countries and areas of Latin America to mobilize their own resources for economic development and to adopt reform measures to spread the benefits of economic progress among the people are essential to the success of the Alliance for Progress and to continued significant United States assistance thereunder. The President is authorized to furnish assistance on such terms and conditions as he may determine in order to promote the economic development of countries and areas in Latin America.

(b) Assistance furnished under this title shall be directed toward the development of human as well as economic resources. In furnish-

ing assistance under this title, the President shall take into account (1) the principles of the Act of Bogotá and the Charter of Punta del Este and in particular the extent to which the recipient country or area is showing a responsiveness to the vital economic, political, and social concerns of its people and demonstrating a clear determination to take effective self-help measures; (2) the economic and technical soundness of the activity to be financed; (3) the consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives; and (4) the possible effects upon the United States economy, with special reference to areas of substantial labor surplus, of the assistance involved. In making loans under this title from funds which are required to be used for loans payable as to principal and interest in United States dollars, the President shall take into account, in addition to the considerations named in the preceding sentence, whether financing could be obtained in whole or in part from other free world sources on reasonable terms (including private sources within the United States), the capacity of the recipient country to repay the loan at a reasonable rate of interest, and the efforts made by recipient nations to repatriate capital invested in other countries by their own citizens. The provisions of sections 201(d), 202(b), 202(c) and 204 shall be applicable to such loans, and they shall be made only upon a finding of reasonable prospects of repayment.

(c) The authority of section 614(a) may not be used to waive the requirements of this title with respect to funds made available for this title which are required to be used for loans payable as to principal and interest in United States dollars, and the authority of section 610 may be used to transfer such funds only to funds made available for title I of chapter 2 of part I.

(d) In order to carry out the policies of this Act and the purpose of this title, the President shall, when requested by a friendly country and when appropriate, assist in fostering measures of agrarian reform, including colonization and redistribution of land, with a view to insuring a wider and more equitable distribution of the ownership of land.

(e) The President shall not allocate, reserve, earmark, commit, or otherwise set aside, funds aggregating in excess of $100,000 for use in any country under this title unless (1) an application for such funds has been received for use in such country together with sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner, or (2) the President determines with respect to each such allocation, reservation, earmarking, commitment, or set-aside that it is in the national interest to use such funds pursuant to multilateral plans.

(f) In furnishing assistance under this title, consistently with and for the purposes of section 601(b)(4) of this Act, the agency primarily responsible for administering part I or any other departments and agencies designated by the President shall provide such assistance as may be determined by the President to be necessary from time to time in order to make effective the efforts of the Commerce Committee for the Alliance for Progress, established under the Department of Commerce.

(g) In order to carry out the policies of this Act, the President shall, when appropriate, assist in promoting the organization, implementation, and growth of the cooperative movement in Latin America as a fundamental measure toward the strengthening of democratic institutions and practices and economic and social development under the Alliance for Progress.

SEC. 252. AUTHORIZATION.—There is hereby authorized to be appropriated to the President for the purposes of this title, in addition to other funds available for such purposes, for use beginning in each of the fiscal years 1963, 1965, and 1966, not to exceed $600,000,000 for each such fiscal year, and for use beginning in the fiscal year 1964, not to exceed $525,000,000, which sums are authorized to remain available until expended and which, except for not to exceed $100,000,000 in each of the fiscal years 1963 and 1964 and $85,000,000 in fiscal year 1965 and $75,000,000 in fiscal year 1966 of the funds appropriated pursuant to this section for use beginning in each such fiscal year, shall be available only for loans payable as to principal and interest in United States dollars. In presenting requests to the Congress for authorizations for appropriations for fiscal years 1964 through 1966 to carry out other programs under this Act, the President shall also present the program proposed to be carried out from funds appropriated pursuant to the authorization contained in this section for the respective fiscal year. In order to effectuate the purposes and provisions of section 102, 251, 601, and 602 of this Act, not less than 50 percentum of the loan funds appropriated pursuant to this section for the fiscal years ending June 30, 1965 and June 30, 1966, respectively, shall be available for loans made to encourage economic development through private enterprise.

SEC. 253. FISCAL PROVISIONS.—All receipts in United States dollars from loans made under this title and from loans made for the benefit of countries and areas of Latin America under title I of chapter 2 of part I of this Act, notwithstanding section 203, shall be available for use for loans payable as to principal and interest in United States dollars in furtherance of the purposes of this title. All receipts in foreign currencies from loans made under this title or for nonmilitary assistance purposes under the Mutual Security Act of 1954, as amended, or any Act repealed thereby, shall be available, in addition to other funds available for such purposes, for loans on such terms and conditions as the President may specify to carry out the purposes of subsection (g) of section 251 of this title, and the President may, notwithstanding the provisions of this or any other Act, reserve such currencies in such amounts (not to exceed $25,000,000) as he shall determine to be necessary to provide for the programs authorized by said subsection (g). Such receipts and other funds made available under this title for use for the purposes of this title shall remain available until expended.

TITLE VII—EVALUATION OF PROGRAMS

SEC. 261. The President may appoint a committee to review and evaluate the economic development program under this Act, and to report to the President and to the Congress its findings.

CHAPTER 3—INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 301. GENERAL AUTHORITY.—(a) When he determines it to be in the national interest, the President is authorized to make voluntary contributions on a grant basis to international organizations and to programs administered by such organizations on such terms and conditions as he may determine, in order to further the purposes of this part.

(b) Contributions to the United Nations Expanded Program of Technical Assistance and the United Nations Special Fund for the calendar years succeeding 1961 may not exceed forty per centum of the total amount contributed for such purpose (including assessed and audited local costs) for each year.

(c) In determining whether or not to continue furnishing assistance for Palestine refugees in the Near East through contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the President shall take into account (1) whether Israel and the Arab host governments are taking steps toward the resettlement and repatriation of such refugees, and (2) the extent and success of efforts by the Agency and the Arab host governments to rectify the Palestine refugee relief rolls. Contributions by the United States to the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the calendar year 1966 shall not exceed $15,200,000.

SEC. 302. AUTHORIZATION.—There is hereby authorized to be appropriated to the President for use, in addition to funds available under any other Act for such purposes, for the fiscal year 1966 to carry out the purposes of this chapter not to exceed $144,755,000. None of the funds available to carry out this chapter shall be contributed to any international organization or to any foreign government or agency thereof to pay the costs of developing or operating any volunteer program of such organization, government, or agency relating to the selection, training, and programing of volunteer manpower.

SEC. 303. INDUS BASIN DEVELOPMENT.—In the event that funds made available under this Act (other than part II) are used by or under the supervision of the International Bank for Reconstruction and Development in furtherance of the development of the Indus Basin through the program of cooperation among South Asian and other countries of the free world, which is designed to promote economic growth and political stability in South Asia, such funds may be used in accordance with requirements, standards, or procedures established by the Bank concerning completion of plans and cost estimates and determination of feasibility, rather than with requirements, standards, or procedures concerning such matters set forth in this or other Act; and such funds may also be used without regard to the provisions of section 901(b) of the Merchant Marine Act, 1936, as amended (46 U.S.C. 1241), whenever the President determines that such provisions cannot be fully satisfied without seriously impeding or preventing accomplishment of the purposes of such programs: *Provided*, That compensating allowances are made in the administration of other programs to the same or other areas to which the requirements of said section 901(b) are applicable.

CHAPTER 4—SUPPORTING ASSISTANCE

SEC. 401. GENERAL AUTHORITY.—The President is authorized to furnish assistance to friendly countries, organizations, and bodies eligible to receive assistance under this part on such terms and conditions as he may determine, in order to support or promote economic or political stability.

SEC. 402. AUTHORIZATION.—There is hereby authorized to be appropriated to the President for use beginning in the fiscal year 1966 to carry out the purposes of this chapter not to exceed $369,200,000, which shall remain available until expended. Of the funds made available for the fiscal year 1965 to carry out the purposes of this chapter, not less than $200,000,000 shall be available solely for use in Vietnam, unless the President determines otherwise and promptly reports such determination to the Committees on Foreign Relations and Appropriations of the Senate and to the Speaker of the House of Representatives.

CHAPTER 5—CONTINGENCY FUND

SEC. 451. CONTINGENCY FUND.—(a) There is hereby authorized to be appropriated to the President for the fiscal year 1966 not to exceed $50,000,000 for use by the President for assistance authorized by part I in accordance with the provisions applicable to the furnishing of such assistance, when he determines such use to be important to the national interest. In addition, there is hereby authorized to be appropriated to the President for use in Southeast Asia such sums, not to exceed $89,000,000, as may be necessary in the fiscal year 1966 for programs authorized by parts I and II of this Act.

(b) The President shall provide quarterly reports to the Committee on Foreign Relations and the Committee on Appropriations of the Senate and the Speaker of the House of Representatives on the programming and the obligation of funds under the first sentence of subsection (a).

CHAPTER 6—ASSISTANCE TO COUNTRIES HAVING AGRARIAN ECONOMIES

SEC. 461. ASSISTANCE TO COUNTRIES HAVING AGRARIAN ECONOMIES.—Wherever the President determines that the economy of any country is in major part an agrarian economy, emphasis shall be placed on programs which reach the people in such country who are engaged in agrarian pursuits or who live in the villages or rural areas in such country, including programs which will assist them in the establishment of indigenous cottage industries, in the improvement of agricultural methods and techniques, and which will encourage the development of local programs of self-help and mutual cooperation. In such country emphasis shall be placed also upon programs of community development which will promote stable and responsible governmental institutions at the local level.

PART II

CHAPTER 1—POLICY

SEC. 501. SHORT TITLE.—* * * [Repealed—1963]

SEC. 502. STATEMENT OF POLICY.—The Congress of the United States reaffirms the policy of the United States to achieve international peace and security through the United Nations so that armed force shall not be used except for individual or collective self-defense. The Congress hereby finds that the efforts of the United States and other friendly countries to promote peace and security continue to require measures of support based upon the principle of effective self-help and mutual aid. It is the purpose of this part to authorize measures in the common defense against internal and external aggression, including the furnishing of military assistance, upon request, to friendly countries and international organizations. In furnishing such military assistance, it remains the policy of the United States to continue to exert maximum efforts to achieve universal control of weapons of mass destruction and universal regulation and reduction of armaments, including armed forces, under adequate safeguards to protect complying countries against violation and evasion.

The Congress recognizes that the peace of the world and the security of the United States are endangered so long as international communism and the countries it controls continue by threat of military action, by the use of economic pressure, and by internal subversion, or other means to attempt to bring under their domination peoples now free and independent and continue to deny the rights of freedom and self-government to peoples and countries once free but now subject to such domination.

It is the sense of the Congress that an important contribution toward peace would be made by the establishment under the Organization of American States of an international military force.

In enacting this legislation, it is therefore the intention of the Congress to promote the peace of the world and the foreign policy, security, and general welfare of the United States by fostering an improved climate of political independence and individual liberty, improving the ability of friendly countries and international organizations to deter or, if necessary, defeat Communist or Communist-supported aggression, facilitating arrangements for individual and collective security, assisting friendly countries to maintain internal security, and creating an environment of security and stability in the developing friendly countries essential to their more rapid social, economic, and political progress. The Congress urges that all other countries able to contribute join in a common undertaking to meet the goals stated in this part.

Finally, the Congress reaffirms its full support of the progress of the members of the North Atlantic Treaty Organization toward increased cooperation in political, military, and economic affairs. In particular, the Congress welcomes the steps which have been taken to promote multilateral programs of coordinated procurement, research, development, and production of defense articles and urges that such programs be expanded to the fullest extent possible to further the defense of the North Atlantic Area.

CHAPTER 2—MILITARY ASSISTANCE

SEC. 503. GENERAL AUTHORITY.—The President is authorized to furnish military assistance on such terms and conditions as he may determine, to any friendly country or international organization, the assisting of which the President finds will strengthen the security of the United States and promote world peace and which is otherwise eligible to receive such assistance, by—

(a) acquiring from any source and providing (by loan, lease, sale, exchange, grant, or any other means) any defense article or defense service;

(b) making financial contributions to multilateral programs for the acquisition or construction of facilities for collective defense;

(c) providing financial assistance for expenses incident to participation by the United States Government in regional or collective defense organizations;

(d) assigning or detailing members of the Armed Forces of the United States and other personnel of the Department of Defense to perform duties of a noncombatant nature, including those related to training or advice; and

(e) guarantying, insuring, coinsuring, and reinsuring any individual, corporation, partnership, or other association doing business in the United States against political and credit risks of nonpayment arising in connection with credit sales financed by such individual, corporation, partnership or other association for defense articles and defense services procured in the United States by such friendly country or international organization.

SEC. 504. AUTHORIZATION.—(a) There is hereby authorized to be appropriated to the President for use beginning in fiscal year 1966 to carry out the purposes of this part, not to exceed $1,170,000,000 which shall remain available until expended. Of the funds made available for the fiscal year 1965 to carry out the purposes of his part, not less than $200,000,000 shall be available solely for use in Vietnam, unless the President determines otherwise and promptly reports such determination to the Committees on Foreign Relations and Appropriations of the Senate and to the Speaker of the House of Representatives.

(b) In order to make sure that a dollar spent on military assistance to foreign countries is as necessary as a dollar spent for the United States military establishment, the President shall establish procedures for programming and budgeting so that programs of military assistance come into direct competition for financial support with other activities and programs of the department of Defense.

SEC. 505. UTILIZATION OF ASSISTANCE.—(a) Military assistance to any country shall be furnished solely for internal security, for legitimate self-defense, to permit the recipient country to participate in regional or collective arrangements or measures consistent with the Charter of the United Nations, or otherwise to permit the recipient country to participate in collective measures requested by the United Nations for the purpose of maintaining or restoring international peace and security, or for the purpose of assisting foreign military forces in less developed friendly countries (or the voluntary efforts of personnel of the Armed Forces of the United States in such countries) to construct public works and to engage in other activities helpful to the

economic and social development of such friendly countries. It is the sense of the Congress that such foreign military forces should not be maintained or established solely for civic action activities and that such civic action activities not significantly detract from the capability of the military forces to perform their military missions and be coordinated with and form part of the total economic and social development effort.

(b) Except (1) to the extent necessary to fulfill prior commitments, or (2) for civic action assistance, or (3) to the extent that the President finds, with respect to any Latin American country, that the furnishing of military assistance under this Act is necessary to safeguard the security of the United States or to safeguard the security of a country associated with the United States in the Alliance for Progress against overthrow of a duly constituted government, and so informs the Congress, no further military assistance under any provision of this Act shall be furnished to any Latin American country.

SEC. 506. CONDITIONS OF ELIGIBILITY.—(a) In addition to such other provisions as the President may require, no defense articles shall be furnished to any country on a grant basis unless it shall have agreed that—

(1) it will not, without the consent of the President—

(A) permit any use of such articles by anyone not an officer, employee, or agent of that country,

(B) transfer, or permit any officer, employee, or agent of that country to transfer such articles by gift, sale, or otherwise, or

(C) use or permit the use of such articles for purposes other than those for which furnished;

(2) it will maintain the security of such articles, and will provide substantially the same degree of security protection afforded to such articles by the United States Government;

(3) it will, as the President may require, permit continuous observation and review by, and furnish necessary information to, representatives of the United States Government with regard to the use of such articles; and

(4) unless the President consents to other disposition, it will return to the United States Government for such use or disposition as the President considers in the best interests of the United States, such articles which are no longer needed for the purposes for which furnished.

(b) No defense articles shall be furnished on a grant basis to any country at a cost in excess of $3,000,000 in any fiscal year unless the President determines—

(1) that such country conforms to the purposes and principles of the Charter of the United Nations;

(2) that such defense articles will be utilized by such country for the maintenance of its own defensive strength, and the defensive strength of the free world;

(3) that such country is taking all reasonable measures, consistent with its political and economic stability, which may be needed to develop its defense capacities; and

(4) that the increased ability of such country to defend itself is important to the security of the United States.

(c) The President shall regularly reduce and, with such deliberate speed as orderly procedure and other relevant considerations, including prior commitments, will permit, shall terminate all further grants of military equipment and supplies to any country having sufficient wealth to enable it, in the judgment of the President, to maintain and equip its own military forces at adequate strength, without undue burden to its economy.

(d) Any country which hereafter uses defense articles or defense services furnished such country under this Act, the Mutual Security Act of 1954, as amended, or any predecessor foreign assistance Act, in substantial violation of the provisions of this chapter or any agreements entered into pursuant to any of such Acts shall be immediately ineligible for further assistance.

SEC. 507. SALES.—(a) The President may furnish defense articles from the stocks of the Department of Defense and defense services to any friendly country or international organization, without reimbursement from funds made available for use under this part, if such country or international organization agrees to pay not less than the value thereof in United States dollars. Payment shall be made in advance or, as determined by the President to be in the best interests of the United States, within a reasonable period not to exceed three years after the delivery of the defense articles, or the provision of the defense services. Notwithstanding the provisions of section 644(m)(2), nonexcess defense articles may be sold under this subsection at the standard price in effect at the time such articles are offered for sale to the purchasing country or international organization. For the purposes of this subsection, the value of excess defense articles shall be not less than (1) the value specified in section 644(m)(1) plus the scrap value, or (2) the market value, if ascertainable, whichever is the greater.

(b) The President may, without requirement for charge to any appropriation or contract authorization otherwise provided, enter into contracts for the procurement of defense articles or defense services for sale to any friendly country or international organization if such country or international organization provides the United States Government with a dependable undertaking (1) to pay the full amount of such contract which will assure the United States Government against any loss on the contract, and (2) to make funds available in such amounts and at such times as may be required to meet the payments required by the contract, and any damages and costs that may accrue from the cancellation of such contract, in advance of the time such payments, damages, or costs are due: *Provided*, That the President may, when he determines it to be in the national interest, accept a dependable undertaking to make full payment within one hundred and twenty days after delivery of the defense articles, or the rendering of the defense services, and appropriations available to the Department of Defense may be used to meet the payments required by the contracts and shall be reimbursed by the amounts subsequently received from the country or international organization: *Provided further*, That the President may, when he determines it to be in the national interest, enter into sales agreements with purchasing countries or international organizations which fix prices to be paid by the purchasing countries or international organizations for the defense arti-

cles or defense services ordered. Funds available under this part for financing sales shall be used to reimburse the applicable appropriations in the amounts required by the contracts which exceed the price so fixed, except that such reimbursement shall not be required upon determination by the President that the continued production of the defense article being sold is advantageous to the Armed Forces of the United States. Payments by purchasing countries or international organizations which exceed the amounts required by such contracts shall be credited to the account established under section 508. To the maximum extent possible, prices fixed under any such sales agreement shall be sufficient to reimburse the United States for the cost of the defense articles or defense services ordered. The President shall submit to the Congress promptly a detailed report concerning any fixed-price sales agreement under which the aggregate cost to the United States exceeds the aggregate amount required to be paid by the purchasing country or international organization. No sales of unclassified defense articles shall be made to the government of any economically developed nation under the provisions of this subsection unless such articles are not generally available for purchase by such nations from commercial sources in the United States: *Provided, however,* That the Secretary of Defense may waive the provisions of this sentence when he determines that the waiver of such provisions is in the national interest.

SEC. 508. REIMBURSEMENTS.—Whenever funds made available for use under this part have been or are used to furnish military assistance on cash or credit terms, United States dollar repayments, including dollar proceeds derived from the sale of foreign currency repayments to any agency or program of the United States Government, receipts received from the disposition of evidences of indebtedness and charges (including fees and premiums) or interest collected shall be credited to a separate fund account and shall be available until expended solely for the purpose of financing sales and guaranties, including the overhead costs thereof, and, notwithstanding any provision of law relating to receipts and credits accruing to the United States Government, repayments in foreign currency may be used to carry out this part.

SEC. 509. EXCHANGES AND GUARANTIES.—(a) Defense articles or defense services transferred to the United States Government by a country or international organization as payment for assistance furnished under this part may be used to carry out this part, or may be disposed of or transferred to any agency of the United States Government for stockpiling or other purposes. If such disposal or transfer is made subject to reimbursement, the funds so received shall be credited to the appropriation, fund, or account funding the cost of the assistance furnished or to any appropriation, fund, or account currently available for the same general purpose.

(b) In issuing guaranties, insurance, coinsurance, and reinsurance, the President may enter into contracts with exporters, insurance companies, financial institutions, or others, or groups thereof, and where appropriate may employ any of the same to act as agent in the issuance and servicing of such guaranties, insurance, coinsurance, and reinsurance, and the adjustment of claims arising thereunder. Fees and premiums shall be charged in connection with contracts of guaranty, insurance, coinsurance, and reinsurance (excluding contracts with any

agency of the United States Government). Obligations shall be recorded against the funds available for credit sales under this part in an amount not less than 25 per centum of the contractual liability related to any guaranty, insurance, coinsurance, and reinsurance issued pursuant to this part and the funds so obligated together with fees and premiums shall constitute a single reserve for the payment of claims under such contracts. Any guaranties, insurance, coinsurance, and reinsurance issued pursuant to this part shall be considered contingent obligations backed by the full faith and credit of the United States of America.

SEC. 510. SPECIAL AUTHORITY.—(a) During the fiscal year 1966, the President may, if he determines it to be vital to the security of the United States, order defense articles from the stocks of the Department of Defense and defense services for the purposes of part II, subject to subsequent reimbursement therefor from subsequent appropriations available for military assistance. The value of such orders under this subsection in the fiscal year 1966 shall not exceed $300,000,000. Prompt notice of action taken under this subsection shall be given to the Committees on Foreign Relations, Appropriations, and Armed Services of the Senate and the Speaker of the House of Representatives.

(b) The Department of Defense is authorized to incur, in applicable appropriations, obligations in anticipation of reimbursements in amounts equivalent to the value of such orders under subsection (a) of this section. Appropriations to the President of such sums as may be necessary to reimburse the applicable appropriation, fund, or account for such orders are hereby authorized.

SEC. 511. RESTRICTIONS ON MILITARY AID TO LATIN AMERICA.—(a) The value of grant programs of defense articles for American Republics, pursuant to any authority contained in this part other than section 507, in any fiscal year beginning with the fiscal year 1962, shall not exceed $55,000,000, of which $25,000,000 may be used for assistance on a cost-sharing basis to an inter-American military force under the control of the Organization of American States: *Provided*, That the cost of defense articles supplied for use by elements of the Inter-American Peace Force in the Dominican Republic shall not be charged against the $55,000,000 limitation provided by this subsection.

(b) To the maximum extent feasible, military assistance shall be furnished to American Republics in accordance with joint plans (including joint plans relating to internal security problems) approved by the Organization of American States. The President shall submit seminannual reports to the Speaker of the House of Representatives and to the Committee on Foreign Relations of the Senate on the implementation of this subsection.

SEC. 512. RESTRICTIONS ON MILITARY AID TO AFRICA.—No military assistance shall be furnished on a grant basis to any country in Africa, except for internal security requirements or for civic action requirements, unless the President determines otherwise and promptly reports such determination to the Committee on Foreign Relations of the Senate and the Speaker of the House of Representatives. The value of grant programs of defense articles for African countries in fiscal year 1966, pursuant to any authority contained in this part other than section 507, shall not exceed $25,000,000.

SEC. 513. CERTIFICATION OF RECIPIENT'S CAPABILITY.—(a) Except as provided in subsection (b) of this section, no defense article having

a value in excess of $100,000 shall hereafter be furnished to any country or international organization under the authority of this Act (except under the authority of section 507) unless the chief of the appropriate military assistance advisory group representing the United States with respect to defense articles used by such country or international organization or the head of any other group representing the United States with respect to defense articles used by such country or international organization has certified in writing within six months prior to delivery that the country or international organization has the capability to utilize effectively such article in carrying out the purposes of this part.

(b) Defense articles included in approved military assistance programs may be furnished to any country or international organization for which the certification required by subsection (a) of this section cannot be made when determined necessary and specifically approved in advance by the Secretary of State (or, upon appropriate delegation of authority by an Under Secretary or Assistant Secretary of State) and the Secretary of Defense (or upon appropriate delegation of authority by the Deputy Secretary or an Assistant Secretary of Defense). The Secretary of State, or his delegate, shall make a complete report to the Speaker of the House of Representatives and to the Committee on Foreign Relations and the Committee on Appropriations of the Senate of each such determination and approval and the reasons therefor.

PART III

Chapter 1—General Provisions

Sec. 601. Encouragement of Free Enterprise and Private Participation.—(a) The Congress of the United States recognizes the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. Accordingly, it is declared to be the policy of the United States to encourage the efforts of other countries to increase the flow of international trade, to foster private initiative and competition, to encourage the development and use of cooperatives, credit unions, and savings and loan associations, to discourage monopolistic practices, to improve the technical efficiency of their industry, agriculture, and commerce, and to strengthen free labor unions; and to encourage the contribution of United States enterprise toward economic strength of less developed friendly countries, through private trade and investment abroad, private participation in programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs), and exchange of ideas and technical information on the matters covered by this subsection.

(b) In order to encourage and facilitate participation by private enterprise to the maximum extent practicable in achieving any of the purposes of this Act, the President shall—

(1) make arrangements to find, and draw the attention of private enterprise to, opportunities for investment and development in less developed friendly countries and areas;

(2) accelerate a program of negotiating treaties for commerce and trade, including tax treaties, which shall include provisions to encourage and facilitate the flow of private investment to, and

its equitable treatment in, friendly countries and areas participating in programs under this Act;

(3) seek, consistent with the national interest, compliance by other countries or areas with all treaties for commerce and trade and taxes, and take all reasonable measures under this Act or other authority to secure compliance therewith and to assist United States citizens in obtaining just compensation for losses sustained by them or payments exacted from them as a result of measures taken or imposed by any country or area thereof in violation of any such treaty;

(4) to the maximum extent practicable carry out programs of assistance through private channels and to the extent practicable in conjunction with local private or governmental participation, including loans under the authority of section 201 to any individual, corporation, or other body of persons;

(5) take appropriate steps to discourage nationalization, expropriation, confiscation, seizure of ownership or control of private investment and discriminatory or other actions having the effect thereof, undertaken by countries receiving assistance under this Act, which divert available resources essential to create new wealth, employment, and productivity in those countries and otherwise impair the climate for new private investment essential to the stable economic growth and development of those countries; and

(6) utilize wherever practicable the services of United States private enterprise (including, but not limited to, the services of experts and consultants in technical fields such as engineering).

(c) (1) There is hereby established an Advisory Committee on Private Enterprise in Foreign Aid. The Advisory Committee shall carry out studies and make recommendations for achieving the most effective utilization of the private enterprise provisions of this Act to the head of the agency charged with administering the program under part I of this Act, who shall appoint the Committee.

(2) Members of the Advisory Committee shall represent the public interest and shall be selected from the business, labor and professional world, from the universities and foundations, and from among persons with extensive experience in government. The Advisory Committee shall consist of not more than nine members, and one of the members shall be designated as chairman.

(3) Members of the Advisory Committee shall receive no compensation for their services but shall be entitled to reimbursement in accordance with section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73b–2) for travel and other expenses incurred in attending meetings of the Advisory Committee.

(4) The Advisory Committee shall, if possible, meet not less frequently than once each month, shall submit such interim reports as the Committee finds advisable, and shall submit a final report not later than June 30, 1965, whereupon the Committee shall cease to exist. Such reports shall be made available to the public and to the Congress.

(5) The expenses of the Committee, which shall not exceed $50,000, shall be paid from funds otherwise available under this Act.

(d) It is the sense of Congress that the Agency for International Development should continue to encourage, to the maximum extent

consistent with the national interest, the utilization of engineering and professional services of United States firms (including, but not limited to, any corporation, company, partnership, or other association) or by an affiliate of such United States firms in connection with capital projects financed by funds authorized under this Act.

SEC. 602. SMALL BUSINESS.—(a) Insofar as practicable and to the maximum extent consistent with the accomplishment of the purposes of this Act, the President shall assist American small business to participate equitably in the furnishing of commodities, defense articles, and services (including defense services) financed with funds made available under this Act—

(1) by causing to be made available to suppliers in the United States, and particularly to small independent enterprises, information, as far in advance as possible, with respect to purchases proposed to be financed with such funds;

(2) by causing to be made available to prospective purchasers in the countries and areas receiving assistance under this Act information as to such commodities, articles, and services produced by small independent enterprises in the United States; and

(3) by providing for additional services to give small business better opportunities to participate in the furnishing of such commodities, articles, and services financed with such funds.

(b) There shall be an Office of Small Business, headed by a Special Assistant for Small Business, in such agency of the United States Government as the President may direct, to assist in carrying out the provisions of subsection (a) of this section.

(c) The Secretary of Defense shall assure that there is made available to suppliers in the United States, and particularly to small independent enterprises, information with respect to purchases made by the Department of Defense pursuant to part II, such information to be furnished as far in advance as possible.

SEC. 603. SHIPPING ON UNITED STATES VESSELS.—The ocean transportation between foreign countries of commodities and defense articles purchased with foreign currencies made available or derived from funds made available under this Act or the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1691 et seq.), and transfers of fresh fruit and products thereof under this Act, shall not be governed by the provisions of section 901(b) of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1241), or any other law relating to the ocean transportation of commodities on United States flag vessels.

SEC. 604. PROCUREMENT.—(a) Funds made available under this Act may be used for procurement outside the United States only if the President determines that such procurement will not result in adverse effects upon the economy of the United States or the industrial mobilization base, with special reference to any areas of labor surplus or to the net position of the United States in its balance of payments with the rest of the world, which outweigh the economic or other advantages to the United States of less costly procurement outside the United States, and only if the price of any commodity procured in bulk is lower than the market price prevailing in the United States at the time of procurement, adjusted for differences in the cost of transportation to destination, quality, and terms of payments.

(b) No funds made available under this Act shall be used for the purchase in bulk of any commodities at prices higher than the market price prevailing in the United States at the time of purchase, adjusted for differences in the cost of transportation to destination, quality, and terms of payment.

(c) In providing for the procurement of any surplus agricultural commodity for transfer by grant under this Act to any recipient country in accordance with its requirements, the President shall, insofar as practicable and when in furtherance of the purposes of this Act, authorize the procurement of such surplus agricultural commodity only within the United States except to the extent that such surplus agricultural commodity is not available in the United States in sufficient quantities to supply emergency requirements of recipients under this Act.

(d) In providing assistance in the procurement of commodities in the United States, United States dollars shall be made available for marine insurance on such commodities where such insurance is placed on a competitive basis in accordance with normal trade practice prevailing prior to the outbreak of World War II: *Provided*, That in the event a participating country, by statute, decree, rule, or regulation, discriminates against any marine insurance company authorized to do business in any State of the United States, then commodities purchased with funds provided hereunder and destined for such country shall be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in any State of the United States.

SEC. 605. RETENTION AND USE OF "CERTAIN ITEMS AND FUNDS."—(a) Any commodities and defense articles procured to carry out this Act shall be retained by, or upon reimbursement, transferred to, and for the use of, such agency of the United States Government as the President may determine in lieu of being disposed of to a foreign country or international organization, whenever in the judgment of the President the best interests of the United States will be served thereby, or whenever such retention is called for by concurrent resolution. Any commodities or defense articles so retained may be disposed of without regard to provisions of law relating to the disposal of property owned by the United States Government, when necessary to prevent spoilage or wastage of such commodities or defense articles or to conserve the usefulness thereof. Funds realized from any disposal or transfer shall revert to the respective appropriation, fund, or account used to procure such commodities or defense articles or to the appropriation, fund, or account currently available for the same general purpose.

(b) Whenever commodities are transferred to the United States Government as repayment of assistance under this Act, such commodities may be used in furtherance of the purposes and within the limitations of this Act.

(c) Funds realized as a result of any failure of a transaction financed under authority of part I of this Act to conform to the requirements of this Act, or to applicable rules and regulations of the United States Government, or to the terms of any agreement or contract entered into under authority of part I of this Act, shall revert to the respective appropriation, fund, or account used to finance such

transaction or to the appropriation, fund, or account currently available for the same general purpose.

(d) Funds realized by the United States Government from the sale, transfer, or disposal of defense articles returned to the United States Government by a recipient country or international organization as no longer needed for the purpose for which furnished shall be credited to the respective appropriation, fund, or account used to procure such defense articles or to the appropriation, fund, or account currently available for the same general purpose.

SEC. 606. PATENTS AND TECHNICAL INFORMATION.—(a) Whenever, in connection with the furnishing of assistance under this Act—

(1) an invention or discovery covered by a patent issued by the United States Government is practiced within the United States without the authorization of the owner, or

(2) information, which is (A) protected by law, and (B) held by the United States Government subject to restrictions imposed by the owner, is disclosed by the United States Government or any of its officers, employees, or agents in violation of such restrictions,

the exclusive remedy of the owner, except as provided in subsection (b) of this section, is to sue the United States Government for reasonable and entire compensation for such practice or disclosure in the district court of the United States for the district in which such owner is a resident, or in the Court of Claims, within six years after the cause of action arises. Any period during which the United States Government is in possession of a written claim under subsection (b) of this section before mailing a notice of denial of that claim does not count in computing the six years. In any such suit, the United States Government may plead any defense that may be pleaded by a private person in such an action. The last paragraph of section 1498(a) of title 28 of the United States Code shall apply to inventions and information covered by this section.

(b) Before suit against the United States Government has been instituted, the head of the agency of the United States Government concerned may settle and pay any claim arising under the circumstances described in subsection (a) of this section. No claim may be paid under this subsection unless the amount tendered is accepted by the claimant in full satisfaction.

(c) Funds appropriated pursuant to this Act shall not be expended by the United States Government for the acquisition of any drug product or pharmaceutical product manufactured outside the United States if the manufacture of such drug product or pharmaceutical product in the United States would involve the use of, or be covered by, an unexpired patent of the United States which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, unless such manufacture is expressly authorized by the owner of such patent.

SEC. 607. FURNISHING OF SERVICES AND COMMODITIES.—Whenever the President determines it to be consistent with and in furtherance of the purposes of part I and within the limitations of this Act, any agency of the United States Government is authorized to furnish services and commodities on an advance-of-funds or reimbursement basis to friendly countries, international organizations, the American Red

Cross, and voluntary nonprofit relief agencies registered with and approved by the Advisory Committee on Voluntary Foreign Aid. Such advances or reimbursements which are received under this section within one hundred and eighty days after the close of the fiscal year in which such services and commodities are delivered, may be credited to the current applicable appropriation, account, or fund of the agency concerned and shall be available for the purposes for which such appropriation, account, or fund is authorized to be used.

SEC. 608. ADVANCE ACQUISITION OF PROPERTY.—(a) The President is authorized to maintain in a separate account, which shall, notwithstanding section 1210 of the General Appropriation Act, 1951 (64 Stat. 765), be free from fiscal year limitations, $5,000,000 of funds made available under section 212, which may be used to pay costs of acquisition, storage, renovation and rehabilitation, packing, crating, handling, transportation, and related costs of property classified as domestic or foreign excess property pursuant to the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471 et seq.), or other property, in advance of known requirements therefor for use in furtherance of the purposes of part I: *Provided*, That the amount of property classified as domestic excess property pursuant to the Federal Property and Administrative Services Act of 1949, as amended, held at any one time pursuant to this section shall not exceed $15,000,000 in total original acquisition cost. Property acquired pursuant to the preceding sentence may be furnished (1) pursuant to any provision of part I for which funds are authorized for the furnishing of assistance, in which case the separate account established pursuant to this section shall be repaid from funds made available for such provision for all costs incurred, or (2) pursuant to section 607, in which case such separate account shall be repaid in accordance with the provisions of that section for all costs incurred.

(b) Property classified as domestic excess property under the Federal Property and Administrative Services Act of 1949, as amended, shall not be transferred to the agency primarily responsible for administering part I for use pursuant to the provisions of part I or section 607 unless (1) such property is transferred for use exclusively by an agency of the United States Government, or (2) it has been determined in the same manner as provided for surplus property in section 203(j) of the Federal Property and Administrative Services Act of 1949, as amended, that such property is not needed for donation pursuant to that subsection. The foregoing restrictions shall not apply to the transfer in any fiscal year for use pursuant to the provisions of part I of amounts of such property with a total original acquisition cost to the United States Government not exceeding $45,000,000.

SEC. 609. SPECIAL ACCOUNT.—(a) In cases where any commodity is to be furnished on a grant basis under chapter 4 of part I under arrangements which will result in the accrual of proceeds to the recipient country from the sale thereof, the President shall require the recipient country to establish a Special Account, and

(1) deposit in the Special Account, under such terms and conditions as may be agreed upon, currency of the recipient country in amounts equal to such proceeds;

(2) make available to the United States Government such portion of the Special Account as may be determined by the Presi-

dent to be necessary for the requirements of the United States Government: *Provided*, That such portion shall not be less than 10 per centum in the case of any country to which such minimum requirement has been applicable under any Act repealed by this Act; and

(3) utilize the remainder of the Special Account for programs agreed to by the United States Government to carry out the purposes for which new funds authorized by this Act would themselves be available: *Provided*, That whenever funds from such Special Account are used by a country to make loans, all funds received in repayment of such loans prior to termination of assistance to such country shall be reused only for such purposes as shall have been agreed to between the country and the United States Government.

(b) Any unencumbered balances of funds which remain in the Account upon termination of assistance to such country under this Act shall be disposed of for such purposes as may, subject to approval by Act of the Congress, be agreed to between such country and the United States Government.

SEC. 610. TRANSFER BETWEEN ACCOUNTS.—(a) Whenever the President determines it to be necessary for the purposes of this Act, not to exceed 10 per centum of the funds made available for any provision of this Act may be transferred to, and consolidated with, the funds made available for any other provision of this Act, and may be used for any of the purposes for which such funds may be used, except that the total in the provision for the benefit of which the transfer is made shall not be increased by more than 20 per centum of the amount of funds made available for such provision.

(b) The authority contained in this section and in sections 451, 510, and 614 shall not be used to augment appropriations made available pursuant to sections 636(g)(1) and 637 or used otherwise to finance activities which normally would be financed from appropriations for administrative expenses.

SEC. 611. COMPLETION OF PLANS AND COST ESTIMATES.—(a) No agreement or grant which constitutes an obligation of the United States Government in excess of $100,000 under section 1311 of the Supplemental Appropriation Act, 1955, as amended (31 U.S.C. 200), shall be made for any assistance authorized under titles I, II, and VI of chapter 2 and chapter 4 of part I—

(1) if such agreement or grant requires substantive technical or financial planning, until engineering, financial, and other plans necessary to carry out such assistance, and a reasonably firm estimate of the cost to the United States Government of providing such assistance, have been completed; and

(2) if such agreement or grant requires legislative action within the recipient country, unless such legislative action may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purposes of such agreement or grant.

(b) Plans required under subsection (a) of this section for any water or related land resource construction project or program shall include a computation of benefits and costs made insofar as practicable in accordance with the procedures set forth in the Memoran-

dum of the President dated May 15, 1962, with respect to such computations.

(c) To the maximum extent practicable, all contracts for construction outside the United States made in connection with any agreement or grant subject to subsection (a) of this section shall be made on a competitive basis.

(d) Subsection (a) of this section shall not apply to any assistance furnished for the sole purpose of preparation of engineering, financial, and other plans.

SEC. 612. USE OF FOREIGN CURRENCIES.—(a) Except as otherwise provided in this Act or other Acts, foreign currencies received either (1) as a result of the furnishing of nonmilitary assistance under the Mutual Security Act of 1954, as amended, or any Act repealed thereby, and unobligated on the date prior to the effective date of this Act, or (2) on or after the effective date of this Act, as a result of the furnishing of nonmilitary assistance under the Mutual Security Act of 1954, as amended, or any Act repealed thereby, or (3) as a result of the furnishing of assistance under part I, which are in excess of amounts reserved under authority of section 105(d) of the Mutual Educational and Cultural Exchange Act of 1961 or any other Act relating to educational and cultural exchanges, may be sold by the Secretary of the Treasury to agencies of the United States Government for payment of their obligations outside the United States, and the United States dollars received as reimbursement shall be deposited into miscellaneous receipts of the Treasury. Foreign currencies so received which are in excess of the amounts so reserved and of the requirements of the United States Government in payment of its obligations outside the United States, as such requirements may be determined from time to time by the President, shall be available for the authorized purposes of part I in such amounts as may be specified from time to time in appropriation Acts.

(b) Any Act of Congress making appropriations to carry out programs under this or any other Act for United States operations abroad is hereby authorized to provide for the utilization of United States-owned excess foreign currencies to carry out any such operations authorized by law.

As used in this subsection, the term "excess foreign currencies" means foreign currencies or credits owned by or owed to the United States which are, under applicable agreements with the foreign country concerned, available for the use of the United States Government and are determined by the President to be excess to the normal requirements of departments and agencies of the United States for such currencies or credits and are not prohibited from use under this subsection by an agreement entered into with the foreign country concerned.

The President shall take all appropriate steps to assure that, to the maximum extent possible, United States-owned foreign currencies are utilized in lieu of dollars. Dollar funds made available pursuant to this Act shall not be expended for goods and services when United States-owned foreign currencies are available for such purposes unless the administrative official approving the voucher certifies as to the reason for the use of dollars in each case.

SEC. 613. ACCOUNTING, VALUATION, REPORTING, AND ADMINISTRATION OF FOREIGN CURRENCIES.—(a) Under the direction of the Presi-

dent, the Secretary of the Treasury shall have responsibility for valuation and central accounting with respect to foreign credits (including currencies) owed to or owned by the United States. In order to carry out such responsibility the Secretary shall issue regulations binding upon all agencies of the Government.

(b) The Secretary of the Treasury shall have sole authority to establish for all foreign currencies or credits the exchange rates at which such currencies are to be reported by all agencies of the Government.

(c) Each agency or department shall report to the Secretary of the Treasury an inventory as of June 30, 1961, showing the amount of all foreign currencies acquired without payment of dollars on hand of each of the respective countries, and the Secretary of the Treasury shall consolidate these reports as of the same date and submit to the Congress this consolidated report broken down by agencies, by countries, by units of foreign currencies and their dollar equivalent. Thereafter, semiannually, similar reports are to be submitted by the agencies to the Treasury Department and then presented to the Congress by the Secretary of the Treasury.

(d) In cases where assistance is to be furnished to any recipient country in furtherance of the purposes of this or any other Act on a basis which will result in the accrual of foreign currency proceeds to the United States, the Secretary of the Treasury shall issue regulations requiring that agreements, in respect of such assistance, include provisions for the receipt of interest income on the foreign currency proceeds deposited in authorized depositaries: *Provided*, That whenever the Secretary of State determines it not to be in the national interest to conclude arrangements for the receipt of interest income he may waive the requirement thereof: *Provided further*, That the Secretary of State, or his delegate, shall promptly make a complete report to the Congress on each such determination and the reasons therefor.

SEC. 614. SPECIAL AUTHORITIES.—(a) The President may authorize in each fiscal year the use of funds made available for use under this Act and the furnishing of assistance under section 510 in a total amount not to exceed $250,000,000 and the use of not to exceed $100,000,000 for foreign currencies accruing under this Act or any other law, without regard to the requirements of this Act, any law relating to receipts and credits accruing to the United States, any Act appropriating funds for use under this Act, or the Mutual Defense Assistance Control Act of 1951 (22 U.S.C. 1611 et seq.), in furtherance of any of the purposes of such Acts, when the President determines that such authorization is important to the security of the United States. Not more than $50,000,000 of the funds available under this subsection may be allocated to any one country in any fiscal year.

(b) Whenever the President determines it to be important to the national interest, he may use funds available for the purposes of chapter 4 of part I in order to meet the responsibilities or objectives of the United States in Germany, including West Berlin, and without regard to such provisions of law as he determines should be disregarded to achieve this purpose.

(c) The President is authorized to use amounts not to exceed $50,000,000 of the funds made available under this Act pursuant to his certification that it is inadvisable to specify the nature of the use of such funds, which certification shall be deemed to be a sufficient voucher for such amounts.

SEC. 615. CONTRACT AUTHORITY.—Provisions of the Act authorizing the appropriation of funds shall be construed to authorize the granting in any appropriation Act of authority to enter into contracts, within the amounts so authorized to be appropriated, creating obligations in advance of appropriations.

SEC. 616. AVAILABILITY OF FUNDS.—Except as otherwise provided in this Act, funds shall be available to carry out the provisions of this Act as authorized and appropriated to the President each fiscal year.

SEC. 617. TERMINATION OF ASSISTANCE.—Assistance under any provision of this Act may, unless sooner terminated by the President, be terminated by concurrent resolution. Funds made available under this Act shall remain available for a period not to exceed twelve months from the date of termination of assistance under this Act for the necessary expenses of winding up programs related thereto.

SEC. 618. USE OF SETTLEMENT RECEIPTS.—United States dollars directly paid to the United States under the Agreement Between the United States of America and Japan Regarding the Settlement of Postwar Economic Assistance to Japan may be appropriated or otherwise made available to the President in any appropriation Act, within the limitations of part I of this Act, to carry out the provisions of that part.

SEC. 619. ASSISTANCE TO NEWLY INDEPENDENT COUNTRIES.—Assistance under part I of this Act to newly independent countries shall, to the maximum extent appropriate in the circumstances of each case, be furnished through multilateral organizations or in accordance with multilateral plans, on a fair and equitable basis with due regard to self-help.

SEC. 620. PROHIBITIONS AGAINST FURNISHING ASSISTANCE.—(a) (1) No assistance shall be furnished under this Act to the present government of Cuba; nor shall any such assistance be furnished to any country which furnishes assistance to the present government of Cuba unless the President determines that such assistance is in the national interest of the United States. As an additional means of implementing and carrying into effect the policy of the preceding sentence, the President is authorized to establish and maintain a total embargo upon all trade between the United States and Cuba.

(2) Except as may be deemed necessary by the President in the interest of the United States, no assistance shall be furnished under this Act to any government of Cuba, nor shall Cuba be entitled to receive any quota authorizing the importation of Cuban sugar into the United States or to receive any other benefit under any law of the United States, until the President determines that such government has taken appropriate steps according to international law standards to return to United States citizens, and to entities not less than 50 per centum beneficially owned by United States citizens, or to provide equitable compensation to such citizens and entities for property taken from such citizens and entities on or after January 1, 1959, by the Government of Cuba.

(3) No funds authorized to be made available under this Act (except under section 214) shall be used to furnish assistance to any country which has failed to take appropriate steps, not later than 60 days after the date of enactment of the Foreign Assistance Act of 1963—

(A) to prevent ships or aircraft under its registry from transporting to Cuba (other than to United States installations in Cuba)—

(i) any items of economic assistance.

(ii) any items which are, for the purposes of title I of the Mutual Defense Assistance Control Act of 1951, as amended, arms, ammunition and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, or items of primary strategic significance used in the production of arms, ammunition, and implements of war, or

(iii) any other equipment, materials, or commodities, so long as Cuba is governed by the Castro regime; and

(B) to prevent ships or aircraft under its registry from transporting any equipment, materials, or commodities from Cuba (other than from United States installations in Cuba) so long as Cuba is governed by the Castro regime.

(b) No assistance shall be furnished under this Act to the government of any country unless the President determines that such country is not dominated or controlled by the international Communist movement.

(c) No assistance shall be provided under this Act to the government of any country which is indebted to any United States citizen or person for goods or services furnished or ordered where (i) such citizen or person has exhausted available legal remedies, which shall include arbitration, or (ii) the debt is not denied or contested by such government, or (iii) such indebtedness arises under an unconditional guaranty of payment given by such government, or any predecessor government, directly or indirectly, through any controlled entity: *Provided*, That the President does not find such action contrary to the national security.

(d) No assistance shall be furnished under section 201 of this Act for construction or operation of any productive enterprise in any country where such enterprise will compete with United States enterprise unless such country has agreed that it will establish appropriate procedures to prevent the exportation for use or consumption in the United States of more than twenty per centum of the annual production of such facility during the life of the loan. In case of failure to implement such agreement by the other contracting party, the President is authorized to establish necessary import controls to effectuate the agreement. The restrictions imposed by or pursuant to this subsection may be waived by the President where he determines that such waiver is in the national security interest.

(e) (1) The President shall suspend assistance to the government of any country to which assistance is provided under this or any other Act when the government of such country or any government agency or subdivision within such country on or after January 1, 1962—

(A) has nationalized or expropriated or seized ownership or control of property owned by any United States citizen or by any corporation, partnership, or association not less than 50 per centum beneficially owned by United States citizens, or

(B) has taken steps to repudiate or nullify existing contracts or agreements with any United States citizen or any corporation,

partnership, or association not less than 50 per centum beneficially owned by United States citizens, or

(C) has imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operational conditions, or has taken other actions, which have the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property so owned,

and such country, government agency, or government subdivision fails within a reasonable time (not more than six months after such action, or, in the event of a referral to the Foreign Claims Settlement Commission of the United States within such period as provided herein, not more than twenty days after the report of the Commission is received) to take appropriate steps, which may include arbitration, to discharge its obligations under international law toward such citizen or entity, including speedy compensation for such property in convertible foreign exchange, equivalent to the full value thereof, as required by international law, or fails to take steps designed to provide relief from such taxes, exactions, or conditions, as the case may be; and such suspension shall continue until the President is satisfied that appropriate steps are being taken, and no other provision of this Act shall be construed to authorize the President to waive the provisions of this subsection.

Upon request of the President (within seventy days after such action referred to in subparagraphs (A), (B), or (C) of paragraph (1) of this subsection), the Foreign Claims Settlement Commission of the United States (established pursuant to Reorganization Plan No. 1 of 1954, 68 Stat. 1279) is hereby authorized to evaluate expropriated property, determining the full value of any property nationalized, expropriated, or seized, or subject to discriminatory or other actions as aforesaid, for purposes of this subsection and to render an advisory report to the President within ninety days after such request. Unless authorized by the President, the Commission shall not publish its advisory report except to the citizen or entity owning such property. There is hereby authorized to be appropriated such amount, to remain available until expended, as may be necessary from time to time to enable the Commission to carry out expeditiously its functions under this subsection.

(2) Notwithstanding any other provision of law, no court in the United States shall decline on the ground of the federal act of state doctrine to make a determination on the merits giving effect to the principles of international law in a case in which a claim or title or other right to property is asserted by any party including a foreign state (or a party claiming through such state) based upon (or traced through) a confiscation or other taking after January 1, 1959, by an act of that state in violation of the principles of international law, including the principles of compensation and the other standards set out in this subsection: *Provided*, That this subparagraph shall not be applicable (1) in any case in which an act of a foreign state is not contrary to international law or with respect to a claim of title or other right to property acquired pursuant to an irrevocable letter of credit of not more than 180 days duration issued in good faith prior to the time of the confiscation or other taking, or (2) in any case with respect to which the President determines that application

of the act of state doctrine is required in that particular case by the foreign policy interests of the United States and a suggestion to this effect is filed on his behalf in that case with the court.

(f) No assistance shall be furnished under this Act, as amended (except section 214(b)), to any Communist country. This restriction may not be waived pursuant to any authority contained in this Act unless the President finds and promptly reports to Congress that: (1) such assistance is vital to the security of the United States; (2) the recipient country is not controlled by the international Communist conspiracy; and (3) such assistance will further promote the independence of the recipient country from international communism. For the purposes of this subsection, the phrase "Communist country" shall include specifically, but not be limited to, the following countries:

Peoples Republic of Albania,
Peoples Republic of Bulgaria,
Peoples Republic of China,
Czechoslovak Socialist Republic,
German Democratic Republic (East Germany),
Estonia,
Hungarian Peoples Republic,
Latvia,
Lithuania,
North Korean Peoples Republic,
North Vietnam,
Outer Mongolia-Mongolian Peoples Republic,
Polish Peoples Republic,
Rumanian Peoples Republic,
Tibet,
Federal Peoples Republic of Yugoslavia,
Cuba, and
Union of Soviet Socialist Republics (including its captive constituent republics).

(g) Notwithstanding any other provision of law, no monetary assistance shall be made available under this Act to any government or political subdivision or agency of such government which will be used to compensate owners for expropriated or nationalized property and, upon finding by the President that such assistance has been used by any government for such purpose, no further assistance under this Act shall be furnished to such government until appropriate reimbursement is made to the United States for sums so diverted.

(h) The President shall adopt regulations and establish procedures to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

(i) No assistance shall be provided under this or any other Act, and no sales shall be made under the Agricultural Trade Development and Assistance Act of 1954, to any country which the President determines is engaging in or preparing for aggressive military efforts directed against—

(1) the United States,

(2) any country receiving assistance under this or any other Act, or

(3) any country to which sales are made under the Agricultural Trade Development and Assistance Act of 1954,

until the President determines that such military efforts or preparations have ceased and he reports to the Congress that he has received assurances satisfactory to him that such military efforts or preparations will not be renewed. This restriction may not be waived pursuant to any authority contained in this Act.

(j) No assistance under this Act shall be furnished to Indonesia unless the President determines that the furnishing of such assistance is essential to the national interest of the United States. The President shall keep the Foreign Relations Committee and the Appropriations Committee of the Senate and the Speaker of the House of Representatives fully and currently informed of any assistance furnished to Indonesia under this Act.

(k) Until the enactment of the Foreign Assistance Act of 1965 or other general legislation, during the calendar year 1965, authorizing additional appropriations to carry out programs of assistance under this Act, no assistance shall be furnished under this Act to any country for construction of any productive enterprise with respect to which the aggregate value of such assistance to be furnished by the United States will exceed $100,000,000. No other provision of this Act shall be construed to authorize the President to waive the provisions of this subsection.

(l) No assistance shall be provided under this Act after December 31, 1966, to the government of any less developed country which has failed to enter into an agreement with the President to institute the investment guaranty program under section 221(b)(1) of this Act, providing protection against the specific risks of inconvertibility under subparagraph (A), and expropriation or confiscation under subparagraph (B), of such section 221(b)(1).

(m) No assistance shall be furnished on a grant based under this Act to any economically developed nation capable of sustaining its own defense burden and economic growth, except (1) to fulfill firm commitments made prior to July 1, 1963, or (2) additional orientation and training expenses under part II hereof during each fiscal year in an amount not to exceed $500,000.

(n) In view of the aggression of North Vietnam, the President shall consider denying assistance under this Act to any country which has failed to take appropriate steps, not later than sixty days after the date of enactment of the Foreign Assistance Act of 1965—

(A) to prevent ships or aircraft under its registry from transporting to North Vietnam—

(i) any items of economic assistance,

(ii) any items which are, for the purposes of title I of the Mutual Defense Assistance Control Act of 1951, as amended, arms, ammunition and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, or items of primary strategic significance used in the production of arms, ammunition, and implements of war, or

(iii) any other equipment, materials, or commodities; and

(B) to prevent ships or aircraft under its registry from transporting any equipment, materials, or commodities from North Vietnam.

(o) In determining whether or not to furnish assistance under this Act, consideration shall be given to excluding from such assistance any

country which hereafter seizes, or imposes any penalty or sanction against, any United States fishing vessel on account of its fishing activities in international waters. The provisions of this subsection shall not be applicable in any case governed by international agreement to which the United States is a party.

CHAPTER 2—ADMINISTRATIVE PROVISIONS

SEC. 621. EXERCISE OF FUNCTIONS.—The President may exercise any functions conferred upon him by this Act through such agency or officer of the United States Government as he shall direct. The head of any such agency or such officer may from time to time promulgate such rules and regulations as may be necessary to carry out such functions, and may delegate authority to perform any such functions, including, if he shall so specify, the authority successively to redelegate any of such functions to any of his subordinates. In providing technical assistance under this Act, the head of any such agency or such officer shall utilize, to the fullest extent practicable, goods and professional and other services from private enterprise on a contract basis. In such fields as education, health, housing, or agriculture, the facilities and resources of other Federal agencies shall be utilized when such facilities are particularly or uniquely suitable for technical assistance, are not competitive with private enterprise, and can be made available without interfering unduly with domestic programs.

SEC. 622. COORDINATION WITH FOREIGN POLICY.—(a) Nothing contained in this Act shall be construed to infringe upon the powers or functions of the Secretary of State.

(b) The President shall prescribe appropriate procedures to assure coordination among representatives of the United States Government in each country, under the leadership of the Chief of the United States Diplomatic Mission. The Chief of the diplomatic mission shall make sure that recommendations of such representatives pertaining to military assistance (including any civic action and sales program) are coordinated with political and economic considerations, and his comments shall accompany such recommendations if he so desires.

(c) Under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of the assistance programs authorized by this Act, including but not limited to determining whether there shall be a military assistance program (including any civic action and sales program) for a country and the value thereof, to the end that such programs are effectively integrated both at home and abroad and the foreign policy of the United States is best served thereby.

SEC. 623. THE SECRETARY OF DEFENSE.—(a) In the case of assistance under part II of this Act, the Secretary of Defense shall have primary responsibility for—

(1) the determination of military end-item requirements;

(2) the procurement of military equipment in a manner which permits its integration with service programs;

(3) the supervision of end-item use by the recipient countries;

(4) the supervision of the training of foreign military personnel;

(5) the movement and delivery of military end-items; and

(6) within the Department of Defense, the performance of any other functions with respect to the furnishing of military assistance.

(b) The establishment of priorities in the procurement, delivery, and allocation of military equipment shall be determined by the Secretary of Defense.

SEC. 624. STATUTORY OFFICERS.—(a) The President may appoint, by and with the advice and consent of the Senate, twelve officers in the agency primarily responsible for administering part I, * * * [Repealed—1964]

(1) * * * [Repealed—1964]
(2) * * * [Repealed—1964]
(3) * * * [Repealed—1964] and in the selection of one of such persons due consideration shall be given to persons qualified as professional engineers.

(b) Within the limitations established by subsection (a) of this section, the President may fix the rate of compensation, and may designate the title of, any officer appointed pursuant to the authority contained in that subsection. The President may also fix the order of succession among the officers provided for in subsection (a) of this section in the event of the absence, death, resignation, or disability of one or more of said officers.

(c) Any person who was appointed by and with the advice and consent of the Senate, to any statutory position authorized by any provision of law repealed by section 642(a) and who is serving in one of such positions at the time of transfer of functions pursuant to subsections (c) and (d) of section 621, may be appointed by the President to a comparable position authorized by subsection (a) of this section on the date of the establishment of the agency primarily responsible for administering part I, without further action by the Senate.

(d)(1) In addition to the officers provided for in subsection (a) of this section, there shall be in the Department of State an officer with the title of "Inspector General, Foreign Assistance," who shall be appointed by the President, by and with the advice and consent of the Senate. In addition, there shall be one Deputy Inspector General, Foreign Assistance, who shall be appointed by the President by and with the advice and consent of the Senate, and two Assistant Inspector Generals, Foreign Assistance, who shall be appointed by the President, and such other personnel as may be required to carry out the functions vested in the Inspector General, Foreign Assistance, by this subsection. Notwithstanding any other provisions of law, such of the personnel employed under the authority of section 533A of the Mutual Security Act of 1954, as amended, as the Inspector General, Foreign Assistance, may designate, and such of the property, records, and funds of the office established by such section 533A as the Inspector General, Foreign Assistance, may deem necessary, may be transferred to the office of the Inspector General, Foreign Assistance.

(2) The Inspector General, Foreign Assistance, shall report directly to the Secretary of State and shall have the following duties and responsibilities:

(A) He shall arrange for, direct or conduct such reviews, inspections and audits of programs being conducted under part I of this Act and of the Peace Corps, and programs being conducted

by the United States Government agencies under the Latin American Development Act, as amended, as he considers necessary for the purpose of ascertaining the efficiency and the economy of their administration, their consonance with the foreign policy of the United States, and the attainment of their objectives.

(B) For the purpose of ascertaining the extent to which programs of assistance being carried out under part II of this Act and the Agricultural Trade Development and Assistance Act of 1954, as amended, are in consonance with the foreign policy of the United States, are aiding in the attainment of the objectives of this Act, and are being carried out consistently with the responsibilities with respect thereto of the respective United States chiefs of missions and of the Secretary of State, as well as the efficiency and the economy with which such responsibilities are discharged, he shall arrange for, direct or conduct such reviews, inspections and audits of programs of assistance under part II of this Act and the Agricultural Trade Development and Assistance Act of 1954, as amended, as he considers necessary.

(3) The Inspector General, Foreign Assistance, shall maintain continuous observation and review of programs with respect to which he has responsibilities under paragraph (2) of this subsection for the purpose of—

(A) determining the extent to which such programs are in compliance with applicable laws and regulations;

(B) making recommendations for the correction of deficiencies in, or for improving the organization, plans or procedures of, such programs; and

(C) evaluating the effectiveness of such programs in attaining United States foreign policy objectives and reporting to the Secretary of State with respect thereto.

(4) In order to eliminate duplication and to assure full utilization of existing data, the Inspector General, Foreign Assistance, shall, in carrying out his duties under this Act, give due regard to the audit, investigative and inspection activities of the various agencies, including those of the General Accounting Office and of the military Inspectors General.

(5) For the purpose of aiding in carrying out his duties under this Act, the Inspector General, Foreign Assistance, shall have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material of the agencies of the United States Government administering part I or II of this Act, and the Latin American Development Act, as amended, the Peace Corps or the Agricultural Trade Development and Assistance Act of 1954, as amended. All agencies of the United States Government shall cooperate with the Inspector General, Foreign Assistance, and shall furnish assistance upon request to the Inspector General, Foreign Assistance, in aid of his responsibilities.

(6) The Inspector General, Foreign Assistance, shall have authority to suspend all or any part of any project or operation (but not a country program) with respect to which he has conducted or is conducting an inspection, audit or review provided he first has given written notice to the Secretary of State. Any such suspension shall remain effective until such program or part thereof is ordered re-

sumed by the Inspector General, Foreign Assistance, or by the Secretary of State. This paragraph shall not apply to part II of this Act, and with respect to the Agricultural Trade Development and Assistance Act of 1954, as amended, shall apply only to projects and operations administered by the Secretary of State.

(7) Expenses of the Inspector General, Foreign Assistance, with respect to programs under part I or II of this Act, and the Latin American Development Act, as amended, and the Peace Corps shall be charged to the appropriations made to carry out such programs, and with respect to programs under the Agricultural Trade Development and Assistance Act of 1954, as amended, shall be charged to funds available under the authority of this Act: *Provided*, That such appropriations shall not be charged with such expenses after the expiration of a thirty-five day period which begins on the date the General Accounting Office, or any committee of the Congress, or any duly authorized subcommittee thereof, charged with considering legislation, appropriations, or expenditures under the Act, has delivered to the Office of the Secretary of State a written request that it be furnished any document, paper, communication, audit, review, finding, recommendation, report, or other material which relates to the operation or activities of the Inspector General, Foreign Assistance, unless and until there has been furnished to the General Accounting Office, or to such committee, or subcommittee, as the case may be, (A) the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested, or (B) a certification by the President personally that he has forbidden the furnishing thereof pursuant to such request and his reason for so doing. The waiver authority in section 614(a) of this Act and the provisions of section 634(c) of this Act shall not apply to this subsection. Such expenses shall not exceed $2,000,000 in any fiscal year. The Inspector General, Foreign Assistance, may make expenditures (not in excess of $2,000 in any fiscal year) of a confidential nature when he finds that such expenditures are in aid of inspections, audits or reviews under this subsection. A certificate of the amount of each such expenditure, the nature of which it is considered inadvisable to specify, shall be made by the Inspector General, Foreign Assistance, and every such certificate shall be deemed a sufficient voucher for the amount therein specified.

SEC. 625. EMPLOYMENT OF PERSONNEL.—(a) Any agency or officer of the United States Government carrying out functions under this Act is authorized to employ such personnel as the President deems necessary to carry out the provisions and purposes of this Act.

(b) Of the personnel employed in the United States to carry out part I or coordinate part I and part II, not to exceed one hundred and ten may be appointed, compensated or removed without regard to the provisions of any law, of whom not to exceed fifty-one may be compensated at rates higher than those provided for grade 15 of the general schedule established by the Classification Act of 1949, as amended (5 U.S.C. 1071 et seq.), but not in excess of the highest rate of grade 18 of such general schedule: *Provided*, That, under such regulations as the President shall prescribe, officers and employees of the United States Government who are appointed to any of the above positions may be entitled, upon removal from such position, to rein-

statement to the position occupied at the time of appointment or to a position of comparable grade and salary. Such positions shall be in addition to those authorized by law to be filled by Presidential appointment, and in addition to the number authorized by section 505 of the Classification Act of 1949, as amended.

(c) Of the personnel employed in the United States to carry out part II, not to exceed eight may be compensated at rates higher than those provided for grade 15 of the general schedule established by the Classification Act of 1949, as amended, but not in excess of the highest rate of grade 18 of such general schedule. Such positions shall be in addition to those authorized by law to be filled by Presidential appointment, and in addition to the number authorized by section 505 of the Classification Act of 1949, as amended.

(d) For the purpose of performing functions under this Act outside the United States the President may—

(1) employ or assign persons, or authorize the employment or assignment of officers or employees by agencies of the United States Government, who shall receive compensation at any of the rates provided for the Foreign Service Reserve and Staff by the Foreign Service Act of 1946, as amended (22 U.S.C. 801 et seq.), together with allowances and benefits thereunder; and persons so employed or assigned shall be entitled, except to the extent that the President may specify otherwise in cases in which the period of employment or assignment exceeds thirty months, to the same benefits as are provided by section 528 of that Act for persons appointed to the Foreign Service Reserve, and the provisions of section 1005 of that Act shall apply in the case of such persons, except that policymaking officials shall not be subject to that part of section 1005 of that Act which prohibits political tests; and

(2) utilize such authority, including authority to appoint and assign personnel for the duration of operations under this Act, contained in the Foreign Service Act of 1946, as amended, as the President deems necessary to carry out functions under this Act; and such provisions of the Foreign Service Act of 1946, as amended, as the President deems appropriate shall apply to personnel appointed or assigned under this paragraph, including in all cases the provisions of section 528 of that Act: *Provided, however*, That the President may by regulation make exceptions to the application of section 528 in cases in which the period of the appointment or assignment exceeds thirty months: *Provided further*, That Foreign Service Reserve officers appointed or assigned pursuant to this paragraph shall receive within-class salary increases in accordance with such regulations as the President may be prescribe: *Provided further*, That, whenever the President determines it to be important for the purposes of this Act, the President may initially assign personnel under this paragraph for duty within the United States for a period not to exceed two years for the purpose of preparation for assignment outside the United States; however, the authority contained in this proviso may not be exercised with respect to the assignment to such duty of more than forty persons at any one time.

(e) The President is authorized to prescribe by regulation standards or other criteria for maintaining adequate performance levels for personnel appointed or assigned pursuant to paragraph (2) of subsection (d) of this section and section 527(c)(2) of the Mutual Security Act of 1954, as amended, and may, notwithstanding any other law, but subject to an appropriate administrative appeal, separate employees who fail to meet such standards or other criteria, and also may grant such personnel severance benefits of one month's salary for each year's service, but not to exceed one year's salary at the then current salary rate of such personnel.

(f) Funds provided for in agreements with foreign countries for the furnishing of services under this Act with respect to specific projects shall be deemed to be obligated for the services of personnel employed by agencies of the United States Government (other than the agencies primarily responsible for administering part I or part II of this Act) as well as personnel not employed by the United States Government.

(g) The principles regarding foreign language competence set forth in section 578 of the Foreign Service Act of 1946, as amended (22 U.S.C. 801), shall be applicable to personnel carrying out functions under this Act and the Secretary of State shall make appropriate designations and standards for such personnel.

(h) Notwithstanding any other provision of law, officers and employees of the United States Government performing functions under this Act shall not accept from any foreign country any compensation or other benefits. Arrangements may be made by the President with such countries for reimbursement to the United States Government or other sharing of the cost of performing such functions.

(i) To the maximum extent practicable officers and employees performing functions under this Act abroad shall be assigned to countries and positions for which they have special competence, such as appropriate language and practical experience.

(j) The President may appoint or assign a United States citizen to be representative of the United States to the Inter-American Committee on the Alliance for Progress and, in his discretion, may terminate such appointment or assignment, notwithstanding any other provision of law. Such person may be compensated at a rate not to exceed that authorized for a chief of mission, class 2, within the meaning of the Foreign Service Act of 1946, as amended.

SEC. 626. EXPERTS, CONSULTANTS, AND RETIRED OFFICERS.—(a) Experts and consultants or organizations thereof may, as authorized by section 15 of the Act of August 2, 1946, as amended (5 U.S.C. 55a), be employed for the performance of functions under this Act, and individuals so employed may be compensated at rates not in excess of $100 per diem, and while away from their homes or regular places of business, they may be paid actual travel expenses and per diem in lieu of subsistence at the applicable rate prescribed in the standardized Government travel regulations, as amended from time to time. Contracts for such employment with such organizations, employment of personnel as experts and consultants, not to exceed ten in number, contracts for such employment of retired military personnel with specialized research and development experience, not to exceed ten in number, and contracts for such employment of retired military personnel with

specialized experience of a broad politico-military nature, not to exceed five in number, may be renewed annually.

(b) Service of an individual as an expert or consultant under subsection (a) of this section shall not be considered as employment or holding of office or position bringing such individual within the provisions of section 13 of the Civil Service Retirement Act, as amended (5 U.S.C. 2263), section 872 of the Foreign Service Act of 1946, as amended, or any other law limiting the reemployment of retired officers or employees or governing the simultaneous receipt of compensation and retired pay or annuities, subject to section 201 of the Dual Compensation Act.

(c) Persons of outstanding experience and ability may be employed without compensation by any agency of the United States Government for the performance of functions under this Act in accordance with the provisions of section 710(b) of the Defense Production Act of 1950, as amended (50 U.S.C. App. 2160(b)), and regulations issued thereunder.

SEC. 627. DETAIL OF PERSONNEL TO FOREIGN GOVERNMENT.—Whenever the President determines it to be in furtherance of the purposes of this Act, the head of any agency of the United States Government is authorized to detail or assign any officer or employee of his agency to any office or position with any foreign government or foreign government agency, where acceptance of such office or position does not involve the taking of an oath of allegiance to another government or the acceptance of compensation or other benefits from any foreign country by such officer or employee.

SEC. 628. DETAIL OF PERSONNEL TO INTERNATIONAL ORGANIZATIONS.—Whenever the President determines it to be consistent with and in furtherance of the purposes of this Act, the head of any agency of the United States Government is authorized to detail, assign, or otherwise make available to any international organization any officer or employee of his agency to serve with, or as a member of, the international staff of such organization, or to render any technical, scientific, or professional advice or service to, or in cooperation with, such organization.

SEC. 629. STATUS OF PERSONNEL DETAILED.—(a) Any officer or employee, while assigned or detailed under section 627 or 628 of this Act, shall be considered, for the purpose of preserving his allowances, privileges, rights, seniority, and other benefits as such, an officer or employee of the United States Government and of the agency of the United States Government from which detailed or assigned and he shall continue to receive compensation, allowances, and benefits from funds appropriated to that agency or made available to that agency under this Act.

(b) Any officer or employee assigned, detailed, or appointed under section 627, 628, 631, or 624(d) of this Act is authorized to receive under such regulations as the President may prescribe, representation allowances similar to those allowed under section 901 of the Foreign Service Act of 1946, as amended (22 U.S.C. 1131). The authorization of such allowances and other benefits and the payment thereof out of any appropriations available therefor shall be considered as meeting all the requirements of section 1765 of the Revised Statutes (5 U.S.C. 70).

SEC. 630. TERMS OF DETAIL OR ASSIGNMENT.—Details or assignments may be made under section 627 or 628 of this Act or section 408 of the Mutual Security Act of 1954, as amended.

(1) without reimbursement to the United States Government by the foreign government or international organization;

(2) upon agreement by the foreign government or international organization, to reimburse the United States Government for compensation, travel expenses, benefits and allowances, or any part thereof, payable to the officer or employee concerned during the period of assignment or detail; and such reimbursements (including foreign currencies) shall be credited to the appropriation, fund, or account utilized for paying such compensation, travel expenses, benefits or allowances, or to the appropriation, fund, or account currently available for such purposes;

(3) upon an advance of funds, property, or services by the foreign government or international organization to the United States Government accepted with the approval of the President for specified uses in furtherance of the purposes of this Act; and funds so advanced may be established as a separate fund in the Treasury of the United States Government, to be available for the specified uses, and to be used for reimbursement of appropriations or direct expenditure subject to the provisions of this Act, any unexpended balance of such account to be returned to the foreign government or international organization; or

(4) subject to the receipt by the United States Government of a credit to be applied against the payment by the United States Government of its share of the expenses of the international organization to which the officer or employee is detailed or assigned, such credit to be based upon the compensation, travel expenses, benefits and allowances, or any part thereof, payable to such officer or employee during the period of detail or assignment in accordance with section 629.

SEC. 631. MISSIONS AND STAFFS ABROAD.—(a) The President may maintain special missions or staffs outside the United States in such countries and for such periods of time as may be necessary to carry out the purposes of this Act. Each such special mission or staff shall be under the direction of a chief.

(b) The chief and his deputy of each special mission or staff carrying out the purposes of part I shall be appointed by the President, and may, notwithstanding any other law, be removed by the President at his discretion. Such chief shall be entitled to receive (1) in cases approved by the President, the same compensation and allowances as a chief of mission, class 3, or a chief of mission, class 4, within the meaning of the Foreign Service Act of 1946, as amended, or (2) compensation and allowances in accordance with section 625(d), as the President shall determine to be appropriate.

(c) The President may appoint any United States citizen who is not an employee of the United States Government or may assign any United States citizen who is a United States Government employee to serve as Chairman of the Development Assistance Committee or any successor committee thereto of the Organization for Economic Cooperation and Development upon election thereto by members of said Committee, and, in his discretion, may terminate such appointment

or assignment, notwithstanding any other provision of law. Such person may receive such compensation and allowances as are authorized by the Foreign Service Act of 1946, as amended, not to exceed those authorized for a chief of mission, class 2, within the meaning of said Act, as the President may determine. Such person may also, in the President's discretion, receive any other benefits and perquisites available under this Act to chiefs of special missions or staffs outside the United States established under this section.

(d) Wherever practicable; especially in the case of the smaller programs, assistance under this Act shall be administered under the direction of the Chief of the United States Diplomatic Mission by the principal economic officer of the mission in the case of assistance under part I, and by the senior military officer of the mission in the case of assistance under part II.

SEC. 632. ALLOCATION AND REIMBURSEMENT AMONG AGENCIES.—(a) The President may allocate or transfer to any agency of the United States Government any part of any funds available for carrying out the purposes of this Act, including any advance to the United States Government by any country or international organization for the procurement of commodities, defense articles, or services (including defense services). Such funds shall be available for obligation and expenditure for the purposes for which authorized, in accordance with authority granted in this Act or under authority governing the activities of the agencies of the United States Government to which such funds are allocated or transferred.

(b) Any officer of the United States Government carrying out functions under this Act may utilize the services (including defense services) and facilities of, or procure commodities and defense articles from, any agency of the United States Government as the President shall direct, or with the consent of the head of such agency, and funds allocated pursuant to this subsection to any such agency may be established in separate appropriation accounts on the books of the Treasury.

(c) In the case of any commodity, service, or facility procured from any agency of the United States Government to carry out part I, reimbursement or payment shall be made to such agency from funds available to carry out such part. Such reimbursement or payment shall be at replacement cost, or, if required by law, at actual cost, or at any other price authorized by law and agreed to by the owning or disposing agency. The amount of any such reimbursement of payment shall be credited to current applicable appropriations, funds, or accounts, from which there may be procured replacements of similar commodities, services, or facilities, except that where such appropriations, funds, or accounts are not reimbursable except by reason of this subsection, and when the owning or disposing agency determines that such replacement is not necessary, any funds received in payment therefor shall be deposited into the Treasury as miscellaneous receipts.

(d) Except as otherwise provided in sections 507 and 510, reimbursement shall be made to any United States Government agency, from funds available for use under part II, for any assistance furnished under part II from, by, or through such agency. Such reimbursement shall be in an amount equal to the value (as defined in section 644(m)) of the defense articles or of the defense services (other than salaries of members of the Armed Forces of the United States), or other assist-

ance furnished, plus expenses arising from or incident to operations under part II. The amount of such reimbursement shall be credited to the current applicable appropriations, funds, or accounts of such agency.

(e) In furnishing assistance under this Act, accounts may be established on the books of any agency of the United Staes Government or, on terms and conditions approved by the Secretary of the Treasury, in banking institutions in the United States, (1) against which letters of commitment may be issued which shall constitute recordable obligations of the United States Government, and moneys due or to become due under such letters of commitment shall be assignable under the Assignment of Claims Act of 1940, as amended (second and third paragraphs of 31 U.S.C. 203 and 41 U.S.C. 15), and (2) from which disbursements may be made to, or withdrawals may be made by, recipient countries or agencies, organizations, or persons upon presentation of contracts, invoices, or other appropriate documentation. Expenditure of funds which have been made available through accounts so established shall be accounted for on standard documentation required for expenditure of funds of the United States Government: *Provided*, That such expenditures for commodities, defense articles, services (including defense services), or facilities procured outside the United States may be accounted for exclusively on such certification as may be prescribed in regulations approved by the Comptroller General of the United States.

(f) Credits made by the Export-Import Bank of Washington with funds allocated thereto under subsection (a) of this section or under section 522(a) of the Mutual Security Act of 1954, as amended, shall not be considered in determining whether the Bank has outstanding at any one time loans and guaranties to the extent of the limitation imposed by section 7 of the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635e).

(g) Any appropriation or account available to carry out provisions of part I may initially be charged in any fiscal year, within the limit of available funds, to finance expenses for which funds are available in other appropriations or accounts under part I: *Provided*, That as of the end of such fiscal year such expenses shall be finally charged to applicable appropriations or accounts with proper credit to the appropriations or accounts initially utilized for financing purposes: *Provided further*, That such final charge to applicable appropriations or accounts shall not be required in the case of expenses (other than those provided for under section 637(a)) incurred in furnishing assistance by the agency primarily responsible for administering part I where it is determined that the accounting costs of identifying the applicable appropriation or account to which such expenses should be charged would be disproportionate to the advantage to be gained.

SEC. 633. WAIVERS OR CERTAIN LAWS.—(a) Whenever the President determines it to be in furtherance of the purposes of this Act, the functions authorized under this Act may be performed without regard to such provisions of law (other than the Renegotiation Act of 1951, as amended (50 U.S.C. App. 1211 et seq.)), regulating the making, performance, amendment, or modification of contracts and the expenditure of funds of the United States Government as the President may specify.

(b) The functions authorized under part II may be performed without regard to such provisions as the President may specify of the joint resolution of November 4, 1939 (54 Stat. 4), as amended.

(c) Notwithstanding the provisions of sections 3544(b) and 8544(b) of title 10 of the United States Code, personnel of the Department of Defense may be assigned or detailed to any civil office to carry out this Act.

SEC. 634. REPORTS AND INFORMATION.—(a) The President shall, while funds made available for the purposes of this Act remain available for obligation, transmit to the Congress after the close of each fiscal year a report concerning operations in that fiscal year under this Act. Each such report shall include information on the operation of the investment guaranty program and on progress under the freedom of navigation and nondiscrimination declaration contained in section 102.

(b) The President shall, in the reports required by subsection (a) of this section, and in response to requests from Members of the Congress or inquiries from the public, make public all information concerning operations under this Act not deemed by him to be incompatible with the security of the United States. In the case of each loan made from the Development Loan Fund established pursuant to section 201(a) the President shall make public appropriate information about the loan, including information about the borrower, the nature of the activity being financed, and the economic development objectives being served by the loan.

(c) None of the funds made available pursuant to the provisions of this Act shall be used to carry out any provision of this Act in any country or with respect to any project or activity, after the expiration of the thirty-five-day period which begins on the date the General Accounting Office or any committee of the Congress charged with considering legislation, appropriations or expenditures under this Act, has delivered to the office of the head of any agency carrying out such provision, a written request that it be furnished any document, paper, communication, audit, review, finding, recommendation, report, or other material in its custody or control relating to the administration of such provision in such country or with respect to such project or activity, unless and until there has been furnished to the General Accounting Office, or to such committee, as the case may be, (1) the document, paper, communication, audit, review, finding, recommendation, report, or other material so requested, or (2) a certification by the President that he has forbidden the furnishing thereof pursuant to request and his reason for so doing.

(d) At the end of each fiscal year, the President shall notify the Committee on Foreign Relations and the Committee on Appropriations of the Senate and the Speaker of the House of Representatives of all actions taken during the fiscal year under this Act which resulted in furnishing assistance of a kind, for a purpose, or to an area, substantially different from that included in the presentation to the Congress during its consideration of this Act or any Act appropriating funds pursuant to authorizations contained in this Act, or which resulted in obligations or reservations greater by 50 per centum or more than the proposed obligations or reservations included in such presentation for the program concerned, and in his notification the President shall state the justification for such changes. There shall

also be included in the presentation material submitted to the Congress during its consideration of amendments to this Act, or of any Act appropriating funds pursuant to authorizations contained in this Act, a comparison of the current fiscal year programs and activities with those presented to the Congress in the previous year and an explanation of any substantial changes. In addition, the President shall promptly notify the Committee on Foreign Relations and the Committee on Appropriations of the Senate and the Speaker of the House of Representatives of any determination under section 303, 610, 614(a), or 614(b).

(e) The President shall include in his recommendations to the Congress for programs under this Act for each fiscal year a specific plan for each country receiving bilateral grant economic assistance whereby, wherever practicable, such grant economic assistance shall be progressively reduced and eventually terminated.

SEC. 635. GENERAL AUTHORITIES.—(a) Except as otherwise specifically provided in this Act, assistance under this Act may be furnished on a grant basis or on such terms, including cash, credit, or other terms of repayment (including repayment in foreign currencies or by transfer to the United States Government of commodities) as may be determined to be best suited to the achievement of the purposes of this Act, and shall emphasize loans rather than grants wherever possible.

(b) The President may make loans, advances, and grants to, make and perform agreements and contracts with, or enter into other transactions with, any individual, corporation, or other body of persons, friendly government or government agency, whether within or without the United States, and international organizations in furtherance of the purposes and within the limitations of this Act.

(c) It is the sense of Congress that the President, in furthering the purposes of this Act, shall use to the maximum extent practicable the services and facilities of voluntary, nonprofit organizations registered with, and approved by, the Advisory Committee on Voluntary Foreign Aid.

(d) The President may accept and use in furtherance of the purposes of this Act, money, funds, property, and services of any kind made available by gift, devise, bequest, grant, or otherwise for such purpose.

(e) Any agency of the United States Government is authorized to pay the cost of health and accident insurance for foreign participants in any program of furnishing technical information and assistance administered by such agency while such participants are absent from their homes for the purpose of participation in such program.

(f) Alien participants in any program of furnishing technical information and assistance under this Act may be admitted to the United States if otherwise qualified as nonimmigrants under section 101(a)(15) of the Immigration and Nationality Act, as amended (8 U.S.C. 1101(a)(15)), for such time and under such conditions as may be prescribed by regulations promulgated by the Secretary of State and the Attorney General.

(g) In making loans and sales under this Act, the President—

(1) may issue letters of credit and letters of commitment;

(2) may collect or compromise any obligations assigned to, or held by, and any legal or equitable rights accruing to him, and,

as he may determine, refer any such obligations or rights to the Attorney General for suit or collection;

(3) may acquire and dispose of, upon such terms and conditions as he may determine, any property, including any instrument evidencing indebtedness or ownership (provided that equity securities may not be directly purchased although such securities may be acquired by other means such as by exercise of conversion rights or through enforcement of liens or pledges or otherwise to satisfy a previously incurred indebtedness), and guarantee payment against any such instrument;

(4) may determine the character of, and necessity for, obligations and expenditures of funds used in making such loans and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to corporations of the United States Government; and

(5) shall cause to be maintained an integral set of accounts which shall be audited by the General Accounting Office in accordance with principles and procedures applicable to commercial corporate transactions as provided by the Government Corporation Control Act, as amended (31 U.S.C. 841 et seq.).

(h) A contract or agreement which entails commitments for the expenditure of funds available under titles II, V, and VI of chapter 2 of part I and under part II may, subject to any future action of the Congress, extend at any time for not more than five years.

(i) Claims arising as a result of investment guaranty operations may be settled, and disputes arising as a result thereof may be arbitrated with the consent of the parties, on such terms and conditions as the President may direct. Payment made pursuant to any such settlement, or as a result of an arbitration award, shall be final and conclusive notwithstanding any other provision of law.

(j) The provisions of section 955 of title 18 of the United States Code shall not apply to prevent any person, including any individual, partnership, corporation, or association, from acting for, or participating in, any operation or transaction arising under this Act, or from acquiring any obligation issued in connection with any operation or transaction arising under this Act.

(k) Any cost-type contract or agreement (including grants) entered into with a university, college, or other educational institution for the purpose of carrying out programs authorized by part I may provide for the payment of the reimbursable indirect costs of said university, college, or other educational institution on the basis of predetermined fixed-percentage rates applied to the total, or an element thereof, of the reimbursable direct costs incurred.

SEC. 636. PROVISIONS ON USES OF FUNDS.—(a) Appropriations for the purposes of or pursuant to this Act (except for part II), allocations to any agency of the United States Government, from other appropriations, for functions directly related to the purposes of this Act, and funds made available for other purposes to the agency primarily responsible for administering part I, shall be available for;

(1) rent of buildings and space in buildings in the United States, and for repair, alteration, and improvement of such leased properties;

(2) expenses of attendance at meetings concerned with the purposes of such appropriations or of this Act, including (notwithstanding the provisions of section 9 of Public Law 60–328 (31 U.S.C. 673)) expenses in connection with meetings of persons whose employment is authorized by section 626;

(3) contracting with individuals for personal services abroad: *Provided*, That such individuals shall not be regarded as employees of the United States Government for the purpose of any law administered by the Civil Service Commission;

(4) purchase, maintenance, operation, and hire of aircraft: *Provided*, That aircraft for administrative purposes may be purchased only as specifically provided for in an appropriation or other Act;

(5) purchase and hire of passenger motor vehicles: *Provided*, That, except as may otherwise be provided in an appropriation or other Act, passenger motor vehicles for administrative purposes outside the United States may be purchased for replacement only, and such vehicles may be exchanged or sold and replaced by an equal number of such vehicles, and the cost, including exchange allowance, of each such replacement shall not exceed $3,500 in the case of an automobile for the chief of any special mission or staff outside the United States established under section 631: *Provided further*, That passenger motor vehicles, other than one for the official use (without regard to the limitations contained in section 5 of Public Law 63–127, as amended (5 U.S.C. 78(c)(2), and section 201 of Public Law 85–468 (5 U.S.C. 78a–1)) of the head of the agency primarily responsible for administering part I, may be purchased for use in the United States only as may be specifically provided in an appropriation or other Act;

(6) entertainment (not to exceed $25,000 in any fiscal year except as may otherwise be provided in an appropriation or other Act);

(7) exchange of funds without regard to section 3651 of the Revised Statutes (31 U.S.C. 543) and loss by exchange;

(8) expenditures (not to exceed $50,000 in any fiscal year except as may otherwise be provided in an appropriation or other Act) of a confidential character other than entertainment: *Provided*, That a certificate of the amount of each such expenditure, the nature of which it is considered inadvisable to specify, shall be made by the head of the agency primarily responsible for administering part I or such person as he may designate, and every such certificate shall be deemed a sufficient voucher for the amount therein specified;

(9) insurance of official motor vehicles or aircraft acquired for use in foreign countries;

(10) rent or lease outside the United States for not to exceed ten years of offices, buildings, grounds, and quarters, including living quarters to house personnel, and payments therefor in advance; maintenance, furnishings, necessary repairs, improvements, and alterations to properties owned or rented by the United States Government or made available for use to the United States Government outside the United States; and costs of fuel, water, and utilities for such properties;

(11) expenses of preparing and transporting to their former homes, or, with respect to foreign participants engaged in any program under part I, to their former homes or places of burial, and of care and disposition of, the remains of persons or members of the families of persons who may die while such persons are away from their homes participating in activities carried out with funds covered by this subsection;

(12) purchase of uniforms;

(13) payment of per diem in lieu of subsistence to foreign participants engaged in any program under part I while such participants are away from their homes in countries other than the United States, at rates not in excess of those prescribed by the standardized Government travel regulations, notwithstanding any other provision of law;

(14) use in accordance with authorities of the Foreign Service Act of 1946, as amended (22 U.S.C. 801 et seq.), not otherwise provided for;

(15) ice and drinking water for use outside the United States;

(16) services of commissioned officers of the Coast and Geodetic Survey, and for the purposes of providing such services the Coast and Geodetic Survey may appoint not to exceed twenty commissioned officers in addition to those otherwise authorized;

(17) expenses in connection with travel of personnel outside the United States, including travel expenses of dependents (including expenses during necessary stopovers while engaged in such travel), and transportation of personal effects, household goods, and automobiles of such personnel when any part of such travel or transportation begins in one fiscal year pursuant to travel orders issued in that fiscal year, notwithstanding the fact that such travel or transportation may not be completed during the same fiscal year, and cost of transporting automobiles to and from a place of storage, and the cost of storing automobiles of such personnel when it is in the public interest or more economical to authorize storage.

(b) Funds made available for the purposes of this Act may be used for compensation, allowances, and travel of personnel including Foreign Service personnel whose services are utilized primarily for the purposes of this Act, for printing and binding without regard to the provisions of any other law, and for expenditures outside the United States for the procurement of supplies and services and for other administrative and operating purposes (other than compensation of personnel) without regard to such laws and regulations governing the obligation and expenditure of funds of the United States Government as may be necessary to accomplish the purposes of this Act.

(c) Notwithstanding any other law, not to exceed $3,000,000 of the funds available for assistance under this Act (other than title I of chapter 2 of part I) may be used in any fiscal year (in addition to funds available for such use under other authorities in this Act) to construct or otherwise acquire outside the United States (1) essential living quarters, office space, and necessary supporting facilities for use of personnel carrying out activities authorized by this Act, and (2) schools (including dormitories and boarding facilities) and hospitals for use of personnel carrying out activities authorized by this

Act, United States Government personnel, and their dependents. In addition, funds made available for assistance under this Act (other than title I of chapter 2 of part I) may be used, notwithstanding any other law, to equip, staff, operate, and maintain such schools and hospitals.

(d) Not to exceed $1,500,000 of the funds available for assistance under this Act (other than title I of chapter 2 of part I) may be used in any fiscal year to provide assistance, on such terms and conditions as are deemed appropriate, to schools established, or to be established, outside the United States whenever it is determined that such action would be more economical or would best serve the interests of the United States in providing for the education of dependents of personnel carrying out activities authorized by this Act and dependents of United States Government personnel, in lieu of acquisition or construction pursuant to subsection (c) of this section.

(e) Funds available under this Act (other than title I of chapter 2 of part I) may be used to pay costs of training United States citizen personnel employed or assigned pursuant to section 625(d)(2) (through interchange or otherwise) at any State or local unit of government, public or private nonprofit institution, trade, labor, agricultural, or scientific association or organization, or commercial firm; and the provisions of Public Law 84–918 (7 U.S.C. 1881 et seq.) may be used to carry out the foregoing authority notwithstanding that interchange of personnel may not be involved or that the training may not take place at the institutions specified in that Act. Such training shall not be considered employment or holding of office under section 301 of the Dual Compensation Act (5 U.S.C. 3105), and any payments or contributions in connection therewith may, as deemed appropriate by the head of the agency of the United States Government authorizing such training, be made by private or public sources and be accepted by any trainee, or may be accepted by and credited to the current applicable appropriation of such agency: *Provided, however,* That any such payments to any employee in the nature of compensation shall be in lieu, or in reduction, of compensation received from the United States Government.

(f) Funds made available under section 212 may be used for expenses (other than those provided for under section 637(a)) to assist in carrying out functions under title I of chapter 2 of part I, under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1691 et seq.), and under the Latin American Development Act, as amended (22 U.S.C. 1942 et seq.), performed by the agency primarily responsible for administering part I.

(g) Funds made available for the purposes of part II shall be available for—

(1) administrative, extraordinary (not to exceed $300,000 in any fiscal year), and operating expenses;

(2) reimbursement of actual expenses of military officers detailed or assigned as tour directors in connection with orientation visits of foreign military personnel, in accordance with the provisions of section 3 of the Travel Expense Act of 1949, as amended (5 U.S.C. 836), applicable to civilian officers and employees; and

(3) maintenance, repair, alteration, and furnishing of United States-owned facilities in the District of Columbia or elsewhere

for the training of foreign military personnel, without regard to the provisions of section 3733 of the Revised Statutes (41 U.S.C. 12) or other provision of law requiring a specific authorization or specific appropriation for such public contracts.

(h) In carrying out programs under this Act, the President shall take all appropriate steps to assure that, to the maximum extent possible, (1) countries receiving assistance under this Act contribute local currencies to meet the cost of contractual and other services rendered in conjunction with such programs, and (2) foreign currencies owned by the United States are utilized to meet the costs of such contractual and other services.

SEC. 637. ADMINISTRATIVE EXPENSES.—(a) There is hereby authorized to be appropriated to the President for the fiscal year 1966 not to exceed $54,240,000 for necessary administrative expense of the agency primarily responsible for administering part I.

(b) There is hereby authorized to be appropriated such amounts as may be necessary from time to time for administrative expenses which are incurred for functions of the Department of State under this Act and unrepealed provisions of the Mutual Security Act of 1954, as amended, or for normal functions of the Department of State which relate to such functions.

SEC. 638. PEACE CORPS ASSISTANCE.—No provision of this Act shall be construed to prohibit assistance to any country pursuant to the Peace Corps Act, as amended; the Mutual Education and Cultural Exchange Act of 1961, as amended, or the Export-Import Bank Act of 1945, as amended.

SEC. 639. FAMINE AND DISASTER RELIEF.—No provision of this Act shall be construed to prohibit assistance to any country for famine or disaster relief.

SEC. 640. MILITARY SALES.—Except as otherwise provided in part II of this Act, no provision of this Act shall be construed to prohibit the sale, exchange, or the guaranty of a sale, of defense articles or defense services to any friendly country or international organization if the President shall have found, pursuant to section 503, that the assisting of such country or organization will strengthen the security of the United States and promote world peace.

CHAPTER 3—MISCELLANEOUS PROVISIONS

SEC. 641. EFFECTIVE DATE AND IDENTIFICATION OF PROGRAMS.—This Act shall take effect on the date of its enactment. Programs under this Act shall be identified appropriately overseas as "American Aid".

SEC. 642. STATUTES REPEALED.—(a) There are hereby repealed—

(1) Reorganization Plan Numbered 7 of 1953;

(2) the Mutual Security Act of 1954, as amended (except sections 402, 408, 414, 417, 502(a), 502(b), 514, 523(d), and 536);

(3) section 12 of the Mutual Security Act of 1955;

(4) sections 12, 13, and 14 of the Mutual Security Act of 1956;

(5) section 503 of the Mutual Security Act of 1958;

(6) section 108 of the Mutual Security Appropriation Act, 1959;

(7) section 501(a), chapter VI, and sections 702 and 703 of the Mutual Security Act of 1959, as amended, and

(8) section 604 and chapter VIII of the Mutual Security Act of 1960.

(b) References in law to the Acts, or provisions of such Acts, repealed by subsection (a) of this section shall hereafter be deemed to be references to this Act or appropriate provisions of this Act.

(c) The repeal of the Acts listed in subsection (a) of this section shall not be deemed to affect amendments contained in such Acts to Acts not named in that subsection.

SEC. 643. SAVING PROVISIONS.—(a) Except as may be expressly provided to the contrary in this Act, all determinations, authorizations, regulations, orders, contracts, agreements, and other actions issued, undertaken, or entered into under authority of any provision of law repealed by section 642(a) shall continue in full force and effect until modified by appropriate authority.

(b) Wherever provisions of this Act establish conditions which must be complied with before use may be made of authority contained in, or funds authorized by, this Act, compliance with, or satisfaction of, substantially similar conditions under Acts listed in section 642(a) or Acts repealed by those Acts shall be deemed to constitute compliance with the conditions established by this Act.

(c) Funds made available pursuant to provisions of law repealed by section 642(a)(2) shall, unless otherwise authorized or provided by law, remain available for their original purposes in accordance with the provisions of law originally applicable thereto, or in accordance with the provisions of law currently applicable to those purposes.

(d) * * * [Repealed—1962]

SEC. 644. DEFINITIONS.—As used in this Act—

(a) "Agency of the United States Government" includes any agency, department, board, wholly or partly owned corporation, instrumentality, commission, or establishment of the United States Government.

(b) "Armed Forces" of the United States means the Army, Navy, Air Force, Marine Corps, and Coast Guard.

(c) "Commodity" includes any material, article, supply, goods, or equipment used for the purposes of furnishing nonmilitary assistance.

(d) "Defense article" includes—

(1) any weapon, weapons system, munition, aircraft, vessel, boat, or other implement of war;

(2) any property, installation, commodity, material, equipment, supply, or goods used for the purposes of furnishing military assistance;

(3) any machinery, facility, tool, material, supply, or other item necessary for the manufacture, production, processing, repair, servicing, storage, construction, transportation, operation, or use of any article listed in this subsection; or

(4) any component or part of any article listed in this subsection; but

shall not include merchant vessels or, as defined by the Atomic Energy Act of 1954, as amended (42 U.S.C. 2011), source material, byproduct material, special nuclear material, or atomic weapons.

(e) "Defense information" includes any document, writing, sketch, photograph, plan, model, specification, design, prototype, or other recorded or oral information relating to any defense article or defense service, but shall not include Restricted Data and formerly Restricted Data as defined by the Atomic Energy Act of 1954, as amended.

(f) "Defense service" includes any service, test, inspection, repair, training including orientation; training aid, publication, or technical or other assistance, including the transfer of limited quantities of defense articles for test, evaluation, or standardization purposes, or defense information used for the purposes of furnishing military assistance.

(g) "Excess defense articles" means the quantity of defense articles owned by the United States Government, and not procured in anticipation of military assistance or sales requirements, or pursuant to a military assistance or sales order, which is in excess of the mobilization reserve at the time such articles are dropped from inventory by the supplying agency for delivery to countries or international organizations under this Act.

(h) "Function" includes any duty, obligation, power, authority, responsibility, right, privilege, discretion, or activity.

(i) "Mobilization reserve" means the quantity of defense articles determined to be required, under regulations prescribed by the President, to support mobilization of the Armed Forces of the United States Government in the event of war or national emergency.

(j) "Officer or employee" means civilian personnel and members of the Armed Forces of the United States Government.

(k) "Services" include any service, repair, training of personnel, or technical or other assistance or information used for the purposes of furnishing nonmilitary assistance.

(l) "Surplus agricultural commodity" means any agricultural commodity or product thereof, class, kind, type, or other specification thereof, produced in the United States, either publicly or privately owned, which is in excess of domestic requirements, adequate carry-over, and anticipated exports for United States dollars, as determined by the Secretary of Agriculture.

(m) "Value" means—

(1) with respect to excess defense articles, the gross cost incurred by the United States Government in repairing, rehabilitating, or modifying such articles;

(2) with respect to nonexcess defense articles delivered from inventory to countries or international organizations under this Act, the standard price in effect at the time such articles are dropped from inventory by the supplying agency. Such standard price shall be the same price (including authorized reduced prices) used for transfers or sales of such articles in or between the Armed Forces of the United States Government, or, where such articles are not transferred or sold in or between the Armed Forces of the United States, the gross cost to the United States Government adjusted as appropriate for condition and market value; and

(3) with respect to nonexcess defense articles delivered from new procurement to countries or international organizations under this Act, the contract of production costs of such articles.

Military assistance and sales programs and orders shall be based upon the best estimates of stock status and prevailing prices; reimbursements to the supplying agency shall be made on the basis of the stock status and prices determined pursuant to this section. Notwithstanding the foregoing provisions of this section, the Secretary of Defense may prescribe regulations authorizing reimbursements to the supplying agency based on negotiated prices for aircraft, vessels, plant equipment, and such other major items as he may specify: *Provided*, That such articles are not excess at the time such prices are negotiated: *Provided further*, That such prices are negotiated at the time firm orders are placed with the supplying agency.

SEC. 645. UNEXPENDED BALANCES.—Unexpended balances of funds made available pursuant to this Act, the Mutual Security Act of 1954, as amended, or the Latin American Development Act, as amended, are hereby authorized to be continued available for the general purposes for which appropriated, and may at any time be consolidated, and, in addition, may be consolidated with appropriations made available for the same general purposes under the authority of this Act.

SEC. 646. CONSTRUCTION.—If any provision of this Act, or the application of any provision to any circumstances or persons shall be held invalid, the validity of the remainder of this Act, and of the applicability of such provision to other circumstances or persons shall not be affected thereby.

SEC. 647. DEPENDABLE FUEL SUPPLY.—It is of paramount importance that long-range economic plans take cognizance of the need for a dependable supply of fuels, which is necessary to orderly and stable development and growth, and that dependence not be placed upon sources which are inherently hostile to free countries and the ultimate well-being of economically underdeveloped countries and which might exploit such dependence for ultimate political domination. The agencies of government in the United States are directed to work with other countries in developing plans for basing development programs on the use of the large and stable supply of relatively low costs fuels available in the free world.

SEC. 648. SPECIAL AUTHORIZATION FOR USE OF FOREIGN CURRENCIES.—Subject to the provisions of section 1415 of the Supplemental Appropriation Act, 1953, the President is authorized, as a demonstration of good will on the part of the people of the United States for the Polish and Italian people, to use foreign currencies accruing to the United States Government under this or any other Act, for assistance on such terms and conditions as he may specify, in the repair, rehabilitation, improvement, and maintenance of cemeteries in Italy serving as the burial place of members of the armed forces of Poland who died in combat in Italy during World War II.

SEC. 649. LIMITATION ON AGGREGATE AUTHORIZATION FOR USE IN FISCAL YEAR 1966.—Notwithstanding any other provision of this Act, the aggregate of the total amounts authorized to be appropriated for use during the fiscal year 1966 for furnishing assistance and for administrative expenses under this Act shall not exceed $3,360,000,000.

PART IV * * * [Repealed—1962]

APPENDIX 2

Latin American Development Act, as Amended

Text of Public Law 86–735 [H.R. 13021], 74 Stat. 869, approved September 8, 1960, as amended by the Foreign Assistance Act of 1961, Public Law 87–195 [S. 1983], 75 Stat. 424, approved September 4, 1961, and the Foreign Assistance Act of 1963, Public Law 88–205 [H.R. 7885], 77 Stat. 379, approved December 16, 1964

AN ACT To provide for assistance in the development of Latin America and in the reconstruction of Chile, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Latin American Development Act".[1]

STATEMENT OF POLICY

Section 1.[2] (a). It is the sense of the Congress that—

(1) the historic, economic, political, and geographic relationships among the American Republics are unique and of special significance and, as appropriate, should be so recognized in future legislation;

(2) although governmental forms differ among the American Republics, the peoples of all the Americas are dedicated to the creation and maintenance of governments which will promote individual freedom;

(3) the interests of the American Republics are so interrelated that sound social and economic progress in each is of importance to all and that lack of it in any American Republic may have serious repercussions in others;

(4) for the peoples of Latin America to continue to progress within the framework of our common heritage of democratic ideals, there is a compelling need for the achievement of social and economic advance adequate to meet the legitimate aspirations of the individual citizens of the countries of Latin America for a better way of life;

(5) there is a need for a plan of hemispheric development, open to all American Republics which cooperate in such plan, based upon a strong production effort, the expansion of foreign trade, the creation and maintenance of internal financial stability, the growth of free economic and social institutions, and the development of economic cooperation, including all possible steps to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers;

(6) mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no

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[1] Sec. 401(a) of the FAAct of 1963 inserted the words "That this Act may be cited as the 'Latin American Development Act'."

[2] 22 U.S.C. § 1942.

internal trade barriers, and believing that similar advantages can accrue to all countries, it is the hope of the people of the United States that all American Republics will jointly exert sustained common efforts which will speedily achieve that economic cooperation in the Western Hemisphere which is essential for lasting peace and prosperity; and

(7) accordingly, it is declared to be the policy of the people of the United States to sustain and strengthen principles of individual liberty, free institutions, private enterprise, and genuine independence in the Western Hemisphere through cooperation with all American Republics which participate in a joint development program based upon self-help and mutual efforts.

(b) In order to carry forward the above policy, the Congress hereby—

(1) urges the President through our constitutional processes to develop cooperative programs on a bilateral or multilateral basis which will set forth specific plans of action designed to foster economic progress and improvements in the welfare and level of living of all the peoples of the American Republics on the basis of joint aid, mutual effort, and common sacrifice;

(2) proposes the development of workable procedures to expand hemispheric trade and to moderate extreme price fluctuations in commodities which are of exceptional importance in the economies of the American Republics, and encourage the development of regional economic cooperation among the American Republics;

(3) supports the development of a more accurate and sympathetic understanding among the peoples of the American Republics through a greater interchange of persons, ideas, techniques, and educational, scientific, and cultural achievements;

(4) supports the strengthening of free democratic trade unions to raise standards of living through improved management-labor relations;

(5) favors the progressive development of common standards with respect to the rights and the responsibilities of private investment which flows across national boundaries within the Western Hemisphere;

(6) supports the consolidation of the public institutions and agencies of inter-American cooperation, insofar as feasible, within the structure of the Organization of American States and the strengthening of the personnel resources and authority of the Organization in order that it may play a role of increasing importance in all aspects of hemispheric cooperation; and

(7) declares that it is prepared to give careful and sympathetic consideration to programs which the President may develop for the purpose of promoting these policies.

AUTHORIZATION

SEC. 2.[3] In order to carry out the purposes of section 1 of this Act, there is hereby authorized to be appropriated to the President not to

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[3] 22 U.S.C. § 1943.

exceed $680,000,000,[4] which shall remain available until expended, and which the President may use, subject to such further legislative provisions as may be enacted, in addition to other funds available for such purposes, on such terms and conditions as he may specify: *Provided*, That none of the funds made available pursuant to this section shall be used to furnish assistance to any country in Latin America being subjected to economic or diplomatic sanctions by the Organization of American States. The Secretary of State shall keep the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House currently informed about plans and programs for the utilization of such funds.

SPECIAL AUTHORIZATION CHILEAN RECONSTRUCTION

SEC. 3.[5] There is hereby authorized to be appropriated to the President not to exceed $100,000,000,[6] which shall remain available until expended, for use, in addition to other funds available for such purposes, in the reconstrutcion and rehabilitation of Chile on such terms and conditions the President may specify.

GENERAL PROVISIONS [7]

SEC. 4.[8] (a) Funds appropriated under sections 2 and 3 of this Act may be used for assistance under this Act pursuant to such provisions applicable to the furnishing of such assistance contained in any successor Act to the Mutual Security Act of 1954, as amended, as the President determines to be necessary to carry out the purposes for which such funds are appropriated.

(b) Of the funds appropriated under section 2 of this Act not more than $800,000 shall be available only for assisting in transporting to and settling in Latin America selected immigrants from that portion of the Ryukyuan Archipelago under United States administration.

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[4] Sec. 401(b) of the FAAct of 1963, substituted "$680,000,000" for "$500,000,000". Public Law 87–41, approved May 27, 1961, appropriated $500 million for the Inter-American Social and Economic Cooperation Program to remain available until expended. FA Appropriation Act, 1964—$135,000,000 to remain available until expended.

[5] 22 U.S.C. § 1944.

[6] P.L. 87–41 appropriated "$100,000,000, to remain available until expended."

[7] Section 4 and title "General Provisions" added by Sec. 706 of the FAAct of 1961.

[8] 22 U.S.C. § 1945.

APPENDIX 3

The Charter of Punta del Este Establishing an Alliance for Progress Within the Framework of Operation Pan America [1]

PREAMBLE

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

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

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

TITLE I. OBJECTIVES OF THE ALLIANCE FOR PROGRESS

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

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[1] The special meeting of the Inter-American Economic and Social Council which began at Punta del Este, Uruguay, on August 5, 1961, was concluded on August 17, 1961 with the signing of a declaration and a charter by all members of the Organization of American States except Cuba.

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

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

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

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

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

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

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

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

stability, the foundation of his increasing welfare, and the guarantee of his freedom and dignity.

7. To eliminate a adult illiteracy and by 1970 to assure, as a minimum, access to 6 years of primary education for each school-age child in Latin America; to modernize and expand vocational, secondary and higher educational and training facilities, to strengthen the capacity for basic and applied research; and to provide the competent personnel required in rapidly-growing societies.

8. To increase life expectancy at birth by a minimum of 5 years, and to increase the ability to learn and produce, by improving individual and public health. To attain this goal it will be necessary, among other measures, to provide adequate potable water supply and sewage disposal to not less than 70 percent of the urban and 50 percent of the rural population; to reduce the mortality rate of children less than 5 years of age by at least one-half; to control the more serious communicable diseases, according to their importance as a cause of sickness, disability, and death; to eradicate those illnesses, especially malaria, for which effective techniques are known; to improve nutrition; to train medical and health personnel to meet at least minimum requirements; to improve basic health services at national and local levels; and to intensify scientific research and apply its results more fully and effectively to the prevention and cure of illness.

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

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

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

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

TITLE II. ECONOMIC AND SOCIAL DEVELOPMENT

Chapter I. Basic Requirements for Economic and Social Development

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

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

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

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

4. That the Latin American countries obtain sufficient external financial assistance, a substantial portion of which should be extended on flexible conditions with respect to periods and terms of repayment and forms of utilization, in order to supplement domestic capital formation and reinforce their import capacity; and that, in support of well-conceived programs, which include the necessary structural reforms and measures for the mobilization of internal resources, a supply of capital from all external sources during the coming 10 years of at least 20 billion dollars be made available to the Latin American countries, with priority to the relatively less developed countries. The greater part of this sum should be in public funds.

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

Chapter II. National Development Programs

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

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

a. Improvement of human resources and widening of opportunities by raising general standards of education and health; improving and extending technical education and professional training with emphasis on science and technology; providing adequate remuneration for work performed, encouraging the talents of managers, entrepreneurs, and wage earners; providing more productive employment for underemployed manpower; establishing effective systems of labor relations, and procedures for consultation and collaboration among public authorities, employer associations, and labor orgaizations; promoting the establishment and expansion of local institutions for basic and applied research; and improving the standards of public administration.

b. Wider development and more efficient use of natural resources, especially those which are now idle or under-utilized, including measures for the processing of raw materials.

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

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

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

f. Improvement of systems of distribution and sales in order to make markets more competitive and prevent monopolistic practices.

Chapter III. Immediate and Short-Term Action Measures

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

2. Participating Latin American countries should, in addition to creating or strengthening machinery for long-term development programing, immediately increase their efforts to accelerate their development by giving special emphasis to the following objectives:

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

b. The implementation of new projects which are designed:

(1) To meet the most pressing social needs and benefit directly the greatest number of people;

(2) To concentrate efforts within each country in the less developed or more depressed areas in which particularly serious social problems exist;

(3) To utilize idle capacity or resources, particularly under-employed manpower; and

(4) To survey and assess natural resources.

c. The facilitation of the preparation and execution of long-term programs through measures designed:

(1) To train teachers, technicians, and specialists;

(2) To provide accelerated training to workers and farmers;

(3) To improve basic statistics;

(4) To establish needed credit and marketing facilities; and

(5) To improve services and administration.

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

Chapter IV. External Assistance in Support of National Development Programs

1. The economic and social development of Latin America will require a large amount of additional public and private financial assistance on the part of capital-exporting countries, including the members of the Development Assistance Group and international lending agencies. The measures provided for in the Act of Bogotá and the new measures provided for in this Charter, are designed to create a framework within which such additional assistance can be provided and effectively utilized.

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

3. The United States will assist in the financing of technical assistance projects proposed by a participating country or by the General Secretariat of the Organization of American States for the purpose of:

a. Providing experts contracted in agreement with governments to work under their direction and to assist them in the preparation of specific investment projects and the strengthening of national mechanisms for preparing projects, using specialized engineering firms where appropriate;

b. Carrying out, pursuant to existing agreements for cooperation among the General Secretariat of the Organization of American States, the Economic Commission for Latin America, and

the Inter-American Development Bank, field investigations and studies, including those relating to development problems, the organization of national planning agencies and the preparation of development programs, agrarian reform and rural development, health, cooperatives, housing, education and professional training, and taxation and tax administration; and

c. Convening meetings of experts and officials on development and related problems.

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

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

Chapter V. Organization and Procedures

1. In order to provide technical assistance for the formulation of development programs, as may be requested by participating nations, the Organization of American States, the Economic Commission for Latin America, and the Inter-American Development Bank will continue and strengthen their agreements for coordination in this field, in order to have available a group of programming experts whose service can be used to facilitate the implementation of this Charter. The participating countries will also seek an intensification of technical assistance from the specialized agencies of the United Nations for the same purpose.

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

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

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

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

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

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

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

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

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

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

Appendix

Elements of National Development Programs

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

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

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

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

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

6. The direct and indirect effects of the program on the balance of payments, and the external financing, public and private, estimated to be required for the execution of the program.

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

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

TITLE III. ECONOMIC INTEGRATION OF LATIN AMERICA

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

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

2. The integration process can be intensified and accelerated not only by the specialization resulting from the broadening of markets

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through the liberalization of trade but also through the use of such instruments as the agreements for complementary production within economic sectors provided for in the Montevideo Treaty.

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

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

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

6. In the application of resources under the Alliance for Progress, special attention should be given not only to investments for multinational projects that will contribute to strenghening the integration process in all its aspects, but also to the necessary financing of industrial production, and to the growing expansion of trade in industrial products within Latin America.

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

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

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

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

11. The promotion and coordination of transportation and communications systems is an effective way to accelerate the integration

process. In order to counteract abusive practices in relation to freight rates and tariffs, it is advisable to encourage the establishment of multinational transport and communication enterprises in the Latin American countries, or to find other appropriate solutions.

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

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

14. The active participation of the private sector is essential to economic integration and development, and except in those countries in which free enterprise does not exist, development planning by the pertinent national public agencies, far from hindering such participation, can facilitate and guide it, thus opening new perspectives for the benefit of the community.

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

TITLE IV. BASIC EXPORT COMMODITIES

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

They therefore agree that the following measures should be taken:

Chapter I. National Measures

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

1. Avoid undue obstacles to the expansion of trade in these products;

2. Avoid market instability;

3. Improve the efficiency of international plans and mechanisms for stabilization; and

4. Increase their present markets and expand their area of trade at a rate compatible with rapid development.

Therefore:

A. Importing member countries should reduce and if possible eliminate, as soon as feasible, all restrictions and discriminatory practices affecting the consumption and importation of primary products, including those with the highest possible degree of processing in the country of origin, except when these restrictions are imposed temporarily for purposes of economic diversification, to hasten the economic development of less developed nations, or

to establish basic national reserves. Importing countries should also be ready to support, by adequate regulations, stabilization programs for primary products that may be agreed upon with producing countries.

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

C. Producing member countries should formulate their plans for production and export, taking account of their effect on world markets and of the necessity of supporting and improving the effectiveness of international stabilization programs and mechanisms. Similarly they should try to avoid increasing the uneconomic production of goods which can be obtained under better conditions in the less developed countries of the Continent, in which the production of these goods is an important source of employment.

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

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

Chapter II. International Cooperation Measures

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

a. To eliminate as soon as possible undue protection of the production of basic products;

b. To eliminate taxes and reduce excessive domestic prices which discourage the consumption of imported basic products;

c. To seek to end preferential agreements and other measures which limit world consumption of Latin American basic products and their access to international markets, especially the markets of Western European countries in process of economic integration, and of countries with centrally planed economies; and

d. To adopt the necessary consultation mechanisms so that their marketing policies will not have damaging effects on the stability of the markets for basic commodities.

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

3. Through their representation in international financial organizations, member countries should suggest that these organizations, when considering loans for the promotion of production for export, take

into account the effect of such loans on products which are in surplus in world markets.

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

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

a. Consider the questions regarding compensatory financing raised during the present meeting;

b. Analyze the proposal for establishing an international fund for the stabilization of export receipts contained in the Report of the Group of Experts to the Special Meeting of the Inter-American Economic and Social Council, as well as any other alternative proposals;

c. Prepare a draft plan for the creation of mechanisms for compensatory financing. This draft plan should be circulated among the member Governments and their opinions obtained well in advance of the next meeting of the Commission on International Commodity Trade.

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

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

8. Member countries recognize that the disposal of accumulated reserves and surpluses can be a means of achieving the goals outlined in the first chapter of this Title, provided that, along with the generation of local resources, the consumption of essential products in the receiving countries is immediately increased. The disposal of surpluses and reserves should be carried out in an orderly manner, in order to:

a. Avoid disturbing existing commercial markets in member countries, and

b. Encourage expansion of the sale of this products to other markets.

However, it is recognized that:

a. The disposal of surpluses should not displace commercial sales of identical products traditionally carried out by other countries; and

b. Such disposal cannot substitute for large scale financial and technical assistance programs.

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

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

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

APPENDIX 4

Act of Bogotá

Text of Act of Bogotá, recommending Measures for Social Improvement and Economic Development within the Framework of Operation Pan America, adopted by the Council of the Organization of American States on September 13, 1960, and approved by the Council in a resolution dated October 11, 1960

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

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

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

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

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

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

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

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

RECOMMENDS to the Council of the Organization of American States:

I. MEASURES FOR SOCIAL IMPROVEMENT

An inter-American program for social development should be established which should be directed to the carrying out of the following

measures of social improvement in Latin America, as considered appropriate in each country:

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

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

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

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

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

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

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

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

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

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

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

B. *Measures for the improvement of housing and community facilities*

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

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

a. private financing institutions, such as building and loan associations;

b. institutions to insure sound housing loans against loss;

c. institutions to serve as a secondary market for home mortgages;

d. institutions to provide financial assistance to local communities for the development of facilities such as water supply, sanitation and other public works.

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

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

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

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

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

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

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

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

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

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

f. vocational agricultural instruction;

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

D. *Measures for the improvements of public health*

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

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

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

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

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

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

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

g. the training of public health officials and technicians;

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

E. *Measures for the mobilization of domestic resources*

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

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

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

II. Creation of a Special Fund for Social Development

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

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

III. Measures for Economic Development

The Special Committee,

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

Expresses Its Conviction

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

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

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

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

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

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

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

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

RECOMMENDS:

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

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

IV. MULTILATERAL COOPERATION FOR SOCIAL AND ECONOMIC PROGRESS

The Special Committee,

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

RECOMMENDS:

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

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

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

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

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

3. The special meeting shall:

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

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

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

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

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

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

APPENDIX 5

Address by President John F. Kennedy at a White House Reception for Members of Congress and for the Diplomatic Corps of the Latin American Republics. March 13, 1961.

It is a great pleasure for Mrs. Kennedy and for me, for the Vice President and Mrs. Johnson, and for the Members of Congress, to welcome the Ambassadorial Corps of our Hemisphere, our long time friends, to the White House today. One hundred and thirty-nine years ago this week the United States, stirred by the heroic struggle of its fellow Americans, urged the independence and recognition of the new Latin American Republics. It was then, at the dawn of freedom throughout this hemisphere, that Bolívar spoke of his desire to see the Americas fashioned into the greatest region in the world, "greatest," he said, "not so much by virtue of her area and her wealth, as by her freedom and her glory."

Never in the long history of our hemisphere has this dream been nearer to fulfillment, and never has it been in greater danger.

The genius of our scientists has given us the tools to bring abundance to our land, strength to our industry, and knowledge to our people. For the first time we have the capacity to strike off the remaining bonds of poverty and ignorance—to free our people for the spiritual and intellectual fulfillment which has always been the goal of our civilization.

Yet at this very moment of maximum opportunity, we confront the same forces which have imperiled America throughout its history—the alien forces which once again seek to impose the despotisms of the Old World on the people of the New.

I have asked you to come here today so that I might discuss these challenges and these dangers.

We meet together as firm and ancient friends, united by history and experience and by our determination to advance the values of American civilization. For this New World of ours is not a mere accident of geography. Our continents are bound together by a common history, the endless exploration of new frontiers. Our nations are the product of a common struggle, the revolt from colonial rule. And our people share a common heritage, the quest for the dignity and the freedom of man.

The revolutions which gave us birth ignited, in the words of Thomas Paine, "a spark never to be extinguished." And across vast, turbulent continents these American ideals still stir man's struggle for national independence and individual freedom. But as we welcome the spread of the American revolution to other lands, we must also remember that our own struggle—the revolution which began in Philadelphia in 1776, and in Caracas in 1811—is not yet finished. Our hemisphere's mission is not yet completed. For our unfulfilled task is to demonstrate to the entire world that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men

working within a framework of democratic institutions. If we can do this in our own hemisphere, and for our own people, we may yet realize the prophecy of the great Mexican patriot, Benito Juarez, that "democracy is the destiny of future humanity."

As a citizen of the United States let me be the first to admit that we North Americans have not always grasped the significance of this common mission, just as it is also true that many in your own countries have not fully understood the urgency of the need to lift people from poverty and ignorance and despair. But we must turn from these mistakes—from the failures and the misunderstandings of the past to a future full of peril, but bright with hope.

Throughout Latin America, a continent rich in resources and in the spiritual and cultural achievements of its people, millions of men and women suffer the daily degradations of poverty and hunger. They lack decent shelter or protection from disease. Their children are deprived of the education or the jobs which are the gateway to a better life. And each day the problems grow more urgent. Population growth is outpacing economic growth—low living standards are further endangered—and discontent—the discontent of a people who know that abundance and the tools of progress are at last within their reach—that discontent is growing. In the words of José Figueres, "once dormant peoples are struggling upward toward the sun, toward a better life."

If we are to meet a problem so staggering in its dimensions, our approach must itself be equally bold—an approach consistent with the majestic concept of Operation Pan America. Therefore I have called on all people of the hemisphere to join in a new Alliance for Progress—*Alianza para Progreso*—a vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of the American people for homes, work and land, health and schools—*techo, trabajo y tierra, salud y escuela.*

First, I propose that the American Republics begin on a vast new Ten Year Plan for the Americas, a plan to transform the 1960's into a historic decade of democratic progress.

These 10 years will be the years of maximum progress-maximum effort, the years when the greatest obstacles must be overcome, the years when the need for assistance will be the greatest.

And if we are successful, if our effort is bold enough and determined enough, then the close of this decade will mark the beginning of a new era in the American experience. The living standards of every American family will be on the rise, basic education will be available to all, hunger will be a forgotten experience, the need for massive outside help will have passed, most nations will have entered a period of self-sustaining growth, and though there will be still much to do, every American Republic will be the master of its own revolution and its own hope and progress.

Let me stress that only the most determined efforts of the American nations themselves can bring success to this effort. They, and they alone, can mobilize their resources, enlist the energies of their people, and modify their social patterns so that all, and not just a privileged few, share in the fruits of growth. If this effort is made, then outside assistance will give vital impetus to progress; without it, no amount of help will advance the welfare of the people.

Thus if the countries of Latin America are ready to do their part, and I am sure they are, then I believe the United States, for its part, should help provide resources of a scope and magnitude sufficient to make this bold development plan a success—just as we helped to provide, against equal odds nearly, the resources adequate to help rebuild the economies of Western Europe. For only an effort of towering dimensions can ensure fulfillment of our plan for a decade of progress.

Secondly, I will shortly request a ministerial meeting of the Inter-American Economic and Social Council, a meeting at which we can begin the massive planning effort which will be at the heart of the Alliance for Progress.

For if our Alliance is to succeed, each Latin nation must formulate long-range plans for its own development, plans which establish targets and priorities, ensure monetary stability, establish the machinery for vital social change, stimulate private activity and initiative, and provide for a maximum national effort. These plans will be the foundation of our development effort, and the basis for the allocation of outside resources.

A greatly strengthened IA–ECOSOC, working with the Economic Commission for Latin America and the Inter-American Development Bank, can assemble the leading economists and experts of the hemisphere to help each country develop its own development plan—and provide a continuing review of economic progress in this hemisphere.

Third, I have this evening signed a request to the Congress for $500 million as a first step in fulfilling the Act of Bogotá. This is the first large-scale Inter-American effort, instituted by my predecessor President Eisenhower, to attack the social barriers which block economic progress. The money will be used to combat illiteracy, improve the productivity and use of their land, wipe out disease, attack archaic tax and land tenure structures, provide educational opportunities, and offer a broad range of projects designed to make the benefits of increasing abundance available to all. We will begin to commit these funds as soon as they are appropriated.

Fourth, we must support all economic integration which is a genuine step toward larger markets and greater competitive opportunity. The fragmentation of Latin American economies is a serious barrier to industrial growth. Projects such as the Central American common market and free trade areas in South America can help to remove these obstacles.

Fifth, the United States is ready to cooperate in serious, case-by-case examinations of commodity market problems. Frequent violent change in commodity prices seriously injure the economies of many Latin American countries, draining their resources and stultifying their growth. Together we must find practical methods of bringing an end to this pattern.

Sixth, we will immediately step up our Food for Peace emergency program, help establish food reserves in areas of recurrent drought, help provide school lunches for children, and offer feed grains for use in rural development. For hungry men and women cannot wait for economic discussions or diplomatic meetings—their need is urgent—and their hunger rests heavily on the conscience of their fellow men.

Seventh, all the people of the hemisphere must be allowed to share in the expanding wonders of science—wonders which have captured

man's imagination, challenged the powers of his mind, and given him the tools for rapid progress. I invite Latin American scientists to work with us in new projects in fields such as medicine and agriculture, physics, and astronomy, and desalinization, to help plan for regional research laboratories in these and other fields, and to strengthen cooperation between American universities and laboratories.

We also intend to expand our science teacher training programs to include Latin American instructors, to assist in establishing such programs in other American countries, and translate and make available revolutionary new teaching materials in physics, chemistry, biology, and mathematics, so that the young of all nations may contribute their skills to the advance of science.

Eighth, we must rapidly expand the training of those needed to man the economies of rapidly developing countries. This means expanded technical training programs, for which the Peace Corps, for example, will be available when needed. It also means assistance to Latin American universities, graduate schools, and research institutes.

We welcome proposals in Central America for intimate cooperation in higher education—cooperation which can achieve a regional effort of increased effectiveness and excellence. We are ready to help fill the gap in trained manpower, realizing that our ultimate goal must be a basic education for all who wish to learn.

Ninth, we reaffirm our pledge to come to the defense of any American nation whose independence is endangered. As its confidence in the collective security system of the OAS spreads, it will be possible to devote to constructive use a major share of those resources now spent on the instruments of war. Even now, as the government of Chile has said, the time has come to take the first steps toward sensible limitations of arms. And the new generation of military leaders has shown an increasing awareness that armies cannot only defend their countries—they can, as we have learned through our own Corps of Engineers, they can help to build them.

Tenth, we invite our friends in Latin America to contribute to the enrichment of life and culture in the United States. We need teachers of your literature and history and tradition, opportunities for our young people to study in your universities, access to your music, your art, and the thought of your great philosophers. For we know we have much to learn.

In this way you can help bring a fuller spiritual and intellectual life to the people of the United States—and contribute to understanding and mutual respect among the nations of the hemisphere.

With steps such as these, we propose to complete the revolution of the Americas, to build a hemisphere where all men can hope for a suitable standard of living, and all can live out their lives in dignity and in freedom.

To achieve this goal political freedom must accompany material progress. Our Alliance for Progress is an alliance of free governments, and it must work to eliminate tyranny from a hemisphere in which it has no rightful place. Therefore let us express our special friendship to the people of Cuba and the Dominican Republic—and the hope they will soon rejoin the society of free men, uniting with us in common effort.

This political freedom must be accompanied by social change. For unless necessary social reforms, including land and tax reform, are freely made—unless we broaden the opportunity for all of our people—unless the great mass of Americans share in increasing prosperity—then our alliance, our revolution, our dream, and our freedom will fail. But we call for social change by free men—change in the spirit of Washington and Jefferson, of Bolívar and San Martín—not change which seeks to impose on men tyrannies which we cast out a century and a half ago. Our motto is what it has always been—progress, yes, tyranny no—*progreso sí, tiranía no!*

But our greatest challenge comes from within—the task of creating an American civilization where spiritual and cultural values are strengthened by an ever-broadening base of material advance—where, within the rich diversity of its own traditions, each nation is free to follow its own path towards progress.

The completion of our task will, of course, require the efforts of all governments of our hemisphere. But the efforts of governments alone will never be enough. In the end, the people must choose and the people must help themselves.

And so I say to the men and women of the Americas—to the *campesino* in the fields, to the *obrero* in the cities, to the *estudiante* in the schools—prepare your mind and heart for the task ahead—call forth your strength and let each devote his energies to the betterment of all, so that your children and our children in this hemisphere can find an ever richer and a freer life.

Let us once again transform the American continent into a vast crucible of revolutionary ideas and efforts—a tribute to the power of the creative energies of free men and women—an example to all the world that liberty and progress walk hand in hand. Let us once again awaken our American revolution until it guides the struggle of people everywhere—not with an imperialism of force or fear—but the rule of courage and freedom and hope for the future of man.

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APPENDIX 6

President Johnson's Message Extending the Alliance for Progress

Following is the text of a message from President Johnson read to the Second Special Inter-American Conference at Rio de Janeiro by Secretary Rusk on November 22, 1965.

White House press release (Austin, Tex.) dated November 22

As I stated on August 17, on the fourth anniversary of the Alliance for Progress, our vital alliance is perhaps the greatest adventure that this hemisphere has embarked upon since Columbus reached our shore five centuries ago. I also pledged my administration to helping all of our countries meet the goals of the alliance.

Recognizing that fulfillment of our goals will require the continuation of the joint effort beyond 1971, I wish to inform the conference—and through you, your respective governments—that the United States will be prepared to extend mutual commitments beyond the time period foreseen in the charter of Punta del Este. In determining the scope of the United States effort, we will want to examine carefully with you at that time the requirements of the hemisphere, in the light of progress made through self-help measures and the contributions which by then some of your countries will be able to make to one another to further the common effort.

APPENDIX 7

Letter of Intent From the Government of Chile to the Chairman of the Inter-American Committee for the Alliance for Progress, November 22, 1964

The Government of Chile has completed an intensive review of the country's economic and social problems and has developed plans for the eventual achievement of its objectives within the principles of the Charter of Punta del Este.

The Government believes that achievements of its objectives for economic growth and social welfare will require both that an increasing proportion of the country's resource availabilities be devoted to economic and social investment and that an increasing proportion of total investment be devoted to industrial, mining and agricultural activities which will add to output and create permanent additions to employment opportunities. Higher levels and more efficient use of both public and private savings are essential to the accomplishment of these objectives.

As part of its total effort in pursuit of these objectives, the Government is taking during 1965 the steps outlined below to bring under control the problems of inflation and the balance of payments. In support of these specific measures, the Government intends to follow policies in the fields of prices, credit, foreign trade, public and private investment, taxes, wages, and income distribution which will make a maximum contribution to development objectives. The Government plans during the next six months to conduct a general review of the policies which have been developed in the past in these areas and to make such modifications as are necessary.

One of the priority aspects of the Government's policy is increasing agricultural production. Towards this end, the prices of agricultural products will be improved in relation to industrial products through a gradual increase in agricultural prices that reflect market conditions. This action will eliminate in the long run the necessity of retail agricultural price controls. Simultaneously, marketing conditions for agricultural products will be improved through increased refrigeration facilities, warehouse, markets and other facilities including substantial assistance in the organization of agricultural cooperatives. Further information on agricultural price policies, as well as educational reform, social security reform, banking reform, and on planned anti-monopoly legislation will be provided during the course of 1965.

The Government intends to review Chile's current wage policies and establish new wage policies during the course of 1965 to be effective in 1966. Information on these new wage policies will be provided by July 1965.

The Government is undertaking a revision of the present Ten Year Plan for the period 1965–1970. This revision will cover general targets

and objectives for the whole six-year period and detailed plans and programs for the 1966–1967 period. The Government expects to complete this program of work by July and will make it available to CIAP and the international and national lending agencies at that time; continuing revisions will be made in the light of progress and subsequent developments.

The Government recognizes that its progress in forming and implementing realistic development objectives for the 1965–1970 period and in preparing a two-year public investment budget consistent with the general plan will be important considerations in determining the levels of future external assistance.

While not intended as a detailed blueprint for the future, the revised plan will offer general guidance to more detailed planning in the public sector. The plan will also serve as a continuing indicator of accomplishment and of any needs for adjustment in specific policies affecting both the public and private sectors if the general objectives for 1970 are to be obtained. The Government also plans to prepare a public investment budget covering the two-year period 1966–1967 and to revise this multi-year budget annually. This budget will be based on the principle that necessary measures will be taken to insure that an increasing proportion of total public investment will be financed from internal savings (after amortization) and capital income.

In formulating a definitive public investment program, the Government intends that the sectoral distribution will reflect the importance of the more productive sectors of the economy. In this connection, allocation of the escudo generation of external assistance will give highly preferential consideration to projects in the following categories: agricultural production, marketing, and processing; industrial production and mining; secondary and technical education and training.

Consistent with the revised 1966–1967 public investment program, the Government intends to accelerate substantially the preparation of development projects for both internal and external financing and to assist through appropriate means the preparation of development projects by the private sector. A minimum of $50 million in development projects in the public sector is expected to be available for consideration by international organizations and governments for external financing by the end of 1965.

At the same time, the Government intends to stimulate increased private savings and investment in productive enterprises through appropriate policy measures and through the establishment of a private investment fund. The Government's investment program will provide a minimum of 70 million escudos for a private investment fund to be channeled to the private sector for both capital and technical assistance.

Supplementing a strong internal effort to strengthen Chile's external financial position, the Government is seeking the agreement of interested governments and international agencies to a multi-lateral rescheduling of the external debt falling due in the next few years. In this connection, the Central Bank is improving its control system to assure that future service of suppliers' credits will not impose an excessive burden on the balance of payments; measures will be taken to include non-discriminatory minimum terms regarding grace and

amortization periods on all new credits, and will specify a reasonable annual ceiling on the amount of such new debt.

The Government intends to pursue actively a flexible exchange policy. Specific indicators of the success of this policy will be the customary quarterly international reserve movement test, whose validity normally implies general correspondence between movements in prices and the exchange rate. While existing restraints on imports will be formalized, this authority will be used only in exceptional cases and not to reduce the validity of these indicators.

Monetary policy should contribute to achieve the target of a price increase not greater than 25% during 1965. For this purpose, a rate of expansion of the money supply of two percent per month is acceptable as a general norm, but because of seasonal and other factors it may be difficult to limit the increment in each month to two percent. A specific indicator of adherence to this norm will be the limiting of money supply increase to 9% in any three month period during 1965, with offsetting reductions in the rate of increase in the remainder of the year so as to remain within the target of a 25% total increase.

The Government intends to undertake a 1965 total public investment program totaling 2,038.8 million escudos, which, combined with amortization and other payments, brings the total public sector capital budget to 2,547.7 million escudos. This is to be financed from the following internal sources: public sector savings of 1,243 million escudos; capital income of 179.0 million escudos; and borrowing from the banking system of up to 135 million escudos. The remainder will be financed from external sources presently foreseen. (Nevertheless, it is the Government's judgment that its new programs for social and economic development should be increased by no less than E° 40 million over and above the presently financed level and it hopes to obtain the additional resources needed to make these investment expenditures.) In the event that public sector savings or foreign financing falls below the levels presently anticipated, the Government intends to reduce its 1965 total public investment program by the amount of the shortfall.

Cumulative quarterly surplus accumulations in millions of escudos are expected to be achieved according to the following schedule:

Quarter ending—	Fiscal sector	All other public sectors
Mar. 31, 1965	80	90
June 30, 1965	260	180
Sept. 30, 1965	485	330
Dec. 31, 1965	765	478

Because current expenditures of the public sector are expected to rise in 1965 due to wage adjustments and the effect of inflation on costs, the Government is taking a series of measures to increase revenues in 1965 by a substantial amount over and above the normal growth so as to achieve the current surplus target. New tax measures will include the revaluation of tax obligations through the application of an appropriate price-index coefficient to take account of inflation which has occurred between the assessment and the payment of the tax. The Government also plans a major effort to collect overdue

taxes and reduce tax evasion, and will continue to draw on outside technical assistance for this purpose as may be necessary. Pending the introduction of basic tax reform measures, the Government is instituting a temporary tax on capital assets which, together with other tax measures, is expected to yield 340 million escudos in 1965.

In order to increase longer-term revenue collections and to do so in a manner which will not hinder growth, the Government intends to re-examine the existing tax structure and to plan substantive tax reform measures which will be implemented over the next few years. For example, legislation will be introduced during 1965 to place income tax on a more current basis and to rationalize the tax exemption system.

The rate structures for the decentralized agencies are being re-examined with the aim of revising rates to raise the level of collections such that they will more fully reflect the cost of production during 1965. In addition, the Government intends to develop by September 1965 a detailed plan for substantially reducing the deficits in state enterprises during 1966 and 1967.

On the expenditure side, the Government intends to re-examine its entire administrative structure with the aim of reducing general operating costs and intends to institute during 1965 budget controls and procedures which will place the public investment budget on a project basis and will subject all commitments of investment spending to prior authorization by the Bureau of the Budget.

APPENDIX 8

An Open Letter to Chilean Landlords by Peter Dorner, Professor of Agricultural Economics, University of Wisconsin and Instituto de Economia, April 1965

I have been in Chile for almost two years during which time I have had the great pleasure of meeting with some of you individually and in groups. You have invited me into your homes; your wonderful hospitality and your patient cooperation in several research efforts are greatly appreciated. I have enjoyed my work in your country.

Since I shall soon be departing and returning to the United States, I feel an obligation to make known to you some observations on Chilean agriculture. I shall try to do this by raising a number of issues that I have on several occasions discussed with some of you. In all this, I want you to know that what I say here is said in good faith and with the sincere hope of introducing some points of view which might stimulate thought and discussion on these important matters. If I appear critical at times, my hope is also to be constructive. An attempt at constructive criticism and evaluation, as seen by a foreigner, can be useful. It is, then, in this spirit of a fruitful exchange of ideas and viewpoints that I write this statement.

When I speak to you as a group of Chilean landlords, I wish to make clear that I recognize great heterogeneity, a wide range of circumstances and philosophical outlook. Some of you are among the best agricultural entrepreneurs that I have met. Others are at the opposite extreme. Some of you are extremely conservative in your social-political views, while others should be classified as liberals or middle-of-the-roaders. Although some of you have done more than others for your laborers, the crux of the agricultural problem in Chile seems to me to be the economic state and conditions of the agricultural labor force. Basically, the problem is lack of economic opportunities—because of lack of employment alternatives, lack of knowledge and skills, and lack of collective power among workers.

My Wisconsin colleague, Professor Don Kanel, has stated the following hypothesis: ". . . in the absence of changing economic alternatives, (tenure systems) are characterized by personal dominance of the landlord over those in inferior tenure status. This is in contrast to U.S. agriculture, where the alternatives in the labor market are the major factor in determining the terms of tenure arrangements and personal influence of a landlord and a tenant are secondary."

What I am saying is not intended as a personal indictment of anyone as an individual. You are all caught up in a system whose rules do not produce the results needed for a rapidly growing economy. *If* the Chilean economy were growing rapidly and industrial employers were searching for laborers, the economic state and condition of the agricultural labor force would be altogether different—workers would have

more alternatives, they would have greater opportunity for education and development of skills, they would have more bargaining power. You, as employers, would have to respond quite differently. As a consequence, the nature of the agrarian problem would be changed. But an active labor market and a rapidly growing economy does not now, and has not for some years, characterized Chile.

Some would maintain, in view of these conclusions, that Chile needs new industrial growth. This would do several things. It would provide employment, increase the demand for food, possibly raise agricultural prices which would then induce farmers to respond with increased production. The total national output would be greater, and farmers as well as the newly employed workers would spend more on industrial goods which would in turn justify the new and encourage additional investments in both industry and agriculture. Total employment would be expanded and farm laborers would have more alternatives, thus increasing their bargaining power with employers. Higher income levels and an improvement of the economic state and conditions of the agricultural labor force would be the result.

This all sounds very good, but we must break into this circle and question some of the basic assumptions. First, we need to recognize that industrial investments are being made. But in spite of this, the agricultural problem has not been basically changed. Second, we must realize that population is growing rapidly. This, coupled with the large numbers in the cities who are unemployed or underemployed, means that a large amount of labor must be absorbed before it can affect the agricultural labor force directly. Finally, the question remains: what type of investments to make, and who will make these increased investments? It has long been recognized in economics that large numbers of people with unsatisfied wants and desires are not sufficient to stimulate investment by private individuals. Only as these wants and desires are transformed into effective demand, backed-up by purchasing power, will investors be induced to invest. This is one of the reasons socialists argue for state control over investments and the means of productions. Why, they argue, should so vital an economic function be left to the whims of private individuals motivated only by the prospects for personal profit? If the state takes over this function, it will be able to control both the rate of investment *and* the income distribution required to support that investment.

In some of the industrialized countries this has been the route taken. In others more emphasis is placed on progressive tax policy, strategic government spending, and social and economic welfare programs to achieve the same results. In the US, for example, from 20–25 percent of the gross national product is channeled through governments (primarily federal). With the progressive income tax, government spending and contracting, and strong labor organizations, the US has maintained a reasonably good climate for private investments.

But does the market exist in Chile to justify new industrial investments *of the magnitude* that would actually serve to absorb in significant numbers the redundant labor force? A study of a decade ago showed that of the total active population in Chile, 76.5 percent classified as workers received 30 percent of the total national income while the 9.5 percent classified as upper-empresarial received 43 percent. The 14 percent classified as middle-class received the remaining 27

percent. For the agricultural sector, the distribution was even more skewed. Thus there is some uncertainty as to whether this income distribution pattern can induce and support major new industrial investments.

The economic state and condition *of the labor force in general* may be such that high rates of new investments and economic growth are impossible. There are two elements, I believe, involved in this broader phenomenon. One, the basic rural patterns of class distinctions have been incorporated into the cities and into the industrialism of the country. Two, the major population movements from the rural to urban centers have made labor cheap and abundant in the city as well as in the country.

It is instructive to note that the outstanding example in which labor unions have become effective in bargaining and achieving higher wages is in an isolated industry such as copper. Geographic isolation has also played a major role in agriculture. The only case known to me where laborers have achieved any bargaining power is on the large estancias in Magallanes. In part this lack of collective power by laborers is due to legal restrictions. But it would be a mistake not to recognize that labor unions are strongest and most effective when jobs are plentiful.

Now in this line of reasoning, it is worth pointing out that no one seriously argues for complete equality in the distribution of income or property ownership. There will always be inequality, and this is true in both capitalistic and socialistic countries. Some inequality is obviously required to reflect differences in skills and capacity (but this also assumes that opportunities exist for people to develop skills and capacity); a great deal more than this seems to be tolerated in all countries. But the percentage distribution is perhaps not as important as the absolute level of income for the large class of "workers." If this is at a level barely above subsistence, their expenditures will support only the most elementary of industries. Except, of course, as the state siphons off the surplus and uses it for the construction of transport systems, schools, communication systems, heavy industry, etc. This was essentially the route followed by Russia in its great push for rapid economic development. The important point is that in an economy which leaves the saving and investment function largely to private decision making, the distribution of income is a strategic variable in determining the amount of investment and the rate of growth that can be supported. But this matter of income distribution is not confined to agriculture. Then why, we must ask, should agriculture be the target of reform?

Several points need be recognized:

(1) This matter of economic growth is not an *either* agriculture *or* industry approach. There must be advances in both sectors. And these advances will likely require some reform in both sectors.

(2) Although there are major exceptions, many studies have shown that the large rural property, the fundo, is extensively operated, and associated with this are extremely low levels of living for the workers, low educational levels, and little opportunity for recourse to authority other than the landowner. In contrast, the urban worker does have better access to schools, is more closely tied in to the social-welfare services, does have access to the union which, although they are fre-

quently ineffective in wage bargaining, may provide for other means of protection and assistance. There is also the feeling, I believe, that the agricultural system is the source of the institutional patterns that presently obstruct development.

(3) Finally, there seems to be the belief that if the power of the landlords can be reduced, this will affect not only the agricultural sector, but the industrial and political machinery as well because of the influence of agriculturalists in these other activities.

What I have pointed out here are the reasons, as I see them, why agriculture is the principal target of reform. There may be others. Certainly there is the fact that agriculture produces the basic commodity—food—a commodity universally required. This is coupled with the fact that agricultural production has not kept pace with the population increase over the past 15 years. In a recent report by the Ministry of Agriculture it was shown that although agriculture employs between 25–30 percent of the active population, its contribution to the gross national product has been declining continuously over the past decade. In the past few years agriculture has contributed less than 10 percent to the gross national product. As a consequence Chile has been a net importer of more than 100 million dollars worth of foodstuffs annually.

Thus the argument for agrarian reform seems to be something like the following: if the present income generated by the agricultural sector is distributed in such a way that a substantially larger share goes to the workers, then these workers will spend more on consumer goods and goods of a kind that Chile can produce internally. The landlords, it is reasoned, would spend much more on luxury consumption and imports, or possibly send dollars abroad. The traditional pattern of the large rural properties has to be broken. Laborers will then have higher incomes, and the power of the landlords in other activities would be reduced. Greater consumption expenditures on internally produced goods would encourage investments in Chilean industries. Investments in Chilean industries would in turn create more jobs and increase the demand for food as well as for industrial products. The greater income and opportunity for decision making would then make possible the increased education of rural people. Given credit and education, these workers would gradually become better entrepreneurs and agricultural production would rise. In this way the economic development which everyone seems to want would come about.

There are as many questionable assumptions in this circle as there were in the one placing investments in industry in a priority position. Nevertheless, there is a great deal of support for this position on land reform and income distribution. Perhaps one of the reasons is that in the income distribution variable there is seen a much more predictable consequence in terms of increased expenditures than there is in the investment in new industry variable. Also, the evidence showing the wide differences between large landowners and non-owners in income, education, living levels and general well being is so glaring and so visible that there is human sympathy as well as economic rationale on the side of this view. Thus, several questions must be raised.

Why is the agricultural sector not producing more? Why isn't there more investment to increase productivity? Why are the living and economic conditions of agricultural workers generally so low? Why is it almost impossible for the children of an inquilino and other agricultural workers to get 12 or even 6 years of schooling? Why is the power between landlords and workers so uneven? These are the questions being asked by some politicians and intellectuals. What is your reply?

As I have discussed these matters with you, the two reasons most frequently mentioned were:

(1) Low agricultural product prices
(2) Lack of capital

A third point, less frequently mentioned, yet it was surprising to me to hear the number of times it entered into conversations, was that agricultural workers lack initiative and innate capacity. Some of you said these laborers are happy the way they are, they do not aspire to a different kind of life, they have altogether different values.

Now let us analyze these points.

One point that should be understood at the outset is the fact that higher prices and more adequate capital availability would not in itself assure higher living levels for the workers. These might (but there is no assurance) increase agricultural production and increase *your* income, but without governmental intervention or stronger worker organizations, there is no assurance that more of this income would accrue to your workers. It might, indeed, result in a transfer of income from the poorest people in the cities to the agricultural sector without major benefit to the agricultural workers. Thus it could simply increase tensions in both the city and the country.

With respect to the level of agricultural prices, I am not sure that there is as much of a case to be made as is commonly assumed. When prices received are compared with costs, they are probably not too much out of line. We can make several comparisons between an admittedly small sample of Chilean farms and a group of dairy farmers from my home state of Wisconsin.

There are problems with such a comparison, but I believe some measures and relationships can be validly established. The 747 Wisconsin farms are above average, in terms of size, income, and managerial level. They are all dairy farms, meaning that at least 50 percent of their income is from the sale of milk. The 7 large Chilean farms are located in the Central zone within the Provinces from Aconcagua to Nuble. They are above average, in my judgment, in terms of management, and grow a variety of crops including wheat, vegetables, grapes, sugarbeets and fruits. Several of them also have a substantial dairy enterprise. The 9 small Chilean farms are recently established colonists with only one full year of experience as new owners. They are perhaps below average in terms of developed managerial skills since they have had very little experience in decision making. But with technical assistance, they are learning. They are located in the Central Valley, and grow the traditional crops, the major one being wheat, supplemented with beans, corn, potatoes and minor income from livestock.

Table 1 gives some of the comparisons between these three groups of farms.

TABLE 1.—*Some comparisons between Chilean and Wisconsin farms*

	7 large Chilean farms, 1962–63	747 Wisconsin farms, 1962	9 small Chilean farms, 1963–64
(1) Average total hectares	6,536	83.4	16.7
(2) Average hectares in cultivation	661	58.7	15.0
(3) Average total cash income	E°272,399	$19,177	E°5,106
(4) Average cash operating expenses	E°135,277	$10,676	E°2,570
(5) Average net cash income	E°137,122	$8,501	E°2,536
(6) Percent net cash is of total cash income	50.3	44.3	49.7
(7) Operating cost/escudos or dollars of total income	.50	.56	.50
(8) Total cash income per hectare in cultivation	E°412	$327	E°340
(9) Real estate taxes as a percent of net cash income	8.4	9.0	(1)

[1] Not available.

Let us first look at the comparison between the 7 large Chilean farms and the Wisconsin farms. The first point to notice in Table 1 is the tremendous difference in farm size. The Wisconsin farms are family farms, hiring on the average only 4 man months of labor during the year. Of great interest to our present analysis is item (6) which shows that Chilean farms retained a larger share of the total cash income as net cash than did Wisconsin farmers. This same relationship is expressed in item (7). In item (8) we need to convert escudos into dollars in order to make a comparison. Using 2.63 escudos to 1 dollar (which is the average of the official exchange rate for the agricultural year 1962–63), the Chilean farms produced 48 percent as much gross cash income per hectare as did the Wisconsin farms. Real estate taxes as a percent of net cash income are slightly lower on the Chilean farms.

Now it may be argued that the lower value production per hectare (item 8) is proof of a much lower price level. This is a valid argument. I have compared two prices, those of milk and wheat, for Wisconsin and Chile. According to my calculations, the milk price in Chile (for the central zone) averaged about 56% of the Wisconsin price, while wheat averaged 53% (these prices for both countries and for both products are prices received by the producer at the farm level). Thus a good part of the lower gross income produced per hectare can be explained by this difference in price level.

However, item (6) indicates that costs are in line with that price level. Last year one of my students made a study of the relationship between prices received (for the major commodities whose prices are fixed by government) and various input costs. It was found that over the past 10 years, these two series moved along the same path, thus again indicating that prices and costs have maintained this relation for some time. Thus the economic incentive factor is found in item (6), the percentage of gross retained as net cash income.

There are also other factors that should be considered. For example, the climate and growing season are certainly more favorable in Chile. Wisconsin farmers must grow all their crops in a relatively short growing season, about 5 months. It is worth recalling that these 7 large farms are among the better managed and operated in Chile. And as you all know, there are many large farms that are operated very badly and producing only a fraction of the output shown for

these 7. In fact, several of these farmers studied said that farming is still a pretty good business, even with present prices, if one has high yields and high production. But this is the case everywhere. One cannot have prices high enough to give good profits to grossly inefficient producers.

One can see also from item (5) the size of the income of the owners of these large farms. Even after allowing for depreciation, it seems likely that they retained, on the average, over E°100,000. An optimistic estimate of annual earnings of the average worker (excluding the skilled and administrative staff) would probably be E°1000. This is a ratio of 100 to 1.

If we return now to the small Chilean farms. We find them producing at a substantially lower level than the 7 large ones (see item 8). However, since these are small family units, the proportion of total production consumed by the family is much higher than on the large farms. This home consumption is not included in the total cash income. If this were included, these small farmers would probably have almost the same income per hectare as the 7 large ones. On the other hand, their products are priced at the 1963–64 price level. Thus, all factors considered, these small farmers are producing less per hectare.

But this is their first year of operation as owners, and they will undoubtedly increase their productivity in future years. It is interesting to note that on these farms also net cash is almost 50 percent of total cash income.

It is of interest to inquire into the kind of income these farmers had the year before they became owners. Most of them were inquilinos previously. As workers, the year before they became owners, they averaged E°732 of cash income and E°1,162 total income (in terms of 1964 prices). For the 1963–64 agricultural year, as owners, they averaged E°2,536 of cash and E°3,821 total income (also in terms of 1964 prices; the difference between cash and total in both cases is mainly in home produced consumption in the latter case, and that plus payments in kind in the former case).[1]

Thus, given these comparisons, I would argue that the level of agricultural prices is not too significant in explaining the sluggishness of output growth in Chilean agriculture.

On the matter of capital scarcity, this may indeed be a valid argument in some cases. But here again, some of you are making major investments; why not more of you? Studies have shown that in the agricultural sector, the large landowners are certainly the favored ones for receiving bank credit. The argument of capital scarcity also loses its appeal as one notes the level of consumption expenditures. It is not for me to say what these levels should be, but it is true that many landowners maintain two or even three homes, have several automobiles, and show every sign of affluence in their residences and family living. The argument of capital shortage loses its force, given these conditions. Also, several studies have pointed out a low rate of savings and high

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[1] Data on the large farms taken from J. C. Collarte, *Análisis de una Alternativa de los Sistemas de Tenencia de Tierras de Chile,* Memoria for Ingeniero Agrónomo degree, Facultad de Agronomia, Universidad de Chile, 1964; those for the small farms from W. C. Thiesenhusen, *Experimental Programs in Land Reform in Chile,* Ph.D. thesis, Department of Agricultural Economics, University of Wisconsin, Madison, Wisconsin, 1965; Wisconsin data taken from G. A. Peterson, *Report of 1952 Farm Record Summaries in Cooperation with the Wisconsin Farm Management Associations,* Department of Agricultural Economics; University of Wisconsin, Madison, Wisconsin, 1963.

consumption expenditures among the upper class in Chile. Thus, I am not convinced that prices *or* capital are key factors in the present difficulty.

On the third point, that agricultural workers are content with their present state of life which is of their own choosing, several points should be noted. It is widely recognized today that a person's outlook, values and ambitions are largely culturally determined. It is not a matter of genetics. I used to live in the Southern part of the United States, and I was frequently told that negroes (as well as poor whites) were lazy, they had no ambition, they preferred leisure and a low income, they were happy with their present state of affairs, etc. However, as jobs opened up, both negroes and whites moved to the northern cities to work in the steel, automobile, and the related complex of industries. And today there is no longer a question in anyone's mind as to how well negroes enjoy second class citizenship. They don't! And they are struggling and fighting to gain some of the power and the benefits that have so long been denied them. They are also making progress.

Your third argument is simply a rationalization of the status quo. I am reminded of a statement made recently by former US Ambassador to India, Professor of Economics at Harvard University—John Kenneth Galbraith. He was discussing poverty in the U.S. and pointed out that "The modern conservative is, in fact, not especially modern. He is engaged, on the contrary, in one of man's oldest, best financed, most applauded and, on the whole, least successful exercises in moral philosophy. That is the search for a truly superior moral justification for selfishness."

It is worth pointing out that poverty does exist in the US, and we should not try to make believe otherwise. However, it is a different phenomenon than in Chile for at least two reasons. One, it affects scattered pockets of people comprising 10–15 percent of the population, depending on the definition. Thus the great majority of the population is the foundation for US productivity and high expenditure patterns. In Chile the proportions tend to be reversed. Second, the level at which the US defines poverty is higher. Thus the poverty sector is still a significant group in terms of total consumption expenditures. There is therefore more flexibility and a wider base for economic activity and investments.

Now there are also a number of arguments which some of you have on occasion presented against land reform. Here I have heard two main themes of opposition: one is a technical argument, the other is philosophical-ideological. I wish briefly to examine these two arguments.

Let us consider first the technological argument consisting of the following points:

(1) why split up the large farms, it is argued, at the very time when farm combination and enlargement is proceeding at a rapid rate in the US and Europe? With increasing mechanization, these small Chilean farms will simply have to be re-combined again.

This argument is not convincing for a number of reasons. First and most important is the differences in size of farms now existing in the US and in Chile. I have already pointed out above that 747 above average Wisconsin dairy farms averaged 83.4 total hectares and 58.7

hectares in cultivation for the year 1962. For Wisconsin as a whole, average size of farm increased from 48.6 hectares in 1930 to 65.2 in 1960. For the US, the corresponding figures were 64.8 and 122.3. True, there are some very large cattle ranches and wheat farms. But these are extensive operations with only one crop of wheat every other year in much of the wheat country. But in the mid-west "corn belt," the major crop-livestock area, 100 hectares of cropland per farm is considered a good sized operation. Thus this farm enlargement is not approaching the size of the large farm in Chile which is the object of discussion in land reform. Furthermore, there is no evidence that there are substantial economies of scale for mechanization technology beyond a size of about 100 hectares. Also, one should not compare the use of mechanical technology in the US with the situation in Chile. Labor is very high priced in the US and machines are relatively inexpensive. In Chile the reverse is true and will likely remain true for a good many years in the future. Thus the prospect of some future recombination need not deter present action. And with the exception of labor saving mechanical technology, the benefits of most other production increasing technology can be fully realized on small units of 10–15 hectares as well as on large units. And even mechanical technology can be made divisible and available in small increments through machinery co-ops and rentals. Thus this comparison between the US and Chile has many weak points. Finally, a point to be made again below, land reform need not *necessarily* imply splitting up *all* large farms.

(2) The small farm in Chile has been shown to produce very little for the market. It is the large farm that feeds the people in the city. Only the large farm produces a surplus. If Chile splits up its large farms there will be even less food for the cities than there is today.

Now if by "small farm" is meant a subsistence, minifundia unit, this might be correct. But there is enough land in Chile to give every Chilean family, rural and urban alike, a unit larger than many of the subsistence minifundia existing today. In that situation, everyone could be living on the land producing for his own subsistence. Of course the point is that 70 percent of Chileans do live in cities. Thus to the extent that people have left the land, one can give all those remaining a unit much larger than a subsistence unit. We have studied the production of parcel holders who received land under reform. They are indeed producing for the market, as the analysis of the 9 small farms above has shown. In some of the church projects, all evidence seems to indicate that they are producing more now than was formerly produced on the farm when it was operated as one unit. Although figures vary, there does seem to be something like 50 percent of the marketed output produced by medieros and family sized farms. It is, of course, the latter size that would be created under reform, not the minifundia, which is indeed one of the objects of reform.

(3) Physical or economic conditions make it uneconomical to break up large farms into small family units.

This argument has merit in certain situations. I am convinced that some of the large farms will be best operated if they are retained as large units. In some cases where relatively small areas of irrigated land are combined with vast areas of dry, hill and mountain land pas-

ture, it would be very difficult, though perhaps not impossible, to work out a system of small farms. In some cases where large investments have been made in a dairy herd and the necessary facilities, it would, I believe, be a mistake to break up such units. On some large farms the nature of the irrigation system may make adoption to serve many small farms extremely expensive. But the point is not whether it may in some cases be impractical or uneconomical to break up large farms into small ones. The point is whether some other system can be introduced to improve the income distribution pattern and also keep productivity high. Thus even though splitting up large farms may not always be feasible, this does not mean that something cannot be done with respect to the ownership pattern and income distribution—which is really the point at issue.[2]

The philosophical-ideological argument is based on the nature of and the rights vested in private property. This argument is well presented in a statement signed by a group of large landowners and published in *El Mercurio* on January 16, 1965. In this statement it is argued that private property is a natural and a God-given right; that an attack on private property is an attack on the basic unit of society—the family; that private property is the pillar of civilization. Now this line of reasoning does, I believe, fall into that category defined by Galbraith as "the search for a truly superior moral justification for selfishness." I cannot imagine that the signers of that statement believe what they say. They are intelligent men. I am surprised that the statement was not more thoroughly discussed by Chilean intellectuals.

Private property is a *creation* of the state. Without a state to protect it and enforce the rules, private property would not exist. Private property is not an absolute right. In all countries there are many restrictious placed on it. Some European countries have placed major restrictions on private property and eliminated it completely in some sectors of the economy. But they have not destroyed the family or the civilization. Furthermore, their economies are growing at a rapid rate. I believe there is more restriction on private property in the US than there is here in Chile.

If the authors of that statement really believe the things they said about private property, if it really is the basis for family and civilization, then they must admit that it cannot perform this function very well if most people are without it. One cannot defend liberty and property on these grounds and then attempt to reserve as much of them as possible for the wealthy.

No, the authors of that statement cannot possibly believe in these points about private property: God-given, basic to family and civilization. If they did, the logic of their own argument would lead them to suggest its wider distribution. Thus the argument is really to protect and justify the status quo.

In conclusion permit me to make several general points. It is worth remembering that our world is characterized by scarcity, not only of physical resources or "means" to meet certain needs or "ends," but a scarcity also of *willing participation* of others in transforming re-

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[2] My Chilean colleague, Juan Carlos Collarte, and I have suggested one possible approach in *Land Reform in Chile: Proposal for an Institutional Innovation* (Dec. 1964, Mimeographed; to be published in the Summer 1965 Issue of *Inter-American Economic Affairs*.

sources into personal satisfactions. Out of this scarcity of both kinds as defined, grows human conflict. But the interdependence of individuals is so great that any conflict which for long period disrupts the mutuality of benefits flowing from this interdependence only serves to intensify the scarcity. Thus there is interest in establishing and maintaining order. The means of securing this order is through social organization one of whose major functions is to secure rights and opportunities and impose duties which subsequently secures the expectations of individuals regarding the conduct of others. Stated alternatively, it is a task of devising procedures which will guide conduct in such a way that individuals and groups can willingly, and to the mutual advantage of each, use and exploit each other. It is at this point where social inventiveness becomes critical. When this exploitation of man by other men gets too one-sided and produces major conflict, rules and procedures need to be changed to re-establish mutuality in the process.

We could illustrate this with many examples from history. I shall use some from my own country with which I am most familiar. In the 1930's our economic system broke down. There were many factors involved, but the key questions were how to get the system going again. The US was close to making a swing to the extreme left. Revolution was not to be ruled out. Many basic changes were introduced at that time. Perhaps three of the most important were:

(1) Labor legislation permitting strong unions with the legal right for collective bargaining and for strikes.

(2) Social security and federal unemployment compensation legislation giving some income protection to the unemployed and the retired.

(3) Farm legislation securing opportunities in the agricultural sector.

These basic changes have indeed led to the evolution of an entirely new system in the US. All of them served to restructure and introduce a new mutuality into the process of the exploitation of man by man. All were aimed at income redistribution.

Our industrialists still complain about labor unions, but the more enlightened ones also realize their necessity. A Conservative politician on occasion mentions the repeal of the social-welfare legislation, but he is usually defeated at the polls. The charge of socializing agriculture and depriving farmers of their God-given rights in private property is also heard. But in every vote on the matter, farmers have overwhelmingly endorsed the policy of price support and output control.

Perhaps an even better example, with some features of analogy to the situation in Chile with respect to land reform is to be found in the issues over which the US fought its Civil War one hundred years ago. Here is an obvious case of a completely one-sided exploitation of one group, the white landowners, over another, the negro slaves. The situation became so intolerable and so rigid that the only solution was a bloody war. Today, after 100 years, all these issues are not yet resolved. Here again many people screen over the intervention by government and the deprivation of rights in private property implicit in many of the Civil Rights rulings. But the large majority recog-

nizes the need for these measures as the only way to save the US from another major internal conflict.

You may say that the issue of slavery and racial discrimination is quite different from any of the problems facing Chile. But is it? The issue here too is the inequality and the one-sided nature of the process by which people utilize each other in transforming resources into personal satisfactions. Until a greater mutuality is established in this process, the situation remains unstable and dangerous.

This should be the real point of your concern. I have heard you express fears and uncertainties over land reform. You have on occasion voiced a fear and suspicion of groups and individuals of the far left. But your enemy is not the people in the agrarian reform agency nor the people on the far left. It is yourselves that you must fear—you are your own worst enemy. As long as this great inequality persists between yourselves and the agricultural labor force—inequality in income, education, and cultural experience—the prospects for order and security in the future are indeed uncertain.

Why not give more rights to the workers and legalize these rights through legislation? Let these workers approach you with their demands, and give them the strength to back-up these demands. It will help you in the long run. Nothing is so easily mis-directed as a closed concern without a check from an opposing point of view.

You spend a good deal of time and energy debating and worrying over the future trouble you may have if the far left (which is frequently used as the scapegoat) organizes your workers. But the surest way to avoid the big catastrophic problems of the future is to encourage little troubles now. Let these people organize, let them press their demands, let them get strong, give them opportunity for more income and education. This will in the long run strengthen and protect you. But to withhold this power and these rights to the point where the system breaks, this will destroy you.

It is, I believe, in this context that the agrarian problem must be viewed. *It is* a problem of more secure rights and opportunities. A modern economy cannot operate with a large pool of unskilled, uneducated labor. Thus their education and training is of great importance. And the more education they receive, the less willing will they be to accept the present inequalities. Furthermore these very inequalities will not permit a modern economy to function. A modern economy must have a large purchasing power base with a wide distribution of this power.

APPENDIX 9

Editorials

[From the *New York Times*, February 2, 1966]

Reforms in Foreign Aid

President Johnson's message to Congress embraces two long overdue reforms in the handling of American foreign-aid legislation. He has agreed to separate economic from military assistance and to ask the Congress for five-year authorizations in both categories, instead of leaving the programs largely on a year-to-year basis.

In these matters, as in his emphasis in the annual foreign-aid message on working through international agencies, Mr. Johnson at last has adopted the recommendations of Senator J. W. Fulbright—a belated if indirect tribute to the wisdom of the Foreign Relations Committee chairman.

The President's message cites humanitarian American goals for the less fortunate of the world with warmth. But he also calls for an attack on "the root causes of poverty," rather than just another relief program. And he emphasizes bluntly the necessity for self-help by the recipient countries, beginning with "hard, unremitting, often thankless work," and ranging from drastic agricultural reforms to strict birth control.

Mr. Johnson seeks to boost agricultural aid by more than a third, educational aid by a half, and health assistance by two-thirds—recommendations reflecting the advice of experts on social and economic growth in the developing countries. He clearly recognizes that United Nations and other international organizations can often assist economic development more effectively and with less political friction than can the United States acting on its own, and he renews American pledges of support for the worthy goals of regional development and economic integration.

But, as usual, there is one thing basically wrong with the foreign-aid program; It is not large enough. The $2.5-billion requested for economic assistance for next year would be only marginally bigger than the amount Congress authorized for this fiscal year. Mr. Johnson is asking for only about one-half of 1 per cent of America's burgeoning gross national product, far less than this nation provided when it was far less prosperous.

It is one of the most ominous facts about our world that over the last five years economic conditions have deteriorated in many poorer countries while the rich ones got richer. Mr. Johnson's third straight "preshrunk" foreign-aid request may be the maximum Congress would tolerate, but it is not enough to fulfill the American share of a task vital to long-run hopes for world peace and stability.

[From the Washington Post, February 2, 1966]

Foreign Aid

The somber backdrop against which our foreign aid program must be measured has been drawn for us by World Bank president George D. Woods. Per capita income in the United States, writes Woods, in the current *Foreign Affairs*, will spiral from its present level of $3000 per year to $4500 by the end of the century if it continues to grow at current rates; in the 40 poorest developing countries, by contrast, the figure will go at best from $120 to $170 per year.

Warning that the "Development Decade" launched by the late President Kennedy may become a "Decade of Disappointment," Woods deplores the "relatively low place that development finance has hitherto been accorded in their list of priorities" by the industrial nations. Woods finds the developing countries "growing in their ability to carry out investment." He cites a Bank study showing that "the developing countries could put to constructive use, over the next five years, some $3 to $4 billion more each year than is currently being made available to them." And he urges Western statesmen to press for more loan capital on better terms.

President Johnson, in his foreign aid message, has now given his response to the appeal by the World Bank president, and it can only be described as a stunning rebuff. The President makes scarcely a passing gesture to the foreign exchange needs of the developing countries and the importance of expanding U.S. development lending. Far from conceding the need for an increased capital flow, he strongly implies that U.S. development loans will be kept at present levels—or reduced—while the country launches instead on the "daring new direction" of programs—mainly technical assistance—for the improvement of health, education and agriculture. The "lesson of the past" as the President sees it is that the United States must remain on guard lest it "subsidize those who do not assume responsibility for their own fate." While recognizing "the shortsightedness of isolation," he declares, "we do not embrace the equally futile prospect of total and endless dependence."

It has perhaps been inevitable that a U.S. President would eventually throw up his hands in impatience and exasperation after so many years of aid and so little evidence that the intractable problems of food deficits and runaway population growth are near a solution. Year after year, aid budgets have been oversold with glittering promises of an early "takeoff" which have had little relation to the enormity of the development challenge. Yet viewed in perspective, as Woods makes clear, the aid programs of the United States and the international agencies have failed to achieve a breakthrough in part, at least, because they have been far too small in the light of the size of the problem. In striking out on new paths, therefore, the President should make unmistakably clear that he is not simply turning away from the costly road of increased development lending.

The President is clearly giving important new world leadership in focusing attention on the population problem and on the need for more urgent action to bring population and food resources into balance. His separate message on food aid policy will be awaited with keen interest.

In themselves, the President's modest increases in the aid budget of $125 million for agricultural development, $67 million for education abroad and $60 million in the health field are all welcome improvements in the aid field. Regrettably, however, these promising new departures have been achieved not as part of an overall budgetary increase but rather at the expense of development lending.

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