



THE ALLIANCE FOR PROGRESS
AND
DEVELOPMENT OF THE AMERICAS

Dr. John H. Adler

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7 April 1964

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COLONEL BEALL: Gentlemen: A keystone of our Latin American policy is the Alliance for Progress.

To assess its strengths and weaknesses, its successes and failures, we have with us a distinguished lecturer, author, and scholar. He has authored many articles on economic development, international trade, and payments. He has served as a chief economist of the World Bank missions to various countries in Latin America, Africa, and the Far East. Since 1958 he has been a lecturer on Latin American affairs at the School of Advanced Studies, Johns Hopkins University.

It is my pleasure to present to this Class, Dr. John H. Adler, Director, Economic Development Institute, International Bank for Reconstruction and Development.

Dr. Adler, it is a pleasure to welcome you to the Industrial College.

DR. ADLER: General Stoughton, Gentlemen: I find it difficult to speak about the Alliance for Progress for one simple reason. On the one hand it is a remarkable concept and a glorious concept. On the other hand, after two years of its existence, there is little to show by way of its accomplishments.

In order to properly evaluate what has happened and what, hopefully, might happen, let me review briefly some of the basic facts of the

economic life of Latin America. I don't think it is useful to compare the basic facts of Latin America with those of the advanced countries of Western Europe or North America. It is much better, in order to get the right kind of perspective, to compare the scene as we see it now with that of other underdeveloped countries. In one word, in comparison with other underdeveloped countries of the world, Latin America is much better off. The per capita income is higher.

In vast areas of the world, in Southeast Asia, in Africa, and in some parts of the Far East, you have countries with a per capita income of \$100 or less. In Latin America the per capita income is twice, perhaps two and one-half or three times as high.

You also have a rate of investment, one of the major factors determining the rate of economic growth, substantially higher in Latin America than in most underdeveloped areas.

The result has been that the rate of growth of total output and of per capita income in Latin America has been much higher than in any other underdeveloped area of the world in the last 10 to 15 years, or, say, since the end of the Second World War.

Actually, in the long perspective of history, it is likely to appear that the last 15 or 20 years have been a period of unprecedented accomplishment, not only for Latin America but for the underdeveloped countries in the world as a whole, and the accomplishments were particularly great and remarkable in the case of Latin America.

In the sweep of history we find that in Latin America there has

not been much progress in most countries for the last century or the last century and one-half, ever since these countries have become independent. True, some of the countries, like Argentina or Chile, had made considerable strides in their economic advancement long before the First World War. There was a time around the turn of the century when the three countries with the greatest accomplishments and with the greatest prospects were in that order--the United States, Argentina, and then, perhaps, Canada.

I remember when I was a small boy living in Central Europe that we looked upon some parts of Latin America as perhaps not as much the Promised Land as the United States but as quite an important area of rapid growth.

Well, as it happens so often, like the bright boy who is a promising young man/^{and} doesn't keep his promise, Argentina didn't keep its promise, either. Argentina has fallen back.

But, discounting these ups and downs, it still is true that Latin America, even 20 years ago, was better off than most underdeveloped areas of the world, and, on top of this, perhaps on the basis of this foundation, it has accomplished a great deal more in the last 20 years.

One of the measures of advancement is the sharing of industrial production in total output. How does Latin America stack up with respect to that? Well, whatever statistical evidence we have indicates that in Latin America income derived from industrial activities is just about as high as income derived from agriculture. They have reached

that point at which soon industrial production as a means of creating income--not employment--is about to overtake agricultural production.

Now, with all these basic facts before us, one could conclude that development in Latin America should be easy. After all, they have accomplished a good deal already, and they have what you might call a solid foundation. It is argued that it is difficult to increase savings for capital formation with income being so low that any additional output has to be consumed. If this is so, it applies in the first place to such areas as Africa and Asia, and it would apply much less to Latin America.

One might go so far as to assert, as some people have done not long ago, that many countries of Latin America have reached the stage of the take-off, the take-off into sustained growth, so that from now on Latin America will be able to develop without special measures, including foreign assistance.

Another ingredient which would make one optimistic is the fact that Latin America has developed an important class of business men, of entrepreneurs, people who really know how to combine the factors of production into useful pursuits and make a fast buck in the process.

Why has that not happened? Why, with all these accomplishments behind us, can we now not say with any assurance that Latin America is well on its way to economic development? Why are we disappointed in what has happened in Latin America in the last few years, and why does a sober evaluation of the Alliance for Progress lead us to conclude that many more difficulties are ahead of us?

Let me say at this point that I share what I think is a commonly accepted view, that the concept of the Alliance for Progress is an excellent one. The Alliance for Progress, although it was criticized from the outset by many people both in Latin America and in this country, has come to be recognized, I think, by most people familiar with Latin American affairs, as an important sign of a new departure, the outcome of a close, new look designed to accomplish many things, both to mobilize public opinion, to enhance the will to advance, and to forge ahead on the road to economic development.

What are the major goals of the Alliance for Progress? I find that in the reading which has been assigned to this group here you know a good deal about it. Therefore, I don't have to review it in detail. Let me give you simply the highlights. The objective of the Alliance is to increase per capita income at the rate of something like 2.5 percent per year. That means, with a population growth of 2.5 percent or more, your gross national product must increase by 5 percent per annum. This itself is a very major accomplishment, because it has not been done in the past in many places. It has been done in the immediate postwar decade or a bit longer, say, until 1958, in Latin America. So it doesn't look like a fantastic sort of dream to accomplish that.

One would argue that, if conditions which prevailed until 1958 continued, it wouldn't be too difficult to accomplish the same sort of growth. The Alliance for Progress in addition to the simple growth concerns itself also with an equitable distribution of the shares of this

progress. This implies land reforms. It implies tax reforms. It implies tremendous expansion of educational facilities for the population at large, so that illiteracy will be eliminated by the end of the decade.

All these, I think, are attainable goals, particularly since we don't start from scratch. We have a solid base to build on.

Having said all that, then let us look for a moment at the strategy. How are these things to be accomplished? The strategy, to circumscribe the purely mechanical aspects of the commitments undertaken under the Alliance, is a fairly simple one. If I may use a political term, it is to start a new deal for the broad population, for the masses, if you want, of Latin America.

It is at this point where the difficulties arise. The United States authorities, or Government, is committed to support the new dealers of Latin America. What are the new dealers? The new dealers, if the American experience can serve as a basis, are people who want to bring about substantial reforms and major changes in the social structure, in the outlook on life, in attitudes, without becoming socialists.

In that sense the Alliance for Progress is an alliance of Washington with the new dealers of the various countries of Latin America. There is only one thing wrong with this proposition. You don't find those new dealers in Latin America. The real rub, the real drawback, of the strategy is, I am convinced, that this nucleus of reformers, of people who are anxious to bring about nonviolent changes, changes by constitutional

means, is either nonexistent in some places or too small and too weak in many others.

Thus, an appraisal of the Alliance for Progress comes down to this: How can one appraise or assess the social and political forces in Latin America to bring about these changes, these reforms, which are at the core of the objectives of the Alliance? In order to bring nonrevolutionary changes, one basic proposition must be fulfilled. You must have a broad understanding of the various classes--to paraphrase a famous statement, of what the classes owe to each other. You must have then social cohesion, a social contract, a basic agreement on how the desirable objectives can be reached.

The real difficulty then is that the basic objective is missing--this basic agreement is missing, the objectives may be there. I don't think I need prove my proposition before this group. Read the newspapers. See what happens. Count how often you have a peaceful transition of one regime to another in Latin America. Sometimes, reading the newspapers, you get the impression that a revolution or a quasi-revolution, a sudden change in a regime of one kind or another is the exception in Latin America. Gentlemen, this is a misconception. It is the rule because there is no basic agreement on the means by which progress, by which economic advancement and social and political advancement can be accomplished.

The result of all this is that ^{on} one side of the commitments under the Alliance for Progress, namely, the internal reforms, the improvement of

the international situation, the contribution which the countries themselves are to make to their own progress, all these things are played down, and the foreign-aid aspects of the Alliance for Progress are played up.

I have spent a good deal of time in Latin America in the past few years, and every time I find that Latin America looks different from Washington, more so than it looks from within. Let me explain what I have in mind. A little bit more than two years ago I spent considerable time in Chile, a country which at that time looked really promising in terms of having a moderate government, bent on reforms, having a good deal of foreign assistance available as a result of the earthquake which took place the year before, and so on.

I traveled widely in Chile and visited a major provincial town, where I was introduced, as it is customary for a man working for the World Bank to be introduced, to the local Chamber of Commerce. I met a very substantial citizen who was a major agent, an importer of tractors and automobiles. I asked him what I asked everybody I could meet at that time, what, in his opinion, the most important things were which the government should undertake. The man came through with flying colors. He said exactly what I thought should be done. He said better education, a new improvement in the road system, housing, and more competition through permitting increased imports. Really, there was a man who really seemed to know what he was talking about. Nothing is more pleasant than to find that somebody else has the same kind of prejudices and opinions as yourself.

As I said, I was delighted to hear all that, and I pointed out to him that this obviously implied that he was willing to pay more taxes, because, after all, these things--cheaper housing, more water, and what not--cost money which the government somehow had to get hold of. At that moment the man froze. He said, "Oh, no. I didn't mean anything of that sort. That is what the Alliance of Progress is for."

You see the difficulty which arises. There is on one hand perfect agreement on the objectives. They all know what is wrong. They all know what can be set right. But there is the real unwillingness, the real difficulty of contributing to these objectives by a certain amount of--I don't want to use the word, sacrifice--self-denial, if you want. There is no agreement on the means by which the objectives of the Alliance can be reached.

One of the concepts always mentioned in connection with economic-development endeavors is the concept of the will to develop. All the major treatises of the more thoughtful books and articles on development emphasize the need of having a will to develop which is widespread among the population. There is, however, an awkwardness about this concept. The will to develop means two different things at least.

In the first place it may imply a desire for a better life. This is what is meant by the by now very common phrase, the rising expectations. The will to have a better life, the desire to have a better life--no question about it--is widespread, but the will to develop implies something else also. It must be interpreted to have another meaning, and that is the

willingness to do what is necessary to accomplish these things. It is this aspect which is not sufficiently realized in Latin America.

In order to bring about, then, this willingness to do what is necessary to bring about economic advancement, certain prerequisites must be met. What are they? In the first place, speaking as an economist now, rather than an observer of the social and political scene, it is necessary to resolve the conflict inherent between social welfare and development objectives. What is meant by that is simple. The government at any time has a certain amount of resources at its disposal. The government then can make use of these resources for developmental purposes, meaning, to provide new transport facilities, new schools, new hospitals, and what not, or it can make use of them by providing immediate welfare, doing what is expeditious rather than doing what is helpful in the long run.

It is difficult, I know, to draw an exact distinction of what is development and what is welfare, because, ultimately, of course, the objective of all development is to enhance material welfare and provide for a better living. But there is a difference, nevertheless. To provide higher wages because some political leaders feel that an increase in wages is essential if the next elections are to be won is what you might call a welfare-oriented policy. This is a bit of a benign term. To deny this increase in wages in order to make the economy more competitive and to provide greater savings is what you might call development economics, and this is much more difficult to accomplish.

I am not saying that welfare expenditures have to be simply completely denied--far from it. There is a good deal of misery. When you look at these slum areas which have to be cleaned out, when you look at the incredible poverty in some of the backward regions in the various countries of Latin America, you know that more welfare expenditures are necessary. But there is still an important difference between this kind of spot relief and developmental concerns. It is, I think, the developmental concerns which are suffering from internal political considerations, again going back to this real absence of a basic internal understanding and a reconciliation of internal social and political conflicts.

The second prerequisite for a successful operation or implementation of the policies for the Alliance for Progress would be, I suggest, the problem of making difficult decisions. This is one thing which nobody likes to do. You must make difficult decisions in your own jobs. I have to make them all the time. What do you do if the secretary comes late to work? Do you bawl her out? Sure, the first time. What do you do the second time or the third time? Do you fire her? This is the kind of difficult decision which we all have to make in one way or another. Difficult decisions are those which our Government faces all the time. Decision-making processes are frequently influenced by political considerations, by concern about reprisals, by concern about lack of popularity. Nevertheless, when you talk development, certain politically difficult decisions have to be made.

I think this is one of the real weaknesses of the Latin American

countries, the Latin American governments, irrespective of whether they are democratic or dictatorial, that they shy away from difficult decisions.

This brings me to the next point. One of the prerequisites, then, is the necessity to enlist support for these decisions, to convince people that popular decisions are necessary. Only if you have this ability to go out to tell people why it is necessary--to use an example close to home--to provide a certain amount of foreign aid to underdeveloped countries can you really face up to the difficult decisions. Now, this presupposes, in Latin America and elsewhere, the existence of the loyal opposition, an opposition which will not distort the arguments for difficult decisions and will somehow share the responsibility for them. This is the kind of thing which we are trying to achieve in this country by bipartisan foreign policy, to use that phrase. This is the kind of agreement which is made almost every day, across the aisle, as the phrase goes, in the Houses of the Congress. It is this absence of basic agreement with a loyal opposition which is so disruptive of any effective action in Latin America. The result is that you do get, whenever something is necessary, all necessary measures short of effective action.

Let me give you an example of the kind of decision which is necessary, the kind of problem for which a decision is necessary. I think all Latin American political leaders, irrespective of their persuasions, recognize that foreign investment and American assistance, or foreign assistance in general, are necessary, desirable, and essentially welcome. Nevertheless, for a variety of reasons, American investment is unpopular. I

shall come back to that, if I may, later on. So the result is that political leaders shy away from references to American aid. I was shocked to see, 4 or 5 years ago, or a bit more, when I read the report about a meeting in Brazil, in preparation of the revamping of the Alliance for Progress, when it was reported widely in the press that the then President Goulart made a major speech--Latin Americans like to talk long--of two hours, in which he did not once mention the Alliance for Progress. This is the kind of shying away from unpopular concepts, from unpopular ideas, in order not to become unpopular.

There are many other examples I could give. I have some in my notes, but I think my time is running short, so that I had better stop at this point.

Let me give you, however, another basic requirement for effective implementation of the Alliance for Progress, the need to avoid getting objectives distorted. Ever so often you find that an understanding is reached as to how aid is to be used or as to what measures are to be taken, but then you begin to nibble away at these decisions. You say, "This is fine but we cannot apply tax reforms to certain regions, to certain interest groups. We are going along except for this and that." The result is that, instead of getting effective legislation, you get sort of log-rolling compromises, the outcome of which is completely uncertain, to say the least.

I managed so far, in 32 minutes, to speak about the Alliance for Progress without referring to Fidel Castro in Cuba. I think this is right.

I think it is all wrong to discuss the Alliance for Progress as our reply to Cuba. The Alliance for Progress was somehow in the making, was in the air, if you want, long before there was any real threat from Cuba, and long before Castro had openly become a Communist. Perhaps the Cuban incident has hastened the political ripeness of the situation within our own country. It has helped as a motivation for the Congress and for the people to endorse the Alliance for Progress, but essentially the Alliance for Progress and the concern of our Government for the developments in Latin America go back further and go much deeper than simply to construe the Alliance for Progress as a defensive measure against Cuba.

I am using this reference to Cuba to turn to the final part of my remarks, namely, what should U. S. policy then be within the framework of the Alliance for Progress. I think the primary objective stands out clearly. I spent so much time on emphasizing the internal difficulties in Latin America to emphasize the primary need for American policy, namely, to help to resolve these internal conflicts through reforms and through foreign aid.

There are other policy measures which our Government can, and I am fairly sure, will take. We have recently endorsed to some extent but with a certain amount of lukewarm enthusiasm, the idea of commodity agreements. We now have, as you know, a coffee agreement by which the price of coffee was supposed to be held up. As it so happens, it not only did that but it brought about indirectly an increase in the price

of coffee by some 60 percent or more, thereby endangering the whole notion of commodity agreements. But there is no question, and it was emphasized recently by Under Secretary of State Mr. Ball, in a speech in Geneva, that we are ready and willing to help underdeveloped countries in general, not just Latin America, by cooperating in the setting up and the management of commodity agreements, whereby the decline in foreign-exchange earnings can be halted and perhaps reversed for many of our underdeveloped countries with which we are concerned.

Secondly, or thirdly, we can help the Alliance for Progress by providing not only aid, in the form of nonconventional loans and grants, but also by amounts of loans on commercial terms. This is, of course, of major importance for the Export-Import Bank and for the World Bank and the Inter-American Bank.

Certainly equally important, and perhaps in quantities more important, would be an increased flow of direct investment into Latin America. I say this in spite of the difficulties which foreign investment has encountered. But again I think we can convince Latin American countries of the great advantages which they can derive from letting foreign investment, American investment and European investment, into their countries, and according it reasonable treatment.

Finally, we might have to help a number of the Latin American countries by helping them to do something about their tremendous debt burden with which they saddled themselves in recent years. There are two or three countries which have an acute debt problem which makes it

very difficult for these countries to improve their economic policies and to obtain additional assistance. The countries I have in mind are Argentina, certainly Brazil, and maybe one or two others, where the composition of the debt, rather than the amount, is such that some sort of rescheduling, some sort of scaling down the amount of debt burden, of debt payments, would be, in my opinion, an indispensable part of any comprehensive policy.

Now, having laid out these policy objectives, let me say at once that it is easy to conceive of these objectives but it is very difficult indeed to carry them out. You have, as I indicated before, a good deal of opposition within the Latin American countries, but you also have on our side certain conflicts, conflicts of interest, if you want, dilemmas. What are they? It is the avowed objective of our foreign policy to see the Alliance for Progress achieved. That means, as I indicated before, that we have to associate ourselves, identify ourselves, with progressive elements which then by definition stand in conflict, in contrast, with less progressive, conservative, more reactionary elements in many countries of Latin America. It is, however, no historical accident that frequently in many countries American business interests are closely associated with those conservative, not to say reactionary, elements.

What do we do in a case like that, because we also have as an American policy objective the protection of American interests, including American business interests? Some of my Latin American friends find it

incomprehensible that we are all in favor of certain reforms, provided these reforms do not affect American business interests. This is, of course, a gross overstatement of our position, and a misconstruction of our statements. But there it is, in terms of real relations, in terms of personalities involved, and there is no question that there is a close identification from without between conservative elements and anti-Alliance elements in many Latin American countries and American business interests.

One of the difficulties which I see for the conduct of foreign policy, for instance, is that on the one hand we have, usually because of American financial and business interests, close contact with the business community, but we lack contact with intellectual leaders, with labor leaders, and with those people who may be the nucleus of the new-deal developments which is at the basis of any effective Alliance for Progress.

Having said all that, let me try to look ahead just a bit. I probably sounded pessimistic to you, and I must admit I am pessimistic about the present situation. Having said, however, all that, I must add immediately that I am not expecting a breakdown of the Alliance for Progress, that I am not expecting a further deterioration of our relations with Latin America--far from it. I would expect, on the basis of past performance, and on the basis of a gradual improvement in our understanding of Latin American affairs and, what is more important, a better understanding of the Latin Americans as to what they can and

cannot expect from us, a slow, gradual improvement.

I don't know whether the quantitative objectives of growth, the 2.5 percent per capita or the elimination of the illiteracy within 10 years, can be accomplished. But it would be a major accomplishment, even if we do not reach these exact quantitative goals. What is important is not to reach a certain figure. What is important is to give the Latin American continent the feeling that it is moving ahead, that it is regaining its momentum, that the developments are clearly in one direction, toward improvement, toward improvement in living standards, toward improvement in internal organization, toward improvement in the general outlook.

Whether or not this can be accomplished depends very much on our effectiveness in helping these internal reforms which I indicated before are essential if an internal understanding can be reached. If that is so, then I suggest, the question is not whether the economic development of Latin America will succeed because of the Alliance for Progress but the other way around. Whether or not the Alliance for Progress will succeed will depend very much on the success of the development of Latin America.

Thank you very much.

COLONEL BEALL: Gentlemen, Dr. Adler is ready for your questions.

QUESTION: Doctor, it seems to me that one of the more promising developments has been the organization of an executive peace corps. I wonder if you could give us your assessment of it and tell us if you think

it might be a help in South America. This is a private organization. They are trying to get retired executives to go down to South America and assist by imparting their know-how to the Latin Americans.

DR. ADLER: Let me answer this question in a somewhat roundabout way. I am convinced that foreign investment, particularly American foreign investment, has brought tremendous benefits to Latin America, not so much by the amount of capital it has brought in as by the amount of know-how, business organization, skills, techniques, and the whole way of doing things in an efficient and rational way that it has brought to Latin America.

Having said that, it follows, I think, directly that this kind of executive peace corps could help much. But this is one of these things, you see. Where do you apply it? Where do you put it in? Is that kind of retired business executive who has been running a furniture factory in Lansing or a chicken-feed factory in Iowa really the kind of man who can immediately familiarize himself with the peculiarities of Latin America, and all that?

I think we overcame, if I can move to an obvious parallel, these difficulties in the clear through the Peace Corps. There, really, the preparation of these young people is tremendously effective in convincing them of the need to adapt themselves to local conditions. But there you deal with a handpicked group of young people who are, by definition, more adaptable, and all that.

I can conceive that something like that can be accomplished with

business men, but it is obviously much more difficult, and I would go so far as to add that a man who has never had any dealings abroad, a man who is used to doing things in a certain way and doesn't know any alternatives, may not be our best junior diplomat in spreading the effectiveness of American ways of doing things.

There is, on the other hand, a tremendous deficiency in managerial capabilities and talent, and in the application of simple rules of the game. Managerial improvements would go a long way. The Latins are fairly well aware of that. This is one of the ideas which are agreed upon from left to right--improvement in management. It is amazing how these new business schools are springing up all over the place. I think the American universities backstopping this development are doing a big job and they have a still bigger job ahead of them.

QUESTION: Dr. Adler, could you please touch on the economic and social problems of Northeast Brazil, in the context of the Alliance for Progress?

DR. ADLER: I have to be honest with you. I feel weak in the whole field of Brazil, and I feel weakest when it comes to the Northeast. I know a lot of people who have been there. I read the manuscript of Steve Roebuck's latest book on the subject, and I helped to criticize it. One of my closest friends was involved in Northeast Brazil right after the Alliance began, and some of the participants at the Institute which I am running came from the Northeast and I had a chance to talk to them.

Having said all that, I really should now end up by saying that,

in spite of it, I still don't know anything about it. This would be the simple and honest answer. But let me try something else. This, I think, is exactly one of the prime examples which I had in mind when I spoke about the internal conflict. There is this tremendous, booming area, the famous Bel Horizonte Rio-Sao Paulo Triangle, where business is booming. This is the area with the fastest rate of growth in all Latin America in the last 20 years, the kind of thing which many observers thought would be the new start of a new Detroit or a new Cleveland area.

And there is on the other hand absolute misery, starvation, and feudalism, and social injustice, and all that, in the Northeast. But now, it is quite obvious--and this is not something which I have made up but something which I ran into all over the world, when you concern yourself with development--that there is no such thing as, to use a stupid phrase, balanced growth. Balanced growth means that all over the place everything grows at the same rate. This is really a misconception of the growth process. The growth process takes place always in certain nuclei. A polarization of development is what is involved. You have development taking place in one particular area, and it is natural, because it becomes a cumulative process. You get new industrial establishments, you get new housing. The new housing requires new building materials, and you take it from there on.

Therefore, you can never conceive of economic development being sort of evenly spread all over the place. It is therefore one of the

general problems in all development countries, how to redistribute the gains of development. We have done it in this country, in part through the TVA, in part through social security legislation, in part through Federal aid to various schemes all over the United States. There are studies which show how income is redistributed in this country through the fiscal system, not only from the rich to the poor but from rapidly growing regions to slow-growing regions.

But this has not taken place in any measurable degree in Brazil. You see, all the gains of development have been plowed back in the area. This is, in terms of growth, good, but in terms of social stability, in terms of social cohesion it is terribly bad. No amount of foreign aid can really cure that. You can alleviate it, you can provide palliatives, you can provide American aid to the government of Pernambuco and to the government of this state and that state.

Unless you overcome the basic difficulties of a reallocation of internal resources your Northeast problem will not be solved. And don't let anybody tell you that the real answer to the Northeast is a more rapid industrialization. This is true just as it is true that salvation is always a good thing for the sinners, but it doesn't get you very far as an operational statement, you see.

I think the industrialization of areas in Brazil has been very rapid indeed. The only way in which you can cope effectively with the North East is by a kind of regional redistribution of income which I have just indicated.

QUESTION: Sir, in an area where the fastest growing population in the world is taking place, in an area where they double themselves about every 30 years, I think it would seem that what is needed is a massive, mammoth, birth-control project, maybe a birth control forum. When you try to achieve 5 percent annual GNP with private investment, aid, and a normal growth, this is sort of pouring money down a rat hole, if you are not able to keep up because of the fantastic growth in population. Could you comment on that?

DR. ADLER: My notes, which I prepared for this talk, have a last line which says, "Patience." This was the key word for what I really wanted to say at the end. One of the really most difficult aspects to overcome in trying to devise a rational development policy or foreign aid policy is to convince people that this is not a crash program. You see, we have been--I don't want to say spoiled--perhaps misled by the effectiveness of foreign aid in connection with the Marshall Plan. This was a crash program. This was a rehabilitation job.

But economic development is something which takes a long time. I remember, 10 or 12 years ago, when I got involved in this development business as an economist, people used to go around and say, "Well a massive injection of foreign capital"--they weren't talking about aid--"of loan capital would provide the proper stimulus for sustained growth." The idea of preparing countries for the take-off is something which was always mentioned at that time.

You know that the Assistant Secretary of State, Mr. Rostow, is responsible for this very intelligent notion which has one flaw, namely, that it is not a realistic notion. I think, to continue this argument, that the idea of the Alliance for Progress in 10 years is also a bit of a misconception, just as the United Nations decade of development is a misconception. Development will be with us for a long time. It will be a struggle. It was with us in the last century. At that time it went under the heading of progress. Now we call it development. It is somewhat different. Progress was by definition confined just to the advanced countries, so to speak. It was assumed that not all countries could have that sort of progress. But now we know better, or, rather, the circumstances have taught us better.

Now I am coming to answering your question. I am convinced that the population problem, which sort of sneaked up on us, is going to be with us for a while. By "a while," I mean one generation, or what not, maybe for longer. If history teaches us any precedent, then we have to realize that it took in Western Europe roughly three generations to bring the population growth down to manageable proportions of something like 1 percent or less, which prevailed in the inter-war period in Europe.

I think now, because of the greater urgency, or what not, this will not take that long. But I don't think you can solve your birth control problem by a crash program, just as you cannot solve pregnancy by a crash program. I think on the other hand that chances are that the growing awareness of the problem itself is leading to a situation which will bring

the problem under control.

Let me say one thing in this connection. The population problem in Latin America is much less acute than it is in India. I spent some time in India. You realize that every year there are 10 million Indians more. You start with 470 million and three years from now you will have 500 million. You take it from there. That's dreadful.

In the case of Latin America you have much better opportunities of accommodating this, not in all the countries, but there are only three or four countries where the population problem is terribly acute. In others I think we can afford to be a bit more patient. I say that, being convinced that ultimately a sharply reduced population growth is essential.

QUESTION: Sir, I am concerned about the comments which you made about the fact that you imply that the service elements of Latin America are opposed to social progress and eradicating illiteracy, and so forth, which are exclusively the problems we need to deal with. I wonder how you would propose a policy of action for the administrators of the Alliance and what they should do to avoid situations wherein we might cause the downfall of a strong-man, anti-Communist regime in Latin America only to replace it by a Communist regime. How do we sort out these problems?

DR. ADLER: You put your finger exactly on the key issue. I started out saying that, and I now reiterate that. The number or the sector of the political horizon, where you have non-socialist, non-Communist reformers who still can command substantial support--because otherwise

they are just useless, political pamphleteers--is very small. By the same token, our policy is narrowly circumscribed. On the one hand we want to persuade the powers to engage in peaceful nonrevolutionary changes. On the other hand we want to avoid these revolutionary upheavals which would be brought about by the impatient left, the dangerous left, the radical left.

It is awfully difficult to walk that path. It's not a rope. It isn't all that narrow. But it is difficult, and you have to be cautious and careful and circumspect, and I think I will just leave it at that.

QUESTION: Sir, can you assess the importance of the Common Market concept in Latin America, or a free trade association, which would contribute to the welfare of the Latin American countries?

DR. ADLER: Let me start out by saying that on that I hold what I think is a minority view. The minority view is that the significance of the Latin American free trade area, as distinct from the Common Market of Central America, which I will come to later, is being greatly over-rated. The argument for the Latin American free trade area is that it will provide the basis for what is technically known as the economies of scale--If you can build bigger plants you can supply bigger markets. It is related to that, in that you can then attract or allocate foreign or major investment in general, either foreign or domestic. You don't need an automobile assembly plant or an automobile plant in Argentina or Uruguay or Brazil or Chile, but you can have, perhaps, a truck plant for Brazil and a passenger-car plant for Argentina. You can avoid

duplication of resources and therefore get better results.

This is all true, but it is really necessary only as a last resort. Look at the tremendous accomplishments which small European countries have brought about--Belgium, The Netherlands, Switzerland, all countries with small domestic markets and tremendous export potential in the industrial field--I am confining myself to that.

Moreover, the scope for internal improvement of productivity, of the efficiency of operation within the country is tremendous. The Economic Commission for Latin America did, for instance, a study on the cost of textile production in--I don't know--a number of Latin American countries. The variation of costs in producing the same kind of textile material is tremendous, with Chile, if I remember correctly, by far the worst, and Mexico substantially the best.

So, there are so many other things that can be done to improve performance before you have to go to this very difficult problem of establishing a new market which isn't really there. The parallel with the Common Market of Europe is all wrong. After all, even before they were the Common Market, the countries of Western Europe were each other's best customers.

In Latin America the exchange going on among the Latin American countries is trifling, utterly unimportant, with the exception of some oil, which is really a global commodity, if you want. The transportation charges are important. There are a few other commodities--Argentina wheat flowing into Brazil and a little coffee going the other way. There

is very little inter-Latin-American trade. You really have to create something new. Therefore I would not consider this one of anybody's major policy measures, or implementation measures.

This is not true when it comes to Central America. There they have some very small communities dealing with each other. It becomes completely a question of technology. I always give this example. A friend of mine whom I know down in Guatemala, bought himself 10 years ago the smallest machine he could lay his hands on to produce some plastic things--combs and dishes, and what not--and although he is a very effective business man and he was the only producer in Guatemala, he had to run his machine only two days a week, because the capacity of the machine simply was such that it was too big for the small Guatemalan market.

Now he has a whole Central American market for himself, and now he is running 5 or 6 days a week. He says, "As long as people have lice I continue to make combs for Central America."

QUESTION: Dr. Adler, will you tell us something about the three countries where the landed families, the great families, have dug in, in Ecuador, Peru, and Bolivia? How can the Alliance for Progress get into such a situation?

DR. ADLER: I didn't speak about the problem of land reform for two reasons. In the first place it is a tremendous problem and it's difficult to deal with in the context of an overall evaluation, and, secondly, I was sure somebody would ask me a question about it.

Let me start out by saying this. Within Latin America, and also to some extent from without, namely, by our own pronouncements, we have sold the notion of land reform under the wrong colors. The land-reform measures have been advanced as a means of improving agricultural production. This, I am convinced, is not so. This is not so because modern agriculture has a tendency of moving toward larger rather than smaller units. Look at the development in this country and look at the developments all over Europe. If you want to have more output you should have fewer farms rather than more farms. You should have the fewer farms, efficiently operated and run, and you shouldn't break it up.

Therefore--I am trying to make it as short as possible--the agricultural land reform is not an economic measure but is largely a social measure and an important social measure, which I think we should push as much as possible. It is not a problem to do away with the large estates. I don't think the large estates are the problem in Latin America. The problem is that there are too many small estates. It's the mini fundista who is the problem, not the latti fundista. It's the fellow who has a plot of land on which he just can't live. I ran over and over them, you see, traveling in Southern Chile. These people are incredibly poor, the kind of picture which you got, probably in the early days of TVA, about the hillbilly areas of this country. It's very similar looking country there. They are incredibly poor. In snow children run without shoes. Why? Well, because their parents don't have enough money to buy shoes.

People are destitute and undernourished, and all that, because of inadequate income derived from an inadequate plot of land.

So your problem, then, is to on the one hand take out some of the excess farmers by putting them into other activities, into industry, services, and what not, and on the other hand to give those who are left larger pieces of land. An important supply of the additional pieces of land are the latti fundias, the large estates. I think this is the important reason why the large estates should be broken up.

This is my view. Some of ^{my} Chilean friends have argued with me that the most important reason for the propaganda to break up the large estates is in order to break the political power of the landed interests. There is some truth in that, too, except that I think that this is not quite as effective as it might sound, because, in many instances, large land holdings have become the symbol rather than the basis for important political power. Even if you break up the large estates, the fellows who own the estates still may remain politically very powerful. They have connections. They are not all farmers. They also are interested in industry and banking, and what not. Therefore, I think they are mistaken in trying to eliminate what has become a symbol rather than a real economic-social basis.

But never mind that. I think the argument for the land reform, then, really rests on social considerations, and on the need for expanding small holdings rather than on the need to break up the large holdings.

COLONEL BEALL: Dr. Adler, please accept our sincere thanks for a very excellent coverage of Latin America and the Alliance for Progress.