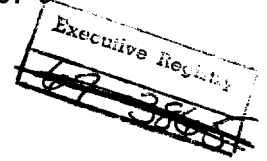


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**Critique of NIE Paper 80/90-67: Economic Trends  
and Prospects in Latin America**

NIE Paper 80/90-67 presents a gloomy picture of current economic trends and prospects in Latin America that is unwarranted. By concentrating on per capita GNP growth rates as almost the sole criteria of progress, the paper fails to make a number of essential distinctions and qualifications which are necessary to put the economic performance of the area in proper perspective.

The following are the major defects in the analysis:

1. The authors of the paper base their conclusion that Latin America has shown poor economic progress in recent years chiefly on the statement that: "Per capita growth in gross national product (GNP) for Latin America is less than the average for all underdeveloped areas, and very much less than for those economies of southern Europe which are roughly similar in stage of development to the more advanced Latin American countries."

The facts are that Latin America's growth record in recent years has not been poor in comparison with the LDC regions, with perhaps the exception of southern Europe. The comparison with southern Europe is somewhat disingenuous, however, in view of the very high population growth rate in Latin America and the very low rate of population growth in the southern European countries (Table I). Furthermore, the external trade relations of the southern European countries are not comparable to those of Latin America in terms of dependence on a few export products and distance from large markets. On the other hand, Latin America's rate of growth compares favorably to the rest of the less-developed world, as customarily defined:

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	<u>Rate of Growth of GNP per capita, 1960-66</u>	<u>Current Rate of Growth of Population</u>
East Asia (excluding Japan)	2.3	2.7
Latin America	1.6	2.9
South Asia	1.4	2.5
Africa	1.1	2.4

2. The focus of the paper on the GNP growth rate for the entire period 1960-66 obscures the substantially higher rate of growth of the past three years compared to 1961-63. GNP per capita grew at an average of 2.3% in 1964-66, compared to 1.0% in 1960-63. To a significant extent these results can be attributed to improved economic policies by the governments of the area, responding to the stimulus of the Alliance for Progress.

3. Many of the growth problems of the early 1960's were the price paid for unsound policies which were followed during the late 1950's, as for example large deficit spending in Argentina, Brazil and Chile, the effects of which were masked by heavy short-term borrowing abroad. The high growth rate in Brazil in the fifties does much to raise the total for Latin America as a whole. Yet this rate of growth was sustained only by running up over a billion dollars in foreign debt (much of it on exceedingly unfavorable terms) which came home to roost in this decade. Viewed in this light, the growth record of the 1950's is not a proper yardstick by which to judge performance in recent years.

4. The foregoing is illustrative of the major defect of the paper--its failure to give adequate weight in judging performance to major improvements in economic policies and to institutional reforms during the past several years. In fact the paper gives the impression that the countries of the area continue to follow the unsound policies which got them into difficulties in the early part of the decade. Yet a number of important countries, e.g. Brazil, Chile, Colombia, and, more recently, Argentina, have instituted major new departures in economic policy designed to lay

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the basis for a more permanent and more equitable growth in the future. The average rate of growth of per capita product since 1963 has been as high as in the period 1950-1960, yet the growth has been much more soundly based than in the previous decade. The description in the paper of the problems of import-replacement industries, inflation, and agriculture is more accurate for the decade of the fifties than of the present.

5. Argentina and Brazil together contribute 40 percent of the GNP of the region. The slow rate of growth of GNP in these two countries during most of the sixties has pulled down the results for Latin America as a whole and obscures the fact that 12 of the 17 countries considered by the study had higher rates of growth of GNP in 1961-66 than in 1956-60. It is an oversimplification of the problems of economic development to argue that because these two countries weigh so heavily in total population and product, the economic performance of the area must be measured accordingly. As long as the nation-state dominates international political life, the problem of economic development exists largely in the context of the nation and success or failure cannot be judged solely in terms of relative size of the economic unit.

6. Much is made of the fact that Latin America's portion of total world trade declined. This is beside the point, since, as the paper mentions (without understanding the implications), this is a problem shared by all the LDC's. If we are interested in measuring economic performance, the proper yardstick is economies at a similar stage of development. By this measure, Latin America is performing well. Latin America's market position improved relative to the other LDC's once allowance is made for the slow growth of Venezuelan oil exports (Table II).

7. The report places much weight on the estimate that prospects for Latin American traditional exports are poor and that it is unlikely that Latin American governments will take the necessary policy actions to stimulate exports of other products. While history tends to support this viewpoint, the fact is that both Brazil and Argentina have shown signs of a determination to follow

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more export-minded policies. Brazil has maintained a realistic exchange rate policy, consistently, for the past three years and indications are that it will continue to do so. At the same time, it has twice in the past year taken steps to reduce the level of import protection. Procedural and financial inducements to export have been adopted. As a consequence, Brazil's exports of manufactured goods, while remaining a small part of total exports, have increased dramatically. The point is that the potential for non-traditional exports by Brazil, Argentina and, for that matter, in the Central American Common Market area, may be far greater than one had dared hope for and that the policy measures needed to induce such exports may not prove so "distasteful" once the benefits become known.

8. Finally, there is the statement on page one to the effect that Latin America has shown poor economic progress "even though the U.S. Government and international financial agencies have, since 1960, supplied some \$6.5 billion in economic aid." This statement, which seems calculated to make a sensational impact on the reader, turns out upon reflection to be rather meaningless. The implication is that \$6.5 billion was a sufficient amount to have induced a faster rate of growth. Yet measured against the size of the task, it might be concluded that the amount of external assistance to Latin America has not been enough to do the job. During the four years of the Marshall Plan, for example, Western Europe with roughly the same population received a total of \$11.5 billion in U.S. loans and grants (mostly the latter). Yet Europe's situation with regard to institutions, entrepreneurship, human resources, and infrastructure was far more favorable than that of Latin America today.

**Attachments:**

1. Table I - Current Rates of Population Growth
2. Table II - Developing Areas: Value of Total Exports (FOB) and Percentage Change, 1960-1966

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Table I

**CURRENT RATES OF POPULATION GROWTH**

	<u>% PER ANNUM</u>
Greece	0.5
Italy	0.7
Portugal	1.1
Spain	0.8
Latin America	2.9

Table II

**DEVELOPING AREAS: VALUE OF TOTAL EXPORTS (FOB)  
AND PERCENTAGE CHANGE, 1960-1966  
(Millions of Dollars)**

	Total Developing Areas <sup>1/</sup>		19 Latin Am. Republics		Other	
	Incl. Fuels	Excl. Fuels	Incl. Fuels	Excl. Fuels	Incl. Fuels	Excl. Fuels
1960	26,900	19,250	7,950	5,600	18,950	13,650
1961	27,100	19,000	8,090	5,710	19,010	13,290
1962	28,600	19,740	8,640	6,080	19,960	13,660
1963	31,100	21,630	9,190	6,570	21,910	15,060
1964	34,000	23,380	9,860	7,160	24,140	16,220
1965	36,000	24,700	10,370	7,590	25,630	17,110
1966	38,200	--	11,100	--	27,100	--
Percentage Increase	42.0%	28.3%	39.6%	35.5%	43%	25.4%
Compound Rate of Increase	6%	5.1%	5.7%	6.3%	6.1%	4.6%

<sup>1/</sup> Including 19 Latin American Republics, other Western Hemisphere (except U.S. and Canada), Africa (except South Africa), Middle East, and Asia (except Japan).

Sources: International Financial Statistics, May 1967 and  
United Nations Monthly Bulletin of Statistics, March 1967.

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<p><i>I assume this was written in state</i></p> <p style="text-align: right;"><i>ut</i></p> <p><i>Note: Our memorandum attempted to answer points in this attached paper, as well as those in Rastow's telephone call to the DCI</i></p> <p style="text-align: right;"><i>als 28 Aug 67</i></p>			
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