NEW YORK
HERALD TRIBUNE

MAR 10 1964

Latin Trade—No. 3

Why the Lag In Investing

THE American business men whose capital is urgently needed to make the Alliance for Progress work have been increasingly leery of investment in Latin America. In the last article of a three-part series, Herald Tribune correspondent Barnard L. Collier explains why some U. S. entrepreneurs think the cards are stacked against them.

By Barnard L. Collier
Latin American Correspondent
WASHINGTON.

The Alliance fora Progress is supposed to pump $20 billion worth of outside investment into Latin America over a 10-year span.

The United States government was pledged to $1.1 billion a year, American business was to put in $300 million and $600 million more was expected from world agencies and European countries plus Japan.

To get this kind of massive capital transfusion, Latin American countries made a few pledges at Puente del Este: to curb runaway inflation; to push tax, land and administrative reforms; to move toward a more integrated hemisphere-wide market, and to balance cockeyed budgets.

It was hoped that under these conditions the $2 billion a year in new capital would generate $4 for every $1 invested in Latin America.

Only the U. S. government and the lending agencies stuck to the proposed goals, or almost did. The first year of the Alliance, the U. S. put in $1.2 billion, of which $300 million was Export-Import Bank refinancing for Brazil. By fiscal 1963 the figure had dropped to $972.4 million. It is expected to be lower again this year.

U. S. businessmen grew more quickly skeptical of the Alliance's progress. In the past two years new private U. S. investment actually diminished below zero to a discouraging disinvestment figure of some $74 million.

European and Japanese investment grew in the meanwhile, but more slowly than it might have and then only because, as one Italian businessman said, "We are used to taking bigger risks and we are compelled by circumstances to go outside our boundaries."

The slowdown on the part of private enterprise raises a key question: Is the Alliance helping or hurting business in Latin America?

THE OBSTACLES

It is apparent that U. S. businessmen feel the Alliance has not directly helped them and may even have dampened their enthusiasm for Latin American ventures.

In his revealing testimony before the Joint Subcommittee on Inter-American Economic Relationships in January, attorney Philip A. Ray, chairman of the International Bond & Share, Inc., summed up what many U. S. executives feel are some of the most disturbing obstacles in the way of greater private investment in Latin America.

First on his list of ominous trends was increasing government control of business and industry, which U. S. businessmen believe belongs in the private sector.

"Most of the Latin American governments own and operate a huge and growing array of business enterprises—confiscated, condemned, or built originally out of tax revenues or Alliance for Progress aid or Export-Import Bank funds," testified Mr. Ray.

"Mexico owns over 500, including steel, oil, chemicals, movies and autos, and the story can be duplicated in substantial degree almost everywhere. Many of these projects are built for prestige and nearly all are losers; hence they cannot expand soundly."

Mr. Ray went on, "These things retard or prevent the formulation of new job-creating facilities in the private sector, due to the threat or reality of competition from government enterprises not playing the same game of profits and tax-paying, and to the fear of outright confiscation."

But Mr. Ray was not wholly pessimistic about the possibility of solutions to the government-in-everything problem.

The U. S. can do its part, he said, "by helping to finance the divestment of these enterprises into local private hands and giving special incentives to enable U. S.-owned enterprises willing to share a significant share of their stock to the local people also."

In addition, he went on, "U. S. guarantees should be made available to any wholly-owned U. S. firm operating in Latin America and willing to offer substantial portions of equity to employees and local people."

Mr. Ray also detailed other basic hurdles U. S. businessmen want to see overcome:

TAXES—"The Alliance for Progress had laid emphasis upon a kind of tax reform generally signifying higher and better-collected taxes from corporations and upper income groups. Yet, generally speaking, less-developed nations need lower taxes in order to spark private sector growth."

GOVERNMENT INTRUSION—"In many Latin American countries wages are fixed by decree, without legislative action. Rents are often controlled, frequently on sporadic and discriminatory basis. Frequently, executive decrees in Latin America determine what the hours of work should be, what days should be taken off, and what the maximum and minimum wages should be."

INFLATION—"Any chance for the cycle to perfect itself for the mass of people is also destroyed by the rampant inflation existing in most areas of Latin America. . . . It is almost idle to talk of plans for the expansion of capital investment for productive facilities, or any kind of foreign assistance, in the presence of this kind of inflation."

GOVERNMENT RESPONSIBILITY—". . . Much attention is paid to the question of political stability. Without any doubt the political climate prevailing in much of Latin America . . . is the largest contributor to economic underdevelopment. Nevertheless there is little we can do within the limits of government-to-government aid or diplomacy to affect the trend in any particular country."

AGRICULTURE—"The concept of subsistence farming of small plots, especially in the production of crops in which Latin America excels—wheat in Argentina, cotton in Mexico, sugar cane in Colombia, coffee in Brazil and elsewhere, and so forth, may have some political appeal but it makes economic nonsense. Hence, 'land reform' often means collectivization a la Soviet. In place of confiscation, collectivization, and subsistence farming, Latin American governments should look to colonization, tax relief and private co-operatives for purchasing and marketing."

A NEW CLIMATE

EXCHANGE CONTROLS—"There is no justification in our providing aid while the Latin Americans refuse to put their capital to work in their own homelands. But on the other hand it must be recognized that new direct foreign capital will not go to Latin America unless, as to it, there are reasonable provisions permitting the foreign owners to repatriate income and capital."

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INVESTMENT GUARANTEES—"Guarantee concepts have to be entirely revised. U. S. investment in a country whose government offers adequate guarantees against nationalization and like risks and adopts other measures favorable to private operations should be accorded preferential treatment under U. S. guarantee programs."

ECONOMIC INTEGRATION—"An essential to the creation of an improved domestic investment climate in Latin America lies in a more rapid economic integration of the Latin American republics. . . . The rapid elimination of tariff, quota, and other barriers now existing between the republics of Latin America would generate substantial expanded trade, enlarged markets, and new investments in Latin America."

U. S. TAXES—"If Latin American nations will forego tax collections to stimulate foreign investment, we should exercise equal forebearance. This concept has been embodied in several measures before this Congress and one measure, allowing a 30 per cent tax reduction to those who will invest in Latin America, is still pending before the Congress."

Mr. Ray's testimony is resoundingly echoed by the vast majority of businessmen in the U. S. and many abroad. And with the problems encountered in the initial years of the Alliance for Progress, it appears that these feelings are gaining currency in the Johnson administration. There is little question that the new Assistant Secretary of State for Inter-American Affairs, Thomas Mann, subscribes to many of Mr. Ray's criticism and proposals.

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