

AES

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23 August 1967

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Response to Criticisms of EIE 80/90-67

1. We have considered the criticisms made of EIE 80/90-67, "Economic Trends and Prospects in Latin America," issued on 20 July 1967, and our confidence in the soundness of that Estimate is not shaken. Its preparation involved more than a year of study, analysis, drafting and coordination -- even though we were able to draw upon earlier estimates on the economies of individual Latin American countries. The resulting product reflects the views both of economists and of other Latin American specialists of the intelligence community.

2. A criticism that we think is wide of the mark is that the conclusions of the EIE rest almost entirely on a statistical analysis of growth rates. In fact, they stem from a much broader analysis of both economic and political determinants; Section III, for example, analyzes the area's problems of development and reaches a whole series of qualitative judgments. We feel that among the virtues of the paper is its consideration of the non-economic factors which bear so heavily on economic performance

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and prospects. On such matters there can of course be differences of judgment, but we did reach unanimity on them.

3. One comment is that the NIE plays down the improvements in economic policies and the reforms in institutions which have recently occurred in several countries, e.g., Argentina, Brazil, Chile, and Colombia. In fact, one entire section of the estimate is devoted to this topic, and it discusses each of these four countries individually. The title of this section is "Hopeful Actions in Other Countries."

4. Again, an argument is made that, leaving out oil exports (which would cause the answer to come out differently), the rate of growth of Latin American exports would compare favorably with that of exports from other underdeveloped areas. But the point in the NIE -- and one which this criticism agrees with -- is that Latin America's portion of total world exports has decreased, and that this is a decline it shares with the other underdeveloped areas. This is of course one of the thorniest problems for Latin America as for the others. To be sure, as the comment puts it: "the potential for non-traditional exports . . . may be far greater than one had dared hope for . . ." We do not estimate,

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however, that this potential is likely to be realized to any substantial extent during the five-year period of this Estimate.

5. It is also charged that our use of per capita growth figures is misleading because Latin America has an extraordinarily high rate of population increase. Of course there would be more room for optimism about the economic outlook for Latin America if the population were not growing by 2.9 percent per year. But it is growing at this extraordinary rate -- and nobody has quarreled with our conclusion that "at least another decade will go by before this rate begins to decline." In the economic conditions that prevail and will prevail for some years to come in Latin America, this explosive population growth is bound to have a seriously complicating and retarding effect on economic development.

6. We did not intend to imply (in Conclusion A) that \$6.5 billion in economic aid "was a sufficient amount to have induced a faster rate of growth." Indeed, we wholly agree with the comment that "measured against the size of the task" this amount was not enough to do the job. Our judgment of "the size of the task" is one reason why our estimate of prospects for the next five years has a gloomy tone.

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7. In the following annexes, we respond in greater detail to comments on the NIE's use of data on GNP and foreign investment. We also present some material on tax collections which, we feel, helps to keep this subject in perspective. The annexes set forth the pertinent figures, along with a few general comments. Obviously, the data on the growth of GNP can be handled in different ways for purposes of comparison. In the NIE, we made comparisons using periods of approximately five years. Our critics believe that it would have been more appropriate to compare the last two or three years with the two or three before that; such comparison, they argue, engenders more optimism about the future. But, as mentioned above, our conclusions do not rest exclusively or even primarily on a simplistic analysis of growth rates. And the criticism loses some strength, in any case, because both the growth rate for 1966 and the preliminary figure for 1967 are considerably smaller than the rates for 1964 and 1965.

FOR THE BOARD OF NATIONAL ESTIMATES:

ABBOT SMITH
Acting Chairman

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ANNEX A: Growth Rates for GNP

The HIE states that aggregate GNP for Latin America has been increasing at a declining rate (5.1%, 1951-1955; 4.8%, 1956-1960; 4.5%, 1961-1966). Different rates can be obtained by selecting different periods. For example, the average growth rate in 1961-1963 was only 3.8% while the growth rate in 1964-1966 was a considerably higher 5.3%. Comparable variations in growth rates between short time periods can be found in the 1950's as well. We do not believe that they invalidate the thesis that the general trend has been downward.

A closer look at the data reveals that 1960 and 1961 were well above average years in Latin America, 1962 and especially 1963 were poor years, 1964 and 1965 were unusually good years, and 1966 and probably also 1967 no better than average. These fluctuations in growth rates appear to be attributable largely to fluctuations in foreign trade and to strong cyclical movements in Argentina. Excluding Argentina, the changes in overall growth rates are smaller, but Argentina is, after all, a part of Latin America.

In any event the principal conclusions of the HIE do not depend on the selection of time periods for growth rate calculations, and the judgments as to future prospects are not based on projections of past growth trends.

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Average Annual Rates of Growth of GNP in Latin America

<u>Time Period</u>	<u>Total Latin America^{a/}</u>	<u>Excluding Argentina</u>
1951-55	5.1	5.9
1956-60	4.6	5.4
1961-66	4.5	5.0
1961-63	3.8	4.6
1964-66	5.3	5.4
1960	6.5	6.1
1961	5.1	4.7
1962	4.0	5.4
1963	2.4	3.8
1964	6.6	6.3
1965 ^{b/}	5.2	4.6
1966 ^{b/}	4.0	5.1
1967 (preliminary)	4.0-4.5	5.0-5.5

a/ 17 countries

b/ The figures for these years have been revised slightly since publication of HIR 80/10-67. These revisions are based on later GNP estimates; they do not change the figure for the rate of growth for the period 1961-1966.

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ANNEX B1 Trends in Foreign Investment

The inflow of foreign capital into Latin America (including long and short-term funds, net of repayments) in the 1960's fluctuated widely. The overall trend appears to be slightly upward if Venezuela is included and constant if Venezuela is excluded. Between 1960 and 1963 private long-term investment was falling and official loans and grants were rising. There was some recovery of private investment and a slight further rise in official aid in 1964, and both private investment and official aid have probably been fairly constant since then.

The outflow of investment income (including interest on official loans) from Latin America has increased steadily during the 1960's. For the area as a whole this outflow has exceeded the net inflow on capital account for every year since 1960. Until 1965 net inflow exceeded net outflow, if Venezuela is excluded. Since 1965, net outflow has about caught up with net inflow, even if Venezuela is excluded.

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Latin America: Net Inflow of Capital Less Outflow of Profits, Dividends, and Interest

(in millions of U.S. dollars)

	1960		1961		1962		1963		1964	
	19 Republics	Excluding Venezuela	19 Republics	Excluding Venezuela	19 Republics	Excluding Venezuela	19 Republics	Excluding Venezuela	19 Republics	Excluding Venezuela
I. Net inflow of capital ^{a/}	1,188	1,339	1,176	1,597	936	1,467	756	1,098	1,457	1,488
of which:										
Private long-term, net	653	779	487	706	335	743	213	398	459	515
Official loans and grants, net ^{b/}	181	239	530	568	526	529	834	844	874	848
II. Net outflow of profits, dividends, and interest ^{c/}	-1,193	- 671	-1,336	- 759	-1,448	- 818	-1,415	- 807	-1,634	- 982
III. Net inflow of capital less outflow of profits, dividends, and interest (I -II)	- 5	668	- 160	838	- 512	649	- 659	291	- 177	506

^{a/} Gross inflow of long- and short-term capital less repayments, short-term capital outflows, depreciation of foreign-owned fixed assets, and direct investment outflows. In some years the sum of inflows of private long-term capital and official loans and grants exceeds the total shown because of a net outflow of short-term capital. For the years 1965 and 1966, the total net inflow of capital may be somewhat overstated because of the probable exclusion of repayments of balance of payments loans and deferred import payments in the available data.

^{b/} Non-compensatory loans and grants.

^{c/} Includes profits and dividend payments, to foreign owners of capital in Latin America and interest payments on external public and private debt.

SOURCES: Data for 1960-64 derived from "Economic Survey of Latin America, 1965", UN-ECLA.

Data for 1965-66 compiled from IMF, International Financial Statistics, Vol. XX, No. 6, August 1967.

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Latin America: Net Inflow of Capital Less Outflow of Profits, Dividends, and Interest
(continued)

	1965		1966	
	19 Republics	Excluding Venezuela	19 Republics	Excluding Venezuela
I. Net inflow of capital <u>a/</u>	1,120	1,056	1,464	1,434
of which:				
Private long-term, net	na	na	na	na
Official loans and grants, net <u>b/</u>	na	na	na	na
II. Net outflow of profits, dividends, and interest <u>c/</u>	-1,758	-1,042	-1,913	-1,238
III. Net inflow of capital less outflow of profits, dividends, and interest (I-II)	- 638	14	-449	196

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ANNEX C: Tax Collections in Latin America

Many Latin American governments have made a strong effort to increase tax revenues. Central government tax revenues have grown markedly in recent years even after allowing for price changes, but there has been only a slight increase in the ratio of tax revenues to GDP during 1961-1965, as shown below for Latin America as a whole:*

	<u>1961</u>	<u>1964</u>	<u>1965</u>
Index of tax revenues (in constant prices)	100	114	124
Ratio of tax revenues to GDP	12.5	12.6	12.9

No aggregate data are available for 1966 but preliminary figures for a few countries indicate a slight increase in the ratio of tax revenues to GDP. The ratios of total central government revenues (including taxes and other collections) to GDP rose in Brazil from 10.9% in 1965 to 11.2% in 1966 and in Argentina from 7.1% in 1965 to 7.3% in 1966.

* 17 republics

SOURCE: Inter-American Development Bank: socio-economic Progress in Latin America, Social Progress Trust Fund Sixth Annual Report, 1966

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