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The deepening concern over world food supplies has brought increased emphasis on the need to increase food production, particularly in the developing countries. IDB News presents a special edition on food and agriculture which focusses on some of the problems and the efforts being made to solve them.

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Canada increases IDB development fund. Page 9.

Ortiz Mena stresses IDB's role in agriculture. Page 10.

The challenge of capital investment. Page 11.

DESPITE LAGGING PRODUCTION, LATIN FOOD POTENTIAL IS HIGH

No assessment of the Latin American economy can ignore the fact that agriculture, the region's main source of employment and of foreign exchange, is expanding at a lower rate than the rest of the economy. For agriculture, as Frank Meissner, Executive Secretary of the Bank's interdepartmental Work Group on Strategy and Action Program in Agriculture (SAPA) says, has been the stepchild of Latin American development.

Between 1969 and 1973, the most recent year for which figures are available, the gross domestic product grew at an average yearly rate of 5.8 per cent, but the value added by agriculture increased at only 3.4 per cent. In most countries per capita farm production has remained the same and, in some, has even declined.

This has put countries which do not produce sufficient food in a difficult situation, for the world food shortage, together with the higher price of fuel and the contributing factors of climate, money and population growth, have brought a significant increase in the price of many agricultural products. This affects especially the low-income groups, who are forced to spend an ever-greater part of their income for food, with less and less money left over for other consumer items and other needs.

Yet Latin America is in a position to produce enough food for its own needs and for export.

IDB President Antonio Ortiz Mena has evaluated Latin America's great

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THE CIMMYT STORY: SCIENCE WORKS FOR AGRICULTURE

El Batán, Mexico—Whatever the problems of survival to man, one is always paramount. He has to eat. And as the world entered the last quarter of this century, it became apparent that people were multiplying more quickly than man could produce food. It was also apparent that the earth was not going to get any bigger and that man would have to do better with the available land in providing for himself. The soil was tired and misused, especially in the developing countries where food production in many cases is still a tradition instead of a technology. The small farmer, especially, was in constant struggle for

his food and livelihood from the long impoverished soil that provided meager crop yields.

So science was called upon and produced the so-called "Green Revolution" aimed at increasing through technology the yield of basic food crops such as maize, wheat and rice. The quest for more food has brought together scientists, government leaders, international organizations, and farmers to tackle a problem that, until a few years ago, many people refused to take seriously.

Today there are nine international agricultural research centers throughout

the world dedicated to the challenge that the world will not go hungry for lack of foresight and effort from its leaders.

They are the International Maize and Wheat Improvement Center (CIMMYT) in Mexico, the International Rice Research Institute in the Philippines, the International Institute of Tropical Agriculture in Nigeria, the International Center of Tropical Agriculture in Colombia, the International Potato Center in Peru, the International Crops Research Institute for the Semi-Arid Tropics in India, the International Lab-

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Harvesting potatoes. Potatoes, along with tomatoes, are one of the main crops in Mexico's fertile Fuerte River basin in the western state of Sinaloa.

IDB Has Provided \$1.7 Billion To Assist Agricultural Development

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potential as a producer of food in terms of its cultivable lands and land actually under cultivation.

"To give a clearer picture of what this means," Mr. Ortiz Mena says, "We should remember that our countries together have a potential of 1.5 billion hectares, of which about one billion are forested and the rest are suitable for agriculture. Only 162 million hectares of the cultivable area are in crops; and of the latter, scarcely 5 per cent, or 8.7 million hectares, are under irrigation."

Mr. Ortiz Mena estimates that, for optimum development of its agricultural base, Latin America must use no less than 60 per cent of its cultivable land. In its 1974 Annual Report the Bank declares its intent to make a very special effort to ensure that adequate internal and external resources are assigned to the sector. "So that if Latin America is to continue to improve the welfare of its still large rural population and provide food for the rapidly expanding urban centers, as well as contribute to

the rising supplies needed by those regions of the world which have very limited agricultural potential."

"Because of the complexities inherent in accelerating rural development, Latin America, despite its resource endowment, will require considerable external cooperation to attain the targets that have been set by the governments of the region and by the international community.

"The success of the region in the development of industry, which is demonstrated by the rapid expansion and diversification of manufactured exports in recent years, suggests that a vigorous and sustained commitment to rural and agricultural development can be equally successful."

In pursuit of these goals, the Bank has already extended almost 190 loans through which it has channeled \$1.7 billion into the region's agriculture, or 23 per cent of the \$7.5 billion it has lent in its fifteen years of operations.

But IDB action for agricultural and

GUATEMALA, COOPERATIVES AND AGRICULTURAL PRODUCTION

The Latin American governments, in the search for new judicial and technical systems that will help increase agricultural and food production, are encouraging certain approaches which promote different types of team work. One of these is the cooperative movement.

For example, in his recent message to Congress, the President of Guatemala, General Kjell E. Laugerud García, said: "My Government supports the cooperative movement, which currently includes more than a hundred cooperatives with a membership of more than 150,000 farmers and represents 750,000 family members."

President Laugerud García added that the cooperative movement maintains the concept of private property inviolable and effective, stimulating people to work for the benefits of individual endeavor.

"What the cooperative movement does," he said "is to make it possible for people to work together for greater production and for greater benefits."

livestock development has been more far-reaching than these figures show, says Frank Meissner. Many of its operations in other fields have directly benefited agriculture. Loans for electric power have taken electricity to rural areas and loans for hydroelectric plants have made possible flood control or irrigation on large tracts. In 1974, for example, several of the loans approved for power development were for projects with a strong agricultural content. Had they been assigned to rural development, the agricultural sector would have accounted for 39 per cent of the total loans approved that year.

Loans for transportation have made possible the construction of ports and of market-access roads in rural areas;

Rice-growing in Ecuador's coastal area.



operations for industrial development have helped foster the manufacture of farm machinery, fertilizers and other agricultural inputs; loans for rural housing, water systems and similar works have helped to improve living conditions of farm families. And some of the loans for educational development have been used to increase the number of rural educational centers.

At the same time, a considerable part of the funds extended for technical cooperation or for preinvestment studies have helped to train personnel in preparing projects and to improve institutions directly involved in agricultural development. In short, about 40 per cent of the Bank's total lending has had a direct or indirect impact on agriculture.

One of the Bank's main concerns in fostering integrated rural development has been to improve living conditions on the farm.

This approach takes into account two of the most serious problems now facing the world: the food shortage and the energy crisis. Moreover, it tends to foster a type of production that fits in with conditions in some parts of the region, where small landholders and farm workers cultivate plots that for generations have been divided and subdivided. Given adequate resources, these small farmers, if grouped in production associations, can attain the same results as large, efficient agricultural operations.

Another aspect of agricultural and livestock development in which the Bank has been active is the field of applied research. The leading agricultural research centers in Latin America, the CIMMYT, CIAT, and CIP (see page 1), have received substantial Bank loans. Their experiments are benefiting not only the 30 million farmers in Latin America, but other developing countries, as well as the industrialized countries.

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"When completed, IDB-supported programs are expected to improve or bring into production some 10.3 million acres of land," says Fernando Cáceres, Chief of the Bank's Agricultural Development Division. But that figure in itself does not reveal the impact of these programs, for some countries have no cultivable land left to bring into production. Such countries can only broaden the agricultural "technological frontier;" Bank-supported programs are also directed at accomplishing this.

THE IDB AT INTERNATIONAL MEETINGS

Among recent international meetings on economic and social development in which Bank officials have participated—and some of the topics discussed and conclusions or resolutions adopted—were:

TWENTIETH MEETING OF THE ADVISORY COUNCIL AND FOURTEENTH MEETING OF THE BOARD OF DIRECTORS OF THE INSTITUTO INTER-AMERICANO DE CIENCIAS AGRICOLAS (IICA). Ottawa, May 4-9.

Fernando Cáceres, Chief of the Division of Agricultural Development Projects, represented the Bank.

Among the resolutions adopted by the Board of Directors was one which dealt with the convening of the Seventh Inter-American Conference on Agriculture "some time during the first semester of 1976." The Conference, to be held under the joint auspices of the Organization of American States (OAS) and IICA, will have as its main theme "Food Production, Distribution and Consumption in the American Countries."

The Board also approved the Budget-Program of the Simón Bolívar Fund, which has an initial capital of \$10 million contributed by the Government of Venezuela. The Fund's objective is to accelerate rural development, make better use of resources, protect the environment, encourage wider use of technology adaptable to the socio-economic conditions in each country and support the efforts of the countries of Latin America and the Caribbean area to achieve economic integration.

The Fifteenth Annual Meeting of the Board of Directors of IICA will be held in Washington, D.C., early in May 1976.

INTER-AMERICAN TECHNICAL TRAINING AND COOPERATIVE FINANCING SEMINAR. Lima, May 5-19.

Sixty delegates from 15 countries attended the Seminar. José Antonio Menéndez, Senior Specialist, Development Finance Institutions Division, represented the Bank.

The meeting was called by the *Sociedad Interamericana de Desarrollo del Financiamiento Cooperativo (SIDEFCOOP)*, with the cooperation and under the sponsorship of the Organization of American States (OAS) and the American Association of

Cooperatives, to foster the exchange of information among cooperatives on systems of financial integration, progress in resources mobilization techniques, and training in financial administration.

Representatives of the World Bank, the OAS and the IDB discussed their experiences in the field of cooperative financing. The Bank's representative presented a paper on "IDB Action in Latin American Cooperative Financing Institutions" reviewing the Bank's activities in that important area of regional development. It was agreed to bring to the Bank's attention the advisability of working out an agreement with SIDEFCOOP on technical cooperation designed to achieve greater capability in financial administration and the preparation of projects on cooperative investments.

IBEROAMERICAN CONFERENCE OF MINISTERS OF AGRICULTURE (CIMA).

Madrid, May 26-28.

The Conference, sponsored by the Government of Spain, explored the possibilities of technical cooperation for agrarian development in the Latin-American countries. Guillermo Moore, Manager of the Project Analysis Department, represented the Bank.

The Ministers or their representatives based their statements mainly on government action in the agricultural sector, highlighting agrarian reform measures, the various policies followed, and the different aspects of the countries' development. The Conference considered that in Latin America large masses, mainly rural, live in extreme poverty, so that it is necessary to adopt measures to increase livestock and agricultural production and productivity, that are also designed to improve farmers' economic situation and social status.

The Conference adopted a number of recommendations on organizing and restoring nature and natural resources, on agrarian reform and development, and on technological research and transference, and outlined specific kinds of cooperation, among them, joint projects undertaken by Latin American countries, such as technical and financial contributions, strengthening regional agricultural integration mechanisms and activating them by means of the establishment of multinational Latin American enterprises geared to produce agricultural machinery and inputs, coordination of preventive sanitation measures, both animal and vegetable, and the use of plant health products. The Conference also pointed out the urgency of active participation by countries in the Food Codex meetings held by the Food and Agriculture Organization (FAO).

At CIMMYT Agroscientists Work To Increase Food Production

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oratory for Research on Animal Diseases in Kenya and the International Livestock Center for Africa in Ethiopia. A ninth, the International Fertilizer Development Center, is being established at Muscle Shoals, Alabama, on property belonging to the Tennessee Valley Authority. The first international center located outside a developing country, it was created to improve fertilizers and their application in the developing countries, especially for tropical and subtropical agriculture. A consulting group has recommended the establishment of a tenth center to undertake research on crops important in the Middle East and Northern Africa.

THE BEGINNINGS

The concept for these international agricultural research centers came from a Mexican research program undertaken in cooperation with the Rockefeller Foundation in the 1940s which by the sixties had revolutionized Mexico's food production methods. The principal functions were to introduce technology to farming and train agricultural specialists to carry out the work. Because few developing nations could afford their own team of research scientists or facilities, it was decided to create international research institutes that would serve all interested nations. As the concept proved itself and more institutions were introduced, it was necessary to establish the Consultative Group on International Agricultural Research (CGIAR) in 1971 to help the private foundations fund these institutions.

CGIAR members include the Inter-American Development Bank, which is becoming the major financial support for the international agricultural research institutes in Latin America. Its sponsors are the World Bank, the Food and Agriculture Organization of the United Nations and the United Nations Development Programme. Other members, in addition to the IDB, are the private United States foundations—the Ford, Rockefeller and W. K. Kellogg Foundations—the African and Asian Development Banks, the Commission of European Communities, the International Development Research Center, an autonomous Canadian organization and 13 governments—Australia, Belgium, Canada, Denmark, France, the Federal

Republic of Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States. A member may select the institutions it wishes to assist financially. The Inter-American Development Bank, for example, helps only the institutions located in Latin America. Thirteen prominent scientists and economists known as the Technical Advisory Committee, advise the Consultative Group on research proposals and priorities and on the methods used, and evaluate the effectiveness of the programs.

Each Center has a board of directors consisting of nationals of the host country and others, as well as a panel of experts who review the programs from a technical point of view.



Nobel laureate Norman E. Borlaug

The Inter-American Development Bank has participated in these international research programs since 1971, when it provided \$600,000 to finance two training programs for Latin American agricultural specialists. The funds made it possible for 60 professionals from 16 Latin American countries to specialize in corn and wheat production and 50 from 12 of those countries to study tropical crops and stockbreeding.

In 1974, the IDB provided \$4 million in grants to the three Latin American research institutions—\$1,333,500 for CIMMYT in Mexico, \$1,839,500 for tropical agriculture in Colombia and \$827,000 for potato research in Peru. The Bank is presently considering a 1975 appropriation for the three centers totaling \$4 million. This could account for about 25 per cent of the combined 1975 budgets of these centers, making the IDB the major contributor for international agricultural research in Latin America.

THE CIMMYT STORY

The flagship of the "Green Revolution," and perhaps also of the international agricultural research centers, is the International Maize and Wheat Improvement Center (CIMMYT), located at El Batán, 45 kilometers northeast of Mexico City. The genesis of the Rockefeller-Mexico agricultural experiment, CIMMYT has gained world renown for its training programs and for major breakthroughs in the genetic manipulation of wheat and maize plants for higher yields and better performance. Scientists at CIMMYT developed the world's first man-made cereal, triticale, which is a cross between wheat and rye and is also supposed to better resist nature's elements and have a higher protein value. CIMMYT is the resident institute of several outstanding agroscientists that include Dr. Norman E. Borlaug, the Director of its International Wheat program and the recipient of the Nobel Peace Prize in 1970 for his work in agricultural research.

CIMMYT's Director General, Haldore Hanson, is a 63 year-old American from Virginia, Minnesota, who started out as a foreign news correspondent in China and later became a specialist in international development programs. Hanson heads a staff of 600 led by 45 scientists and administrators at El Batán headquarters and in CIMMYT's eight research stations in Mexico, where experimental varieties of corn and wheat are tested. In addition, 20 CIMMYT scientists work on research projects outside Mexico.

CIMMYT headquarters in El Batán is a modern \$7.5 million complex of buildings, laboratories and dormitories set on spacious, well-kept grounds. The 67 hectares, 45 of which were donated by the Mexican Government, include surrounding fields of experimental wheat and maize crops. An additional 450 hectares serve the eight CIMMYT experimental stations throughout Mexico.

"I have never before worked with an organization whose senior staff is so dedicated and enthusiastic," Mr. Hanson says with admiration. "Many work seven days a week, 52 weeks of the year. Scientists are dedicated people, especially if allowed to determine their own goals, and we try to operate this organization that way."

FOOD AND POPULATION

Perhaps a motivating factor of the agroscientist is the experts' prediction of a world food crisis they say is inevitable under current farming practices. They

worry about the apparent runaway population growth and talk about "buying time" until the realities overtake the issues.

Agroscientists use a quote from Dr. Borlaugh to dramatize their point. "I calculated that in 1971, the year of the record harvest, the world produced enough grain to lay a highway around the equator 55 ½ feet wide and 6 feet deep. Each year another 78 million people are born, and to feed them we have to grow enough grain to extend that highway 625 miles. Unless we want those 78 million to starve we have to grow that extra grain."

Mr Hanson says the population growth is a key indicator for the developing countries of what their future problems in food production may be. "In some countries in South Asia farmers are already using all available farmland, and the only way those countries can keep a sufficient amount of food is to raise the yield per hectare. Increasing yields requires better science. There is no other way when you cannot bring in new land."

He points out statistics showing that for the last 20 years population has grown faster than food production in almost every Latin American country.

"This does not yet mean a crisis for Latin America," he said "It means we are running out of time for introducing more land to grow food for more people. In Latin America we feel we are ahead of the problem for another decade or two. There is no question that scientists can produce more and better corn and wheat over the next 20 years and enable governments to stay ahead of the population growth. However, we do not know whether by the end of this century it will be possible to solve the food production problem by merely increasing yields. We are not sure our answers are good enough to keep the food supply ahead of population growth. Here at CIMMYT we speak of our work as a holding operation."

Statistics on Latin America seem to bear out this concern. According to a recent internal Bank report, the rate of population growth in Latin America is the highest in the world. Based on the current annual rate of 2.9 per cent it means that the population will have increased from 300 million people today to about 490 million by 1990.

Latin America still finds itself in a fortunate position despite the precarious food situation in the world because it has ample resources and the capability for producing food both for internal

consumption and for export, the IDB's 1974 Annual Report notes. "In the past decade, food production in Latin America advanced to a point where the value of food production in the region is now some 12 per cent greater than the value of food consumed. Food balance data also indicate the Latin American diets have been improving. By early 1970 the average calorie intake per person had risen to about 5 per cent above minimum requirements."

There are contradictions, however, that negate complacency. Though the food production picture looks encouraging in Latin America, the farm sector in the total economy has shown a steady decline from about 19 per cent of the Gross Domestic Product during the early 1960s to 15 per cent at present.

Another IDB report says the results are a low productivity and a low standard of living in the rural sector which also reflects the food supply



Maize Program Director Ernest W. Sprague

situation. "Food supplies are not improving at the pace that is required to satisfy minimum needs. Regional averages do not give an accurate picture of the problem," the internal report states. "For instance, although the statistical average calorie intake for Latin America is 5 per cent above minimum requirements, for about half of the region's population the actual calorie consumption is below the average, according to recent studies made by the Economic Commission for Latin America (ECLA). Of this population, 40 per cent, or about 57 million people, are affected by severe malnutrition."

The report adds that the situation should be countered with "the dissemination of modern cultivation practices, especially among small and intermediate farmers based on adequate extension services and in close cooperation with local agricultural research centers." It

states that this is "absolutely essential" to increase production and provide a better standard of living for the rural population.

The efforts of institutions such as CIMMYT are hopefully the best hedges at the moment against a food crisis. Certainly the production plateaus they have brought to maize and wheat are testimony to their efficacy.

NEW VARIETIES

For many people in developing countries, particularly the rural population, maize, along with wheat and rice, are the principal food staples and principal sources of dietary protein.

Maize has been indigenous to Mexico since 5000 B.C. It is an extremely versatile crop, but it needs a specific combination of traits for optimal growth in any given locality. Thousands of lines have evolved over the years. CIMMYT has collected over 12,000 line varieties and is concentrating on the development of open-pollinated varieties as contrasted with inbred hybrids of U.S. corn. In the maize-breeding program, varieties were developed for high and low altitudes and for early, intermediate and late maturity. Although maize yields have shown dramatic gains, it is still not in the super grain category as its partner, wheat, is. Advances have been made in the last two or three years in breeding short-stemmed plants with wide adaptability, multiple disease and pest resistance and high protein quality. Semi-dwarf varieties have been developed with low ear placement and upright leaves which make it possible to increase population density from 50,000 to more than 100,000 plants per hectare. The shorter plants show less tendency to topple over as the grain ripens. Yields of such experimental varieties in the highland tropics have risen from five to six tons per hectare to nine to 10 tons and those in the lowland humid tropics from two to three tons to five to six tons. Because maize is low in protein, about 9 to 11 per cent, CIMMYT breeders have been seeking ways to improve its protein content.

Protein quality depends on the makeup and distribution of 20 aminoacids, eight of which are essential because the body cannot manufacture them. It was discovered that the protein of cereals was relatively low in two essential aminoacids—lysine and tryptophan. In the mid sixties a group of scientists

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Support of Small-Scale Farmers Essential for Success of Programs

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discovered that a mutant gene called "opaque-2"—the name comes from the odd appearance of the kernel—could alter the aminoacid composition of maize and improve its quality. The opaque-2 gene has some serious drawbacks. It was not easily transferable to tropical maize, it had a low yield, and people did not like the look or the texture of the kernels. CIMMYT breeders, however, in 1970 discovered a way to incorporate the high-lysine trait into a maize with shiny, firm grain and in 1973 began international trials in 15 countries.

CIMMYT scientists believe they can improve the quality of protein content by increasing lysine and tryptophan levels.

Wheat, the other principal CIMMYT research crop, provides 20 per cent of the world's food calories and is the main food staple in the diet of 35 per cent of its population. CIMMYT agroscientists produced the first high-yielding dwarf wheats in the early sixties that created

the Green Revolution in Asia. The star of the wheat research program is triticale, a cross between wheat and rye that is termed the first man-made cereal. Like the mule, which is a wide cross, triticale was originally sterile, but in 1968 almost complete fertility was achieved in a new line of triticale by an accidental outcross in Mexico between triticale and an adjoining field of bread wheat. Hungary was the first country to introduce a commercial crop of triticale for rye-type bread-making. A food manufacturer at Lubbock, Texas, is marketing various triticale food products, including bread, cakes, macaroni and pancake flour.

Despite the early successes, CIMMYT agroscientists have intensified their experimental programs seeking greater stability of yield, broader disease and insect resistance and adaptation to drought, cold and other stresses. CIMMYT works on varieties from spring bread wheat, winter bread wheat and durum wheat which provides the world's

macaroni, spaghetti, and other pastas. CIMMYT tests out its varieties in maize and wheat in trial nurseries throughout the world, which also provide a training ground for participating scientists. In 1974, there were 1,443 trials in 98 countries.

SPREADING THE WORD

The lab work is only part of the process. There are still government officials, politicians, bureaucrats, and especially farmers, to win over. Sometimes that is not easy.

"In some of these countries, farmers are condemned for not adopting the new varieties and practices and the extension services are condemned for being ineffective," the director of the CIMMYT Maize Program, Dr. Ernest W. Sprague, said. "In turn, the farmers are very skeptical of government promises and extension personnel are critical of research."

Mr. Hanson points out that Mexico has been able to overcome most of these problems.

"Mexico is a model that shows what can be done when a government begins to use scientific methods to improve its crops and to carry technology to the farmers," Mr. Hanson says. "Just having it in a station does not produce more wheat or maize."

Still, Mr. Hanson says, he understands why a farmer might balk at technology sometimes, "showing that he is a wiser man than the scientist trying to teach him."

"That wisdom," he adds, "may be that he has a small piece of land, that his family must eat and that he is not willing to take great risks to test new methods. At CIMMYT, we believe new technology should be demonstrated to the farmer on a small part of his land so he can see for himself the risks that he is taking."

One criticism leveled at institutions such as CIMMYT is that their work tends to relate mostly to the rich, large-scale farmer who is better-educated, can afford risks and the cost of the fertilizer that CIMMYT projects require, and knows how to deal with government bureaucrats. On the other hand, the peasant farmer—suspicious, stubborn and tradition-bound—is the one who needs help most and who seems to benefit the least from the programs.

CIMMYT countered this with the Puebla Project, an experiment on how to involve the small-scale farmer in agricultural technology. It was conducted from 1967 to 1973 in the state of Puebla, about 75 miles east of

At a CIMMYT experimental station, local farmers listen as scientists tell them about new techniques for growing maize and show them some of the new varieties that are being developed there.





CIMMYT's Dr. Carlos de León experiments with maize on disease resistance.

Mexico City, an area chosen because it typified the small landholder and the small crop yields produced by archaic methods. In the Puebla area, 47,600 farmers raised maize on plots averaging 2.5 hectares. Over a seven-year period, their total maize production rose about 48 per cent and, according to CIMMYT administrators, both family income and family welfare showed significant improvement. In 1974 the project continued under the postgraduate college of agriculture at Chapingo, financed by the Mexican Government.

The agricultural agents and specialists of a country are the liaison between science and the farmer and that is why CIMMYT considers the training program it provides to agricultural specialists from Latin America and other nations as one of its major accomplishments.

From 1966 to 1974, 904 scientists and research and extension specialists from developing countries participated in the CIMMYT training program. The training categories included in-service

trainees, research assistants, predoctoral, postdoctoral, visiting senior scientists and short-term residents. The trainee program takes in young researchers and extension personnel from developing countries who spend 6 to 18 months in Mexico participating in research programs and working in experimental stations directly with the farmers.

Mr. Hanson says these are the people who will return to their home governments and play a key role in the agricultural development of their countries.

Many years ago, when Dr. Borlaugh and a group of wheat scientists came to Mexico to help it solve its food production problem, their policy was "to work ourselves out of a job as soon as possible." Mexico's food situation has vastly improved, but prospects in other parts of the world have compelled them to stay.

Perhaps with a bit of heresy they can say that they are still there because, in the end, man does live by bread alone.

NEW APPOINTMENTS ANNOUNCED AT IDB

Antonio Ortiz Mena, President of the Inter-American Development Bank, recently announced several new appointments. These include the designation of Lempira E. Bonilla as Representative in Bolivia, effective July 1, 1975; William A. Ellis, as Representative in Brazil, effective May 19; Henri Scioville-Samper as Representative in Haiti, effective July 1; Weston A. Williams as representative in Jamaica, effective August 1; Manuel Valderrama Aramayo as Representative in Peru, effective August 15; and Carlos Montero as Representative in Uruguay, effective August 15.

Mr. Ortiz Mena also announced the appointment of Ricardo J. Bellver as Chief of Division 8, in the Operations Department, effective August 18.

Mr. Bonilla's association with the Inter-American Development Bank dates back to the time of its founding, when he represented his country, Honduras, in the negotiations on the Agreement Establishing the Bank. Mr. Bonilla was a member of the Honduran delegation to the first meeting of the Institution's Board of Governors, which was held in San Salvador in 1960. In 1964 he joined the Bank's staff as a Loan Administration Officer. Subsequently he served as Area Chief in the Division of Loan Administration as an Advisor, and most recently, as Senior Officer for Brazil in the Operations Department. From 1968 to 1972 he was Executive Director for Central America and Haiti.

Before joining the Bank Mr. Ellis was a Budget Examiner in the United States Office of Management and the Budget. Formerly he served with the International Cooperation Agency and with AID in Washington as Program Officer and Di-

rector of Development Planning, with USAID as Deputy Director in Indonesia, and as Director in Brazil. Later he served as Chief of the Economic Section, with the rank of Minister, in the United States Embassy in Rio de Janeiro. His most recent position was Director of USAID in Colombia.

Mr. Scioville-Samper, a Colombian, has served both at Bank headquarters and in the field since 1962. He was first assigned to the post of Resident Inspector in the Field Office in Managua, Nicaragua and then worked in Washington as an architect in the Project Analysis Division. In 1964 he was again assigned to the field, this time as a Resident Architect in Mexico. Subsequently he returned to headquarters as a Specialist in the Project Analysis Division, serving later as Chief of the Housing and Urban Planning Section in the Division of Analysis of Social Projects. At the time of his new appointment he was Chief of the Office of Space, Planning and Management in the Administrative Department.

Since joining the Bank in 1960, Weston A. Williams has served as Assistant to the Financial and Administrative Manager, Acting Chief of the Personnel Section, Deputy Director of the Personnel Section, and Director of the Personnel Division. In 1972 he was appointed Representative in El Salvador. Mr. Williams studied agricultural economics in his native country, Argentina, and attended George Washington University in Washington D.C., where he studied economics and business administration.

Mr. Valderrama Aramayo began his professional career as Secretary in Bolivia's Ministry of Foreign Affairs, where he held several posts, and served as Secretary of the Embassy in Argentina. He was Chief of the Office of the Under Secretary

and of the Minister of Foreign Affairs. He then practiced law until he joined the United States Operations Mission in la Paz as Assistant to the Program Director.

Mr. Valderrama Aramayo, who joined the Bank in 1960 as an officer in the Technical Assistance Division, has been a Loan Officer and an Area Chief in the Operations Department, Deputy Director of the Division of Loan Administration, Deputy Director of the Northern Zone of the Loan Division, Director of Zone I of the Loan Division, and Chief of Division 8 in the Operations Department.

Mr. Montero came to the Bank in 1963, where he has served in the Office of the Treasurer and as Financial Analyst in the Project Analysis Division, in the Field Office in Chile, as Area Chief in the Loan Division, and as Director of the Budget and Management Accounting Division. In 1973 he was named Representative in Peru.

Before joining the Bank Mr. Montero was associated with several private enterprises in Argentina, his native land, among them *Sudamtex, S. A. Textil Sudamericana*, where he was Deputy Chief, and later Chief of Internal Auditing.

Mr. Bellver came to the Bank in 1967 as a Financial Analyst in the former Project Analysis Division. Later he served as a Project Specialist in the Bank's Field Office in Venezuela and as a Financial and Operations Officer in the Rio de Janeiro Field Office. Since 1973 he has been Deputy Representative in Brazil.

Before joining the Bank Mr. Bellver, an Argentine, was associated with the *Dirección General Impositiva del Gobierno Argentino*, with the Esso Company as a financial analyst, and with Chrysler. Fevre Argentina, S. A. as a financial analysis supervisor.

The IDB and the Development of the Fishing Industry

Latin America is responsible for 20 per cent of the world's total fish catch, but it consumes only 1.4 million tons—or 10 per cent of its production. It exports the rest to the industrialized countries, mainly as fishmeal for poultry and cattle feed.

Fish exports could make up to 50 per cent of the region's animal protein deficiencies. But to reach that goal, the region would need appropriate technology and innovative, specific promotion policies covering lower-income consumer markets.

Moreover, Latin America's unexploited fish resources, if appropriately developed, could fully cover its protein deficiencies and open up an important channel for exporting industrialized products outside the region.

In view of these facts, and as part of a policy designed to promote nontraditional sectors, the Bank in 1970 began to encourage the development of fishing industries in its member countries. Through investment studies, technical cooperation programs, and investment projects, the IDB has been seeking to help its member countries to consolidate a basic production and marketing structure, including fishing fleets, ports, aquaculture, processing industries, marketing networks, personnel training, scientific and technological research, and adequate institutional organization.

Latin America's great potential for salt and fresh water fishing has led the Bank to give special attention to small-scale and independent fishermen. Efforts are being made to group fishermen in cooperatives, to organize their production and marketing methods, to establish business management techniques, and to provide appropriate international technical cooperation.

In the area of industrial fishing, however, the Bank seeks to help create conditions that are necessary to enable shipowners and industrialists to work efficiently from the technical and economic point of view. To that end, the Bank helps to finance the construction of fishing ports, industrial plants for manufacturing products intended for export and for domestic consumption, fish terminals, and the purchase of vessels and the establishment of marketing facilities, and fosters the mechanization of all phases of the industry on the basis of techniques suited to regional conditions—which are completely different from conditions in countries located far from fishing grounds and having a shortage of manpower.

Bank policies on regional fishing follow guidelines based on sectoral studies on resources, markets, and institutional structures, and on guidelines provided by technical and economic analyses and evaluations which are revised periodically.

IDB efforts to promote projects have received the support of the United Nations Food and Agriculture Organization (FAO) through a cooperative agreement. The Bank also works closely with the United Nations Development Programme, the Organization of American States, and other international agencies.

To date the Bank has financed 15 technical cooperation programs having a global cost of \$1.8 million—12 for integrated investment projects and three for strengthening the administrative structure of institutions involved in the fishing industry.

Bank technical cooperation has benefited the Dominican Republic, Costa Rica, Barbados, Mexico, Panama, Haiti, Venezuela, Brazil, Honduras, Guatemala, El Salvador and Nicaragua.

Since 1973, the Bank has provided \$61.7 million in four loans for investment projects. These loans have helped to finance a cooperative fishing program in the Dominican Republic, a national integrated fishing project in Mexico, a cooperative program in Panama and an integrated project in Costa Rica for infrastructure and production, involving investments of \$110.3 million. Three other fishery projects are under study.



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The projects represent investments of about \$206 million; three new technical cooperation projects are now under consideration.

The Bank's promotion work in the region has had a highly significant initial impact: governments have recognized the importance of fishing as a source of low-cost animal food protein and as a generator of foreign exchange earnings. The fishing industry, moreover, has become an important source of well-remunerated employment for populations centered along sea and river coasts.

New institutional instruments, in both fishery legislation and public administration, have increased the countries' executive and managerial capacity and effectively broadened the activity of enterprises in new fishing development projects.

The loans which have been approved are still at the initial stages of execution, so that quantitative results are not measurable. However, the goals set seek substantial improvements that will affect the national economies.

The project in the Dominican Republic is expected to increase fish production for domestic consumption by 48 per cent. The project in Mexico will bring an increase of 42 per cent in the supply of fish for domestic markets and of more than 56 per cent in national production. The project in Panama will increase fish consumption by 40 per cent and will double the production of small-scale fishermen. It is hoped that the project in Costa Rica will increase coastal fishing by 250 per cent and domestic consumption by 35 per cent, modernize and strengthen the export industry, equip a modern terminal fishing port in the Pacific, and provide fishing cooperatives with a new fleet that will enable them to double their productivity and income. Other projects now under study are aimed at similar goals. The projects now being financed will benefit about 6,800 low-income families.

Once the countries' basic fishing infrastructure is consolidated, it will be feasible to undertake projects having greater impact, such as projects for intensive aquaculture, development of food technologies for protein concentrates, regional marketing organizations, and multinational projects.

The work required to promote, analyze, and execute fishing projects in Latin America demands exceptional effort and dedication. Two concrete factors represent the basic parameters in the great majority of the countries: the existence of unexploited fishing resources and the prevalence of hunger or under-nourishment. The big problem is how to increase the purchasing power of low-income families and make fish available to them. Strong and intensive action is required, including government political motivation, institutional organization, technical cooperation for preparing viable projects, financial and administrative systems that are operative and easily managed, as well as constant attention to projects during the execution stage.

IDB and FAO activities have demonstrated that, despite the difficulties involved, clear-cut policies and effective action can bring considerable results in successfully developing economic sectors which, like fishing, are not traditional areas of investment.

IDB Approves \$132 Million in Loans and Technical Cooperation

The Inter-American Bank in recent weeks approved more than \$132 million in loans and technical cooperation to Argentina, Central America, the Dominican Republic, Peru and Uruguay, and for training staff in agricultural development and in project evaluation and preparation in its member countries.

ARGENTINA: On May 13 the Inter-American Bank announced the approval of two loans totaling \$89 million to help finance a program of rural technification in Argentina.

The two loans—one for \$59 million from the Bank's ordinary capital resources and the other for \$30 million from its Fund for Special Operations—were extended to the Republic of Argentina and will be used by the *Banco de la Nación Argentina* with the assistance of the *Instituto Nacional de Tecnología Agropecuaria* to continue and expand the Agricultural and Livestock Technical Improvement Program it has undertaken with the aid of previous Inter-American Bank loans primarily to promote an increase in production and productivity in the agricultural and livestock sector by providing financial and technical assistance to producers.

The total cost of the program is estimated at \$178 million, of which the two Bank loans will cover 50 per cent and local sources the remaining 50 per cent.

DOMINICAN REPUBLIC: On May 22 the Bank announced the approval of a \$35.5 million loan to help expand and modernize the port of Haina, nine miles west of Santo Domingo, the country's capital city.

The loan, extended to the Dominican Republic, will be used by the *Secretaría de Estado de Obras Públicas y Comunicaciones (SEOPC)* to enable the port of Haina to

handle up to 1,335,000 metric tons of general cargo per year by 1980, thereby converting it into the country's leading seaport.

The total cost of the project is estimated at \$47,780,000, of which the Bank loan will cover 74.3 per cent and the Dominican Republic the remaining 25.7 per cent.

URUGUAY: The Inter-American Bank on June 6 announced the approval of a \$7 million loan to help the country expand and improve water supply systems in interior towns of more than 5,000 inhabitants.

Completion of the project will help solve most of the sanitary problems identified in most of the country's larger interior towns, providing water services for an estimated 145,000 new users by 1980, and benefiting roughly 70 per cent of the total population of the towns involved.

TECHNICAL COOPERATION: On May 8 the Bank announced the approval of \$510,000 in grant technical cooperation to finance a two-year training on the preparation and evaluation of agricultural development projects in its member countries.

The project, to be executed jointly by the Bank and the Inter-American Institute of Agricultural Sciences (IAIAS) with headquarters in San José, Costa Rica, is designed to increase the capabilities of member countries to improve the volume and quality of the agricultural development projects generated. The total cost of the program is estimated at \$850,000, of which the Bank's resources will cover 60 per cent and IAIAS the remaining 40 per cent.

It is expected that about 200 professionals will benefit from the training courses and in-service training, and 160 from the seminars.

The program will be carried out in four geographical areas, with headquarters in Montevideo for the southern area comprising Argentina, Brazil, Chile, Paraguay and Uruguay; in Lima for the Andean area comprising Bolivia, Colombia, Ecuador, Peru and Venezuela; in Guatemala City for the area comprising Central America, Mexico and Panama, and in Kingston, Jamaica, for the countries of the English-speaking Caribbean, the Dominican Republic and Haiti.

On June 6 the Inter-American Bank announced the approval of \$186,000 in grant technical cooperation to help carry out basic studies related to establishment of the Central American Economic and Social Community (CESCA).

The Technical cooperation, which was extended to the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), will be used to provide technical support for the High-Level Committee for Improvement and Reorganization of the Central American Common Market (CAN).

SIECA will use the Bank funds to contract 15 consultants who will analyze the juridico-institutional aspects of agriculture policy and rural development, industrial programming and development and social and employment policy related to the creation of CESCA.

Latin America in the World Economy

A study released May 16 by the Inter-American Development Bank points out that "the generalized price increase of the last two years in the principal primary products exported by Latin America constitutes a phenomenon without precedent," but warns that the outlook for prices of the region's primary export products in 1975 is less favorable, due largely to the weakening of demand in the industrialized countries.

According to the study, a decline may be anticipated this year in the price of products such as meat, bananas, fishmeal, copper, iron ores and crude petroleum. In the case of other products—sugar, cocoa, corn, wheat and soybeans—demand will probably remain at levels compatible with stable prices.

The 102-page study, entitled "Latin America in the World Economy," was compiled by the Economic and Social Development Department of the Bank. It analyzes the evolution of the international economy, particularly in recent years, and its effect on economic growth and the balance of payments of the Latin American countries.

From the beginning of the decade of the 1960s, the study points out, the world economy experienced a generalized

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CANADA INCREASES IDB DEVELOPMENT FUND BY \$7.5 MILLION

On May 5 the Bank announced that the Government of Canada had placed under its administration an additional 7.5 million Canadian dollars to finance the preparation of development projects in its Latin American member countries.

The new resources, to be made available to the Bank over a three-year period, increase to \$9 million the cumulative total approved by Canada for the Canadian Project Preparation Fund, established March 22, 1974 with an initial contribution of \$1.5 million. Within six months of execution of the agreement, the Bank had allocated \$1.3 million of the Fund, primarily to member countries in the Caribbean and Central America.

Under terms of the 1974 agreement between the Bank and the Canadian Government, the resources of the Fund will be made available to governments and public and private entities in eligible member countries of the Bank to assist in the formulation of development projects, including basic studies, preliminary feasibility, feasibility and final engineering design.

The agreement specifies that special priority in the use of Fund resources be granted to the lesser-developed countries of the Bank.

The Fund resources will be used to purchase goods and services in Canada or the country where the project is to be executed or, under special conditions, in other member countries.

Ortiz Mena Stresses IDB's Role in Agriculture

Last April, IDB President Antonio Ortiz Mena announced the establishment of the Group for International Cooperation in Agricultural Development and Food Production in Latin America.

In announcing the Group's establishment Mr. Ortiz Mena said the formation of the Group was an expression of the Bank's wish to strengthen its role in Latin America's agricultural and rural development. The Group, under the leadership of Juan Felipe Yriart, Assistant Director General of the United Nations Food and Agriculture Organization (FAO), was designed to help achieve better orientation and coordination of the programs of the principal multilateral, bilateral and private agencies which operate financial and technical cooperation programs in Latin America.

A recent exchange of correspondence between Mr. Ortiz Mena and Charles A. Cooper, Assistant Secretary of the United States Treasury, dealing with the Bank's development financing policies, reflects the prevalent concern over agricultural development and food production.

In reply to a letter from Mr. Ortiz Mena outlining the Bank's increasing efforts to augment agricultural development and food production in Latin America, Mr. Cooper, writing on behalf of William E. Simon, Secretary of the Treasury, said; "As you know, the United States fully supports the programs of various international agencies involved in agricultural development. We have noted your constructive comments in Rome last November on the Bank's concern about the world food situation, and your remarks about the Bank's desire to play an important role in this area."

He added, "Your letter and enclosed document on the rationale for an IDB-sponsored Consultative Group were very helpful. We have circulated all the pertinent information to other interested agencies in my Government and look forward to cooperating closely with you and Mr. Juan Felipe Yriart as the specific functions and operation of the group are determined in the coming months.

"Consistent with the work of the consultative group, we believe that the IDB should increase the proportion of its own lending program that is for agricultural purposes."

Mr. Cooper stated that he had noted in the Bank's Annual Report for 1974 that, although agriculture continued to be the leading recipient of IDB loans on a cumulative basis—23 per cent—its share of lending had declined in recent years to 21 per cent in 1974 compared to 34 per cent for electric power. "In this regard," he said, "it is interesting to note that the Asian Development Bank has significantly increased its lending to agriculture as a proportion of its total lending program from 11.2 per cent in 1973 to 25 per cent in 1974. We understand that the ADB plans to continue this trend toward greater emphasis on agriculture loans.

"Restoration of agriculture as the single most important sector for IDB lending activities would be a clear demonstration of the Bank's commitment to play a major role in promoting food production in Latin America. Moreover, I believe that such priority treatment of agriculture will become increasingly essential to assuring continued U.S. Congressional support of the international development institutions."

Replying to Mr. Cooper's letter on July 1, Mr. Ortiz Mena said the full support of the United States Government for the Group for International Cooperation in Agricultural Development and Food Production in Latin America being organized under the auspices of the IDB was indeed of great importance. Its cooperation, he added, as well as most of the various international agencies participating in the Group, "are essential to the fulfillment of the objectives set forth for this important initiative."

Mr. Ortiz Mena pointed out that, although the figures mentioned in Mr. Cooper's letter were entirely correct, the traditional sectoral classification of IDB loans did not convey a true picture of the resources assigned to agricultural development. He said the loans

for power development approved in 1974, for instance, amount to a total of US \$384.1 million, of which US \$205 million are projects with a strong agricultural content. "In fact, three loans totaling US \$162.2 million will contribute to the financing of projects in Chile, Costa Rica and the Dominican Republic, with the dual purpose of generating power and making feasible the irrigation of large agricultural areas. Furthermore, a US \$43 million loan was granted to Argentina to finance the second phase of a rural electrification program which will benefit 86 rural cooperatives encompassing 26,000 small farms. Should these loans be assigned to rural development, the agricultural sector would account for 39 per cent of the total loans approved by the Bank in 1974."

"Furthermore," he said, "several loans approved last year will have an indirect but clear impact in the development of the agricultural sector, as follows: Two loans totaling US \$70.5 million to contribute to the financing of feeder roads in Honduras and Mexico; and three loans totaling US \$27.1 million to provide financial cooperation for the execution of projects in the fields of rural health in El Salvador and Trinidad and Tobago, and vocational education in Honduras."

The IDB President added that a revision of the presentation of statistical information was underway to ensure that figures would more accurately convey the scope and nature of the Bank's operations. "In this endeavor," he said, "we will try to measure the impact of the Bank's operations in improving the standard of living of the people as a whole, and particularly of the lower income groups. At the same time we are carrying out the evaluation of specific projects, executed with the technical and financial cooperation of the Bank, which we believe will enable us to illustrate this exercise."

Concluding, Mr. Ortiz Mena said the Bank, in the near future, would be able to provide additional information that will reflect the Institution's action in this field more accurately.

The Challenge of Capital Investment

On May 19, L. William Seidman, Economic Advisor to United States President Gerald R. Ford, delivered a speech at the National Conference on Capital Investment and Employment at the New York Hilton.

The text of the speech follows:

I needn't remind you of the enormous capital investment increases we need in the next decade. You are all familiar with the \$4 trillion figure that has been projected by public and private studies alike.

We need this huge amount of money to provide jobs—10 million new ones by 1980 alone—and to increase our standard of living at least by a rate of 3 per cent per year. These are serious challenges; they are even more serious when you consider that the total amount of capital projected is more than two and a half times the amount of real capital we managed to raise and invest during the last ten years.

To accomplish the tasks ahead of us, we must do a number of things, not the least of which is to hold down Federal deficits. We emphasize this because, as you know, deficits create the danger of future inflation. And inflation must be controlled because it increases costs and severely disrupts the capital markets.

The threat of excessive Federal budget deficits can take various forms. Demands on credit markets by the Federal Government could tend to push up interest rates and reduce funds available for private investment, if responsible rates of monetary expansion are maintained. The effects on the economy, in this event, would be felt first in such sectors as housing and other capital-intensive industries.

On the other hand, if monetary expansion is increased to accommodate, at least in part, the additional demands on credit markets of huge Federal deficits, the higher rate of monetary expansion would be reflected in higher inflation. In addition, limits of productive capacity would be reached more quickly if private investment is reduced due to large Federal credit demands.

The Administration's concerns in the area of Federal spending and budget control arise not only out of concern about financial markets, though this is the area in which the symptoms of the problem would become evident first, but because of the critical need to channel sufficient resources into private

investment and capital formation in the next few years.

Many examples are cited to illustrate the depth of need for capital in every industry. They add up to a very serious picture indeed. Failure to accommodate our private investment needs will limit the production and employment levels we can achieve, or reignite inflation, or both. The real issue is about real resources: Will they be used for private capital or public consumption?

If we are to achieve our most elementary economic dreams, our record of capital investment will have to improve substantially. As other nations have channeled relatively more of their resources into capital investment and have acquired more modern plants and equipment, our competitive edge in world markets has been eroded. Though our productivity rate remains the highest in the world, the last 20 years has seen other industrialized countries catching up at ever-increasing rates.

The problems of decreasing long-term capital investment have been building



L. William Seidman, Assistant for Economic Affairs to President Gerald R. Ford of the United States, is also Executive Director of the Economic Policy Board and a member of the Energy Resources Council.

for years. The difficulties we have had in dealing with inflation, unemployment and severe shortages have made it clear that real economic growth involves more than maintaining a growing demand for goods and services. It is becoming clear that real growth costs are increasingly expensive.

One of the most important influences on capital investment is the emphasis we, as a nation, place on consumption. This has created a strong demand for goods and services needed to sustain output, employment and investment. Personal and government consumption outlays have dominated our GNP and this pattern of economic activity is deeply ingrained in us. Consequently, despite our high per capita income, the accumulations of gross savings flow required for capital investment are lower here than elsewhere.

Continued prosperity cannot be taken for granted. It must be earned. We must be willing to allocate more of our

resources to the future and fewer to satisfying the demands of immediate consumption. The simple truth that we cannot consume more than we produce should be obvious, but it isn't. Therefore, the curtailment of consumption becomes not only an economic problem—if consumption continues unabated, that is—but a political one as well. Government programs must begin to better reflect the basic fact that savings and investment, at the private level, provide a great deal of the driving force of our economy. We cannot continue to consume our seed corn at the expense of long-term growth and prosperity.

Rather than continue our patterns of consumption, we must create a climate of incentives in which private savings and investments can flourish. Many government policies need reviewing in light of our investment capital requirements. One of these is the corporate income tax structure, which directly influences the cash flow available for investment. While a reduction in the rate of taxation would probably be the most straightforward approach to enhancing investment incentives, any change would represent a major shift in policy and would require extensive Congressional consideration.

As part of an on-going review of tax policies, however, we also need to consider the influence on investment of our two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. This approach discriminates against corporate investors generally and small equity investors particularly.

In the last few years, our major trading partners have largely eliminated the classical two-tiered system of corporate taxation. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is lessened.

The investment tax credit for business firms should also be reinvestigated and a firm policy pertaining to it should be established. This would eliminate much of the uncertainty business has faced regarding the tax credit question.

The amount of capital recovery charges permitted for tax purposes also influences the after-tax earnings available for private investment. Although the official guidelines on this were liberalized in 1954 and again in 1962, the question merits further consideration as

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part of the general tax reform analysis which the Department of the Treasury will undertake with the Congress.

Another basic need is for equity capital as contrasted with debt. In this regard we are examining tax proposals in the capital gains area and the possibility of tax advantage for reinvestment of dividends.

We must remember that, with 85 per cent of the work force employed in the private sector, profits are the driving force of our entire system and the keystone of our way of life. It is evident that the future pace of private investment depends heavily on sufficient and reasonable profits.

Lasting prosperity will require steps to reverse the deterioration in corporate profits that has taken place over the last decade or more. The condition of business profits is widely misunderstood. Profits are considered by many to be excessive. The fact is that profit margins of non-financial businesses have been declining rather steadily for many years, and profits in the aggregate have been far too low in recent years to supply the financing needed for a vigorous expansion in capital investment.

One important reason why there is so much misunderstanding about corporate profitability is that our accounting system has not yet been able to adapt to the disruptive effects of the double-digit rate of inflation we have suffered.

There can be little doubt that inflation is the principal cause of the decline in the economy. The havoc wrought by inflation, however, goes well beyond the immediate loss of production and employment. Because of its effects on income and wealth, inflation has caused disillusionment and discontent. And because of its distorting effects on business decisions, inflation has brought into question the liquidity of some major business and financial institutions.

There is no easy way out of the inflation-sensitive situation we are in. But defeat of inflationary forces which could disrupt a beginning recovery must remain a major goal of public policy.

Government policies strongly influence investment rates, either directly through incentives or through various tax and regulatory policies or through spending patterns. Unlike most other countries, which allocate capital and

implement special incentive programs on specific, industry-by-industry bases, the major influence of the Federal Government on capital investment comes through the Federal budget.

For instance, the FY 1976 budget calls for outlays of \$4.6 billion on general science, space and technology programs. Part of these expenditures, naturally, will involve capital investment needs, even though they will not contribute to overall productive capacity.

In the area of environmental, safety and health standards, the Government is exercising more and more influence over private capital investment decisions. For instance, during 1972, approximately 8 per cent of the textile industry's capital investments and 12 per cent of the steel industry's were related to health and safety standards mandated by the Government.

Our economy is capable of financing its private investment needs, if Government policies become more supportive. For instance, in the area of regulation of major industries, enormous, unnecessary costs have been generated by inadequate, inflexible and obsolete government regulatory practices. The condition of the nation's railroads is a disgrace, brought about in part by regulatory practices which, though designed originally to protect the consumer, now add an estimated \$20 billion per year to the nation's transportation bill.

Coupled with such outmoded and costly governmental practices as these is the deterioration in the American worker's rate of improvement in productivity. This development has a significant bearing on our standard of living and also on the impact that rising wage rates have on costs of production and prices.

The unsatisfactory record of productivity improvement stems in large part from inadequate investment by business firms in new plant and equipment. It can also be attributed to other things as well, not the least of which is the changed attitude toward work that exists today. In addition, the decrease in productivity can be traced to the fact that taxes have progressively reduced the rewards for working, while government at the same time has increased the share of national output going to those who are not productively employed.

Government policies must be changed so that they can deal more flexibly and realistically with a society which has changed dramatically economically, socially and politically during the last 15

years. Our investment needs demand that we investigate and evaluate our policies at every level, and change them where necessary and in ways which will do the most good.

We must reinvigorate the economy and insure our future well-being by creating an atmosphere in which work, savings and investment in the private sector, which is the backbone of the country, can be made more rewarding in every way.

"Guidelines for Procurement under IDB Loans," recently published by the Inter-American Development Bank, provides borrowers and their construction contractors and equipment suppliers with the general procurement and contracting procedures to be followed on projects and programs financed with IDB loans. Copies are available in Spanish and English free of charge from the Office of Information, Inter-American Development Bank, 808 17th. St. N.W., Washington, D.C. 20577.

Latin America in the World Economy

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expansion in which Latin America and the developing countries participated progressively. However, since 1973, instability in the balance of payments and inflationary pressures have produced economic stagnation in most industrialized countries. The oil crisis served to aggravate the trend.

Latin America achieved important economic gains during this period, the study notes. The growth rate of the regional product rose from 5.4 per cent in 1961-65 to 5.8 per cent in 1966-70 and to nearly 7 per cent in 1970-74. These results were shared in varying degrees by the majority of the countries, some of which even recorded annual growth rates in excess of 10 per cent. In addition, it is highly significant that the region sustained a steady rate of economic progress through 1974 despite strong fluctuations in the developed countries.

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