LAmerica - U.S. Aid & Assistance RR

short notice as to the impact of these cuts on Montgomery College.

Sincerely,

CARL EMERICK,
Director,
Office of Student Financial Aid.

VILLA JULIE COLLEGE,
Stevenson, MD, March 20, 1985.

Hon. PAUL S. SARBANES,
U.S. Senate,
Washington, DC.

DEAR SENATOR SARBANES: The current administration's budget proposal for fiscal year 1986 compels me to write to you to request your support to ensure that the proposed reductions in student financial assistance programs are not enacted.

The proposal to restrict guaranteed Student Loans to only those students from families earning less than $32,500 annually would cancel out 36 percent of the students at Villa Julie College who have been found eligible for this assistance during the current academic year by demonstrating financial need as provided under current regulations.

The proposed $25,000 income ceiling on eligibility for Pell Grants, National Direct Student Loans, Supplemental Grants, and College Work-Study funds would eliminate 32 percent of the college's currently enrolled students who have been found eligible and who are presently receiving aid from these programs.

Overall, 34 percent of the students at Villa Julie College who currently receive assistance from these federal student aid programs would be adversely affected by the administration's proposals, and would find it impossible to continue their education at the college should the above limitations be imposed.

The proposed cuts will not, as alleged, deny students the supposed "luxuries" of college life; they will deny them, on the basis of economic means, the benefits of a quality practical higher education, and limit educational access and choice. In doing so, they will be denied the opportunity to secure the skills needed for a good job—and thereby deny the federal government their higher taxes!

I can only encourage you to vigorously oppose such unfair and inequitable reductions in the student financial assistance programs. By doing so, the nation's most important resource—our "human captial"—will be not crippled but enhanced, at precisely the time when this is most needed in our increasingly competitive world.

Sincerely,

CAROLYN MANUSZAK,
President.●

U.S. ASSISTANCE PROGRAMS IN LATIN AMERICA

● Mr. HATFIELD. Mr. President, last fall Mr. Richard L. Collins, of the Appropriations Committee staff, and Mr. Douglas C. Olin of the Budget Committee staff undertook a field survey of U.S. assistance programs in Latin America, pursuant to the authorization of Chairman DOMENICI and myself. In accordance with established committee practice, Mr. Collins and Mr. Olin submitted a report of their findings and recommendations upon their return. That report contains a number of insights and observations that I believe warrant our attention, and while I do not necessarily agree with them all, I ask unanimous consent that the report be printed in the RECORD at this point.

The report follows:

FIELD SURVEY, U.S. ASSISTANCE PROGRAMS IN LATIN AMERICA

Assistance objectives

Congress has appropriated for fiscal year 1985 $909 million in economic and development aid and $280 million in security assistance to Latin American nations. The President's 1986 budget request is expected to include increased assistance to the region, and possibly a request for supplemental funding for FY 1985. These figures may be compared with fiscal year 1980 assistance levels of $272 million for economic and development aid and $22 million for security assistance. Such dramatic increases reflect broad acceptance of the underlying premise of U.S. foreign assistance programs. Specifically, foreign economic aid is justified as contributing to a stable world order both by blunting short-term political unrest arising from economic and finanical instability and by promoting a long-term social and economic development. Military aid is justified as improving America's defense capabilities and improving relationships with regional friends and allies. Foreign assistance, both security and developmental, are said to be major factors in our ability to help friends and allies meet economic, political and social challenges. These are the stated objectives of the Reagan Administration's foreign assistance programs as artriculated to the Congress.

Consequently, it is highly appropriated to review current U.S. foreign assistance programs in Latin America, as well as the Administration's proposals for continuing and expanding that assistance, both in terms of the actual conditions which exist in the region and the contribution these programs make to the larger goals which such assistance programs are intended to serve. To do otherwise, to consider these proposals without reference to the political, economic and military realities of Latin America, would make it impossible to evaluate the ability of U.S. foreign assistance programs to effect these stated objectives. Today, in Latin America, this means that one must examine whether proposed U.S. foreign assistance programs represent appropriate measures for dealing with the region's deteriorating economic situation; a deterioration which is reflected in the heightened security concerns and accelerated political changes which characterize the region.

Common factors affecting stability

U.S. economic and security assistance programs for Latin America are seen as contributing to political stability and economic development by responding to the following disruptive influences:

International debt as a contributing factor in economic and political destabilization;

Internal economic conditions and insurgent political movements as threats to nascent democracies; and

Illicit narcotics production and trafficking as a corrosive influence on the economy and polity of certain countries in Latin America.

To examine the accuracy of this view, in November 1984, we traveled to Latin America, visiting a total of seven countries. The countries visited were carefully chosen because they all have certain commonalities which commend them to a comparative review, although it is also true that they have many other characteristics which distinguish one from another. The countries visited were the Dominican Republic, Panama, Colombia, Peru, Bolivia, and Argentina. These countries are all nascent democracies burdened by heavy external debts. Each is considered important to U.S. foreign and security interests. Moreover, each of these countries repesent a different stage of political and economic development along a continuum. Without drawing too fine a distinction, it can be said that they represent different points along a continuum measuring political and economic stability. As will be seen, we found that U.S. foreign assistance programs are often blind to these differences and give too great an emphasis to the promotion of short-term stability. Furthermore, we believe this misplaced emphasis frequently occurs at the expense of the larger goal of helping countries move along the continuum towards the greater stability and development which is the mark of mature democracies.

Divergent policies

In our visits to these seven nations, we were struck by the increasing divergence between rational long-term economic policies and short-term political demands. Bolivia represents the most extreme example, where short-term political dynamics have completely captured the decision-making process, thereby rendering the government incapable of halting a marked economic decline. This has left Bolivia with an annual inflation rate in excess of 1000%, debt payments which exceed export earnings, a fiscal deficit in excess of 28% of gross domestic product (GDP) and virtually unchecked growth in the money supply. As will be discussed more fully in the section of this report which deals with Bolivia, we found that current and proposed assistance to Bolivia is recognized by knowledgeable U.S. officials to be wholly inadequate with respect to the magnitude of the amounts required to restore economic order. Furthermore, continued U.S. assistance does not respond to the inability of the of the Bolivian government as presently constituted to make any meaningful use of such assistance. Increased U.S. assistance, specifically, recent and projected cash transfers, will provide little economic benefit, but may well serve to extend ineffective government in Bolivia. Nevertheless, we learned that the U.S. Agency for International Development and the State Department propose to provide Bolivia $20 million in economic support funds in 1986.

Colombia, on the other hand, presented a more favorable picture. It is likely to be successful in controlling this political-economic divergence, providing the government does not succumb to increasing domestic political pressures. The government of President Belisario Betancur Cuartas has been attempting to pursue economic policies aimed at encouraging long-term development. Rapidly increasing debt service requirements, however, have hampered the government's ability to finance development projects. Because he has been unable to respond to political pressure from groups demanding continued high government spending for development, President Betancur's popularity has declined sharply. In time, perhaps in short order, this may force the Colombian government to take politically popular, but economically undersirable, decisions. While at present the United States provides no economic assistance to Colombia; the United States may want to consider, working through multilateral institutions, such as the Inter-American Development Bank or the IMF, assisting the Colombian government in its efforts to achieve economic reform.

Current economic and political pressures

The situation facing the Betancur government is not unique. Political stability and economic development in the countries we

visited is being hindered by the burden of heavy external debt and the insatiable demands of historically deprived and volatile electorates. These debt burdens were incurred during the late 1970s and early 1980s by governments attempting to ease economic and political pressures and maintain standards of living in the face of global recession. Repayment dificulties were further exacerbated by the increasing prices of imported energy and the falling prices for exported commodities in this same period. While South American economies continued to grow in this period, this growth was largely financed with borrowed capital from Western banks.

At present, each of the countries we visited is simultaneously confronted by:

Global economic conditions which impose varying degrees of hardship on their respective national economies;

The harmful after-effects of economic mistakes and burdens incurred by previous governments; and,

The demands of electorates which assume that their present governments, though newly established and imperfect democracies, should be able to satisfy immediately both political and economic needs.

These conditions and expectations undercut the ability of the governments in the region to purse rational economic policies. In consequence, sound political responses, which take into account economic realities and lay the groundwork for stable government, are often swept away by the flood of competing demands.

Paradox of capital exports

While these influences are strongly felt in the United States and other developed nations, in Latin America their effect is compounded by such factors as a marked decline in capital inflow and a marked increase in capital outflow from Latin America to the United States and Western Europe. In Latin America, we find the paradox that developing countries, which in accordance with classical economic theory, should be importing capital to offset a chronic lack of sufficient investment to spur economic growth, are currently net exporters of capital. This outflow has occurred as investors take advantage of the high returns on investment opportunities and interest rates in the industrialized nations. In 1981, capital inflow to Latin America (largely borrowings) was at a record $38 billion; in 1984, Latin America became a net exporter of capital—at a time when payments for interest and principal on a large volume of previously contracted foreign debts were accelerating. Additionally, the monetary and budget policies of the United States and other industrialized countries made access to additional external credit too costly. Simply put, Latin American countries were no longer able to borrow sufficient funds to finance development and debt service.

Expectations of U.S. assistance

It is ironic that countries which undertook political reform with the encouragement of the United States and Western Europe, and with the expectation that the adoption of democratic institutions would be rewarded by increasing flows of financial assistance, now find that the economic policies of the industrialized nations work to their disadvantage. This has led many of these countries to conclude that their economic futures are at the mercy of international financial institutions and private banks which appear quite willing to sacrifice new and fragile political institutions on the alter of economic austerity. The expectation on the part of these countries that the Western democracies, particularly the United States, would soften the impact of austerity and support an extended period of adjustment has not been realized. In point of fact, it is questionable whether U.S. economic assistance programs, which also include U.S.-supported multilateral programs, could approach what is required to finance such a transition. It is evident that the strength of private banking would have to carry the largest share of such financing program.

"Muddling through"

While it is commonly recognized that austerity measures are required to reverse economic decline, in the absence of a comprehensive program to finance what may be termed graduated austerity, the unfortunate political tendency in these countries is to try to "muddle through." Obviously this is not a workable solution and only exacerbates fundamental economic problems. The ability of many of these nations to strike a balance between political and economic imperatives is being tested as never before. The answer, however, must be found; and soon, for the longer these issues are put off, the more acute the economic situation will become and, consequently, the more difficult the political choices.

Exerting U.S. influence

Equally, delaying decisions needed to deal with deteriorating economic conditions makes it more difficult and more costly for the United States to effectively contribute to the development of stable and economically viable democracies. If at present, it is costly and difficult to make this contribution—and it is—in time it will be even more so. We must recognize the means available to exert U.S. influence are limited. The U.S. can:

Undertake domestic economic policies which reduce the export of capital to the United States and which create a favorable trade environment;

Take a more active role within multilateral institutions, such as the IMF, to ensure that adjustment programs are appropriate;

Adopt regulatory changes which would more directly involve private banking in the adjustment process; and,

Structure and implement bilateral aid programs which are supportive of, and not a substitute for, an integrated structural adjustment program.

Clearly, U.S. domestic economic policies could be structured to have an enormously beneficial impact on the situation. However, we learned that U.S. domestic economic policies are having an extremely detrimental impact on Latin American economies. It must be noted, that two-third of the total debt of the Latin American region has been contracted at floating interest rates. Knowledgeable officials in several of the capitals we visited told us that current U.S. policies, associated with high interest rates, are responsible for unanticipated and increasingly burdensome debt service costs. This problem, they told us, is compounded by the acceleration of outward capital flows encouraged by the same economic policies. The willingness of the United States to accept large trade imbalances, and thus increase the export incomes of foreign countries has but a marginal effect in these countries which, apart from Argentina, have relatively little of value to export. In the view of these officials, U.S. trade imbalances do not adequately compensate for the high interest rates and capital flight being experienced in the region.

Role of private banking

Since the largest portion of Latin America's debt, is held by the IMF and private banks, the U.S. role in multilateral institutions and in exercising influence over the private banks offers great potential to bring positive change. However, U.S. participation in multinational banking is often in conflict with the goal of achieving stable and economically viable democracies. In its relationships with the IMF, the multilateral development banks and commercial banking, the U.S. too often succumbs to the overriding objective of these institutions, namely the preservation of the Bretton Woods system. The banks and the IMF seek, with active U.S. participation, to enforce the repayment norms which are part of that system. The private banks and the IMF are by their charters indifferent to the nature or form of the governments which participate in sovereign borrowing. Their sole objective is to maintain the existing international financial system. In consequence, nascent democracies, such as Argentina, which have succeeded "borrow-and-spend" authoritarian governments, are held to repayment schedules which bear little relationship to the new government's stability or its capacity to meet such repayment schedules. As the IMF and the banks adhere to the code of austerity and rigidly insist upon prompt repayment, they effect a gradual but certain impoverishment of these countries. Under conditions of rigid austerity, there is no opportunity for growth, for an increase in capacities to service debt and to satisfy consumer demands; there is only the requirement that governments somehow achieve a revenue surplus which can be used to repay existing debt—a requirement that wealth be transferred from poor in the developing countries to the rich in the developed.

Earlier in this paper, we noted that there is common recognition of the need for austerity measures to halt economic decline in Latin America. There is equally broad agreement that austerity measures will fail if taken without regard to differences in the capacities of the respective countries to withstand the rigors of austerity. Furthermore, such measures will fail if they are not constructed so as to visibly enhance prospects for positive economic growth. This is what we mean by the term graduated austerity.

The rigid application of IMF inspired austerity measures has two predictable results: (1) it leads to failures to achieve the provisions of the structural adjustment programs and, thus, their subsequent collapse; and, (2) as a corollary, if all countries were to pursue austerity, the global economy would collapse inward and, rather than preserving the Bretton Woods system, austerity would lead to its demise.

Thus, powerful arguments exist for easier repayment terms. Not only did the present democratic governments not contract the debt, to a large extent they also never received much long-term benefit from it since much of borrowing was squandered on unwarranted military purchases and ill-conceived development programs. Furthermore, authoritarian governments which faced no serious monitoring by legal oppositions allowed, and in some cases encouraged, the flight of capital abroad. Equally, lending institutions did not place responsible constraints on the amounts and terms of the loans made to these governments. In an effort to recycle "petrodollars" in the late 1970s and early 1980s, banks, through unconstrained lending, allowed these authoritarian regimes to mortgage their countries' economic futures.

Constraints of the Bretton Woods system

Not withstanding these arguments, the banks appear anxious to maintain the existing arrangements for dealing with countries facing debt crises (specifically, using the IMF as the primary agent for establishing

economic conditionality by using the Fund agreements with individual governments as precursors to the renegotiation of privately held loans). Neither the Administration, the IMF nor the private banks appear to be undertaking positive action adequate to deal with the potential unravelling of that system. There are, however, increasing signs that the countries of the region are no longer willing to blindly adhere to a system which is increasingly at odds with their political and economic aspirations. While we would not want to place too great an emphasis upon this point, nonetheless it is significant that officials of various governments in the region talk of establishing a "debtor's cartel" (the Cartegena Group) as a means of protecting the interests of debtors.

Moreover, this newfound resolve on the part of debtors to question the existing system is echoed in expressions of concern by IMF and bank representatives that certain governments are apparently unwilling or unable to negotiate in good faith. Questions as to the continued viability of IMF agreements as a means of guaranteeing economic adjustment are being raised. Indeed, it is broadly accepted that the value of IMF adjustment programs is being debased as debtor countries attempt to cope with the difference between what they are required to say they will do to secure further financing and what they know will be beyond their capacity after they have obtained such financing. This is demonstrated by the increasing incidence of renegotiation of IMF adjustment programs before they have run their course. These unrealistic requirements for policy change have prompted officials in the Dominican Republic, Colombia, Peru and Bolivia to express desires to circumvent IMF agreements as prerequisites to further U.S. economic aid or the renegotiation of debts held by private banks. The Dominican Republic, for example, recently secured the disbursement of $50 million in U.S. economic support fund financing prior to final agreement on an IMF approved economic plan.

A policy of insufficiency

The Dominican Republic secured this extraordinary infusion of U.S. bilateral aid by successfully arguing that these funds were needed to avoid a recurrence of the riots and political unrest which followed last April's efforts to implement an IMF approved program for economic stabilization. It remains to be seen whether this extraordinary assistance will enable the Dominican Republic to undertake a revived and more realistic IMF adjustment program, or whether the $50 million, because it is insufficient or inappropriate, will have no beneficial impact. What must be proven is that the disbursement of this $50 million, if it is to be considered sufficient and appropriate, is linked to a sustainable program of adjustment which corresponds to the concept of graduated austerity.

Current U.S. economic assistance funding often functions as a placebo. Because these programs are driven by the foreign policy objectives of demonstrating support to nascent democracies and short-term considerations relating to the maintenance of political relationships with various governments, more often than not they simply subsidize failing economies. However, the level of subsidy is insufficient to gain any real economic policy advantage or to substantially alleviate the human suffering associated with deteriorating economic conditions. For example, internal State Department proposals to give Bolivia a $20 million cash transfer in the context of a country which, at the end of 1984, was well over $1 billion in arrears on its public and private sector debt, are, in our judgement, so politically and economically irrelevant as to be absurd.

The United States must develop a systematic and cohesive approach for dealing with the region's economic crisis. Such an approach would have to recognize the weaknesses of the current system of debt management. The present system remains heedless to internal political dynamics; provides insufficient assurance that these countries actually implement the economic reforms agreed to as part of debt management proposal; does not afford positive opportunities for these countries to improve their own economic conditions while meeting past debt obligations; and, finally, does not shield these countries from the unintentional negative impacts of the economic policies of the industrialized world, particularly the United States. Since there is not a concerted approach, the benefits from one set of activities are frequently nullified by the damage caused by other actions.

It is critically important that proposals for future U.S. aid programs to the region be evaluated as to their potential to actually contribute to economic recovery and give full consideration to the recepient nation's economic woes. Palliatives, such as the proposed cash transfer to Bolivia or further balance of payments support to Peru while foreign military purchases continue unabated, only contribute to the continued deferral of necessary economic and political choices.

The United States is appropriately favoring democratic governments in the region over authoritarian alternatives, even though some of these alternatives offer the illusion of being more able to survive the political repercussions of harsh but necessary economic reforms. While this democratic preference is a worthy consideration, the United States cannot base continued economic support to countries in the region simply because they maintain a facade of "democracy." Governments which seek to lay claim to that title must demonstrate that they are prepared to manage government finances through civilian institutions which are accountable to the people through their elected representatives. Democracies which are unable to build solid economic foundations will not be able to develop long-term political stability. In this sense, the United States can best promote democracy by nurturing "good government" and by supporting those governments that are willing to consistently undertake rational economic policies within realistic political frameworks. To finance failure not only wastes U.S. tax dollars, but also raises questions in the region as to the desireability of democratic governments and the ability of the United States to act as an intelligent and capable ally.

Narcotics

As an adjunct to our review of U.S. economic and security assistance programs, we also examined the effectiveness of U.S. supported activities to counter the corrosive influence of illicit narcotics production and trafficking on political and economic stability in certain of the countries we visited.

Clearly the control and suppression of narcotics is of significance not only to Latin American countries, who wish to free themselves from the corruption and violence associated with the drug trade, but also to the United States, which in addition to corruption and violence, suffers enormously from the destructive influence of narcotics on our youth. It should not be forgotten, that while Latin American countries are the producers of illicit narcotics, it is we who are the consumers.

U.S. narcotics control assistance has registered dramatic successes in the control and eradication of narcotics substances in many regions of Latin America, especially in Mexico and Colombia. At great personal risk, anti-narcotics officers of the United States and local governments have tirelessly pursued those who profit from this trade. Unhappily, the narcotics traffickers continue to flourish and interdiction and eradication efforts in the region appear to have passed the point of diminishing returns. Although recent efforts directed against cocaine processing laboratories in the region have resulted in several spectacular and well-publicized cocaine seizures, the Miami police department's vice and narcotics squad reports that wholesale prices of cocaine dropped from $60,000 a kilo to just over $20,000 a kilo in 1984. A major increase in street prices should have occurred if cocaine imports were significantly constrained or disrupted by the Colombian seizures. Yet, as noted, the price continued to drop following the large seizures of Colombian cocaine.

In meetings with knowledgeable U.S. and local officials, we learned that the amount of money derived from illicit narcotics trafficking, which flows into the national economies of Latin America is vastly overstated. This is not to say that substantial money flows are not associated with the narcotics trade. Rather, the money which comes from the production and sale of narcotics remains largely outside the producing nations. For example, Colombia, which produces 75% of the cocaine and 66% of the marijuana entering the United States, is estimated to see only $400 million returned to the national economy. U.S. officials in Colombia estimate that if the drug trade were to be completely eradicated, the economic impact would be less than one-and-a-half of Colombia's GDP. The impact of narcotics money on the economies of Latin America is further diluted because narcotics traffickers seldom use their repatriated profits for capital investment, but rather for conspicuous consumption.

Furthermore, while we note that on a national level the economic impact of the narcotics trade is negligible, many Latin American economies are so unevenly distributed that in impoverished regions, the money derived from illicit narcotics trafficking can have a disproportionate if not controlling influence. Invariably, it is in these regions, that narcotics trafficking is most deeply entrenched. Crop substitution or eradication programs are stymied by the undeniable evidence that production of narcotics is the most profitable cash crop and that narcotics producing plants are among the heartiest found in nature and grow virtually everywhere. This makes it prohibitively costly to "buy off" the small producers or to completely destroy the crop.

New approaches need to be developed which would directly attack the incentive structure for dealing in narcotics. Specifically, new approaches are needed to:

Lower the demand for illicit drugs;

Disrupt the enormous money flow associated with these activities (much of which flows through reputable banking institutions); and,

Arrest, extradite and imprison major narcotics traffickers.

In the absence of such measures, sizeable new investments in narcotics interdiction and eradication should be limited since their overall impact on the problem is likely to be negligible.

DOMINICAN REPUBLIC

Economic situation

With prudent management, and some outside assistance, the Dominican Republic should be able to arrest the decline in its economic situation. This Caribbean country has managed to sustain modest real growth (+3.9% in 1983) despite continued depressed prices in the international markets for its primary exports (sugar and ferronickel) and an overvalued currency. U.S. Embassy and Dominican officials, as well as private bank representatives, all agree that if the government takes appropriate measures to establish a hospitable environment, significant potential exists for outside investment in non-traditional areas, such as specialty fruits for export to the United States.

The depth of the economic crisis facing the Dominican Republic should not be underestimated. The Gross Domestic Product (GDP) is not expected to grow significantly in 1984 and per capita GDP is forecast to decline. Unemployment now exceeds 24% of the workforce and is projected to grow in 1985. Per capita income stands at around $525 per year, nearly one-half 1980 levels. Inflation in 1984 was approximately 30% and is forecast to be even higher in 1985.

As of December 1984, the Dominican Republic's external liabilities, including accumulated debt arrearages, exceeded $3 billion. That this debt places an extraordinary burden on the economy is shown by the fact that debt service requirements for 1984 will total $729 million, almost one-third of the total 1983 GDP. This problem has been growing at least since 1978 when balance-of-payments difficulties began to worsen. For 1984, cash flow analysis forecast Central Bank reserve losses of some $400 million. Accelerating losses are demonstrated by the fact that while 1984 losses alone will total some $400 million, the cumulative deficit accrued during the 1978-1982 period was $768 million. The balance-of-payments situation had become so acute that by December 1984, the Dominican Republic effectively suspended external debt service payments pending an IMF stand-by agreement and a hoped-for rescheduling of debts held by private banks.

To recover control of its economy, it is estimated that the Dominican Republic must reschedule in 1985 about $570 million in debts on commercial bank and government loans. A substantial portion of this $570 million in arrears from 1983 and 1984 and consequently renegotiation will be costly because, in accordance with customary practice, past due interest must be paid.

Negotiations on a new IMF agreement have been protracted. The Dominican government has claimed that IMF conditionality is politically unacceptable. This assessment has been based in part on the government's fear of a recurrence of the April 1984 riots which followed an earlier IMF agreement. These riots, which left 60 people dead, were triggered by the government's decision to raise cooking oil prices to market levels, pursuant to conditionality provisions which required a reduction in government subsidies. In August 1984, the Dominican government produced an Economic Policy Statement outlining a comprehensive adjustment program. This document has served as the basis for current negotiations toward a 1985 agreement with the IMF, leading to additional IMF adjustment financing.

Largely in anticipation that an agreement with the IMF would be reached, the United States, in December 1984, disbursed $50 million in economic support fund grants. These funds were part of the $95 million programmed for the Dominican Republic in accordance with Congressional directives. It must be underscored that this disbursement was made prior to the conclusion of an IMF agreement. It was made with the expectation that the Dominican Republic would institute economic reforms, to include unification of the exchange rate, reduction of fiscal imbalances and a rescheduling of debt payments. Since the United States disbursed these funds to support a government prior to conclusion of an IMF agreement, this action marks somewhat of a departure. In contrast to established practice, the United States advanced these funds with the understanding that doing so would encourage the Dominican Republic to follow through on its announced intentions for economic reform. The unintended effect of this infusion of cash, however, may be to make it easier for the Dominican government to defer action on the more difficult policy reforms required by the IMF and the private banks. Therefore, unless the United States acts to ensure that this funding facilitates a comprehensive effort by all parties involved to assist the Dominican Republic in extricating itself from its economic predicament, it may actually be counterproductive.

Political situation

The government of President Salvador Jorge Blanco appears to be committed to economic reform. However, since 1983, splits within the ruling Revolutionary Democratic Party (PRD) appear to be limiting Jorge's ability to move ahead with economic adjustment measures, especially those designed to increase tax revenues. This situation is exacerbated further by elections scheduled for this year and the search for a successor to Jorge Blanco.

The willingness of the Dominican legislature to act positively and promptly on an austerity package will be a crucial factor in the Dominican Republic's ability to meet any new conditions imposed by an IMF agreement. While the executive has demonstrated the political will to carry out an adjustment program, the willingness of the Dominican congress to support budget cuts and tax increases in an election year is unclear.

Not to be forgotten is the fact that there is a violatile electorate in the Dominican Republic. Some 40% of the population lives below the poverty line. As a result of economic reforms, prices of basic staples have steadily risen at a time when real wages were declining. Of necessity, conditionality is likely to force further increases in prices, which hit hard on the poorest sectors of society. Consequently, if the United States expects to see the Dominican Republic successfully implement appropriate economic policies, it must make every effort to ease the political costs of implementing those policies.

PANAMA

Economic situation

The overall Panamanian situation appears to be one of slow but continued deterioration. The Panamanian ecoonomy has been at a virtual standstill since 1983. This be attributed largely to a slackening of world trade brought on by the global recession and a sharp decline in the demand for traditional exports of goods and services. The economic outlook will worsen in 1985 and 1986 because projected government revenues will fail to keep pace with scheduled increases in debt service costs. This will limit the government's ability to maintain current services and could arouse resistance to necessary austerity measures.

Panama is facing a public debt of some $3.4 billion, of which $700 million was due at the end of 1984. With IMF financing, it is expected that Panama will experience only a shortfall of $35 million in financing 1984 expenditures. In 1985, the gap between government obligations and revenues is projected to grow to $75 million.

The Administration is considering a $40 million cash transfer to help fill this gap; although obvously, this amount is insufficient to meet Panama's projected need. We do not know of any decision to condition future economic support fund disbursements on the maintenance of an economic reform program by the new Panamanian President and legislature which was convened in November 1984. In December 1984, in response to widespread public protest, President Nicholas Barletta announced he would withdrew his government's economic reform program. Unless a meaningful economic reform program is instituted, and soon, U.S. assistance funds will be among those lost to the perpetuation of inefficient and ineffective economic policies.

Panama's ability to adjust monetary policy to meet short-term political needs is constrained because the Panamanian currency is the U.S. dollar. Since Panama cannot print money to finance the government's budget deficit, certain political choices are more painful. For example, Panama's ability to create jobs through currency inflation is limited; yet, job creation is very important to maintaining social and political stability. The key benefit to maintaining the dollar as the unit of currency, is that a weak government is prevented from moving the country into an inflationary spiral.

Political situation

This year's Panamanian election is generally acknowledged to have been "flawed." There is universal recognition in Panama that the Presidential elections were not fair, and that President Barletta was installed in office by the National Guard. Nonetheless, many people (including Barletta opponents) believe that Barletta did receive nearly 50% of the vote and this represents some kind of mandate. Equally, many believe that if his opponent, Arnulfo Arias, had been elected, he would not have been allowed to take office.

Barletta is seem by some to be freer from National Guard influence than previously thought. Questions relating to the conduct of the election may weaken his ability to carry-out broad-scale and unpopular economic reforms. In this context, it does not seem appropriate for the United States to initiate cash transfers until policy reforms are fully articulated and actually underway. Then, it would be appropriate for the United States to step in and provide visible support to President Barletta through assistance which moderates the impact of austerity on the most vulnerable elements of Panamanian society.

COLOMBIA

Economic situation

Although the current state of the Colombia's economy appears healthy, many observers believe that external debt service requirements may precipitate an economic crisis in the next two to three years. Colombia is facing very heavy capital payments in this period. In 1982 debt service payments were $250 million. In 1985, these payments will climb steeply to $730 million. Concurrently, in 1985, a balance-of-payments shortfall exceeding $1 billion is expected to wipe out Colombia's remaining hard currency reserves. This balance-of payments situation is expected to improve over time, but projections of current trends suggest an additional $500 million draw on hard currency reserves

will come in 1986 and Colombia will be forced to seek external financing.

The next two years will be critical. Colombia must integrate a long-term development strategy (based on opening new coal and oil deposits which will be exploitable in the late 1980s) and, short-term policies designed to halt the erosion of hard currency reserves. This will be extremely difficult, because it appears that Colombia is mortgaging future income potential to meet the costs of short-term stabilization. For example, our conversations led us to believe that Colombia is considering selling coal futures in order to finance current budget shortfalls. If so, it is probable that they will be selling their future development potential at rock-bottom prices because current market prices for coal are depressed. Since must of the future income of these projects is already obligated to pay back development and production costs, the benefits of such a scheme are likely to be marginal.

Over the years, Colombia has been conservative in its handling fiscal matters. Hence, Colombia has a relatively small external debt. In recent years, however, Colombia has been hurt by high interest rates which the Colombian Ministry of Finance has linked to the record U.S. budget deficit which it asserts have cost Colombia some $1.5 billion in increased interest payments. Additionally, Colombian government finances have been weakened by slow economic growth and reduced revenues from tax evasion.

Colombia does not presently have an IMF program. It does not receive economic assistance from the United States. Currently, Colombia is seeking to reschedule its commercial debts in the absence of an IMF agreement. Colombia intends to convince the commercial banks of its credit-worthiness by unilaterally undertaking an IMF-like economic austerity program. However, the banks have resisted as already indicated that they will not reschedule Colombia's debt in the absence of the legitimacy ascribed to an IMF sanctioned adjustment program. It is not clear whether the banks will continue to maintain this hardline position.

Political situation

Colombia's political stability seems predicated on Betancur's ability to balance competing political interests—which range from a conservative establishment opposed to social change to leftist insurgencies demanding a fundamental re-ordering of society. Betancur's continuing ability to maintain this equilibrium will be challenged by new outside forces, particularly in the form of pressure exerted by the banks and the IMF as they seek to instill economic reforms in return for continued credit and eased debt service requirements.

Colombia's efforts to rationalize its economy could be disrupted by internal security considerations. Growing pressures for budget austerity have reduced the 1984 Columbian military budget to a level 30% less than the 1983 budget and the 1985 budget is expected to be 40% less than the 1984 budget. The total impact of these reductions is not clear, since the 1983 budget totals were unusually high and the potential remains for 1985 supplemental funding. However, this could be disasterous if the current truce with the insurgents breaks down and the level of fighting increases (requiring higher defense expenditures). In that case, increases in military expenditures would be driven by urgent requirements which would override budgetary considerations for austerity. Thus, in the Colombian situation, where spending on military items has been relatively modest, U.S. security assistance could meaningfully contribute to shielding economic reform from the legitimate demands for increased military spending. Of course, Colombian military requirements would need to be carefully reviewed.

PERU

Economic situation

Peru's economy is in a state of imminent collapse. This is largely due to the sharp contraction in international markets for Peru's main export commodities, a series of devastating natural disasters, and continued government mismanagement of the economy through interventions and subsidies, as well as excessive spending on capital investment projects of dubious value.

GDP, which had averaged approximately 4% annual growth in 1980–1981, fell by 12% in 1983 alone and continued to decline in 1984. As a result, by 1984, massive unemployment and the collapse of entire sectors of the economy had driven real per capita income to below 1963 levels. The public sector deficit, which was 1% of GDP in 1979 had grown to 11% of GDP in 1983. Under Peru's short-lived 1982 stand-by agreement with the IMF, the public sector deficit was not to exceed 4.1% of GDP in 1984. Nonetheless, the deficit was larger and is forecast to grow to 15% in 1985. By the end of 1984, Peru, having suspended payments on principal in March 1983, was some $400 million in arrears on interest payments to its $13.3 billion foreign debt. Including unpaid interest, Peru is scheduled to pay $1.6 billion to foreign creditors in 1985.

No one knows how this will be done. At present, because the government has financed on-going activities through the sale of dollar-denominated certificates, which are liquid claims, Peru actually has net negative reserves. Being a resource poor country, which has mortgaged the major portion of its foreign exchange-earning fishing industry to the Soviet Union to pay for arms purchases, it is highly unlikely that Peru can expand its remaining exports sufficiently to obtain the hard currency required to meet its overdue interest payments, let alone retire any principal. Beleagured officials in the Peruvian government, told us that because of Peru's unfavorable reserve position, and the demands for foreign exchange to meet existing overdue obligations of interest and principal, a "mere rescheduling" would not ease the financial crisis. Peru needs "fresh" money, and in substantial amounts.

It is in this context that U.S. proposals to provide additional economic support funding must be evaluated.

It is questionable that additional U.S. assistance could have any utility. The government of President Fernando Belaunde Terry shows little sign of fiscal responsibility, and appears unable to set and enforce priorities. For example, in a declining economy with some 75% of government revenues already being spent on interest payments and military spending, the government has signed newly negotiated contracts with France for the purchase of 26 Mirage 2000 interceptor aircraft for the Peruvian air force. This $600 million deal is said to represent a victory for the armed forces over civilians who would have preferred to dedicate this hard currency to managing the present debt. It is indicative of the weakness of democratic institutions in Peru that, some four years after civilian rule was said to have replaced military control, the armed forces are able to unilaterally commit government resources.

The ability of the IMF to secure Peruvian commitment to economic reform is questionable. Peru's former Prime Minister, Manuel Ulloa, resigned in late 1982, at least partially over disputes with President Belaunde over the government's commitment to maintaining the economic reforms which were conditions of their 1982 stand-by agreement with the IMF. Negotiations with the IMF have broken down completely, effectively precluding refinancing and rescheduling agreements with the private banks which will be necessary to stabilize Peru's economy. Such economic decisions have been put off until after a new president is installed in June.

Political situation

The first round of Peruvian national elections are scheduled for April 1984. The political parties of the ruling center-right coalition have failed to build a coalition and, as a result, have splintered into three factions. This favors the prospects of the center-left APRA party, led by Alan Garcia, in the run-off election scheduled for May. Peru's electoral system, providing for run-off elections, virtually guarantees that the party of whomever is elected President will not have a majority in the legislature. Obviously, this could have negative implication for the new president's ability to implement economic reforms.

BOLIVIA

Economic situation

Bolivia's economy has been described as "imploding". Inflation has surpassed an annual rate of 1000%. Per capita income is the lowest in Latin America and declining. The country is $3.7 billion in debt and faces a debt service ratio over 100%. Bolivia is in its fourth year of real economic decline (real GDP fell 1.5% in 1981; 8.7% in 1982; 7.7% in 1983; and is expected to continue its decline in 1984 and 1985). The fiscal deficit is in excess of 28% of GDP; the Bolivian peso is overvalued by some 200% (in spite of a 75% devaluation in April 1984). Official unemployment is 12%, but real unemployment is reportedly as high as 40% in the cities. The money supply is growing at 100 billion pesos per month.

Even if the country had not been the victim of declining world commodity prices and the Andean drought, the economy would still be deteriorating because of ineffective economic policies that, for example, subsidize fuel prices to a level of $0.06 per gallon. In reference to this policy, a Bolivian cabinet minister noted that a liter of gasoline costs less than the price of a cigarette. Tax rates are based on a 1970 census and peso rate. The government of President Hernan Siles Zuazo appears incapable of implementing economic reform. The real economy has shifted almost completely to the unofficial side.

The government has all but repudiated its extenal debts and has stopped payments since May 1984. An IMF stabilization program is out of the question at this point. Moreover, negotiations with the private banks have been suspended. Banks has disbanded groups formed for the purpose of negotiating with the government. The few U.S. banks which remain in La Paz are reduced to skelatal staffs and remain only to monitor the situation.

In this context, the State Department is considering granting a $20 million cash transfer to Bolivia, a country well over $1 billion in arrears on its debt service.

Political situation

The Bolivian political scene is dominated by continuing conflict between the original leaders of Bolivia's 1952 revolution. These men include: Victor Paz Estenssoro, leader of Bolivia's largest opposition party; Siles Zuazo, the President; Juan Lechin, the leading trade unionist; and, Guillermo Lora, the

Trotskyite theoretician of the powerful Bolivian worker's union. Their continued fractious approach to government has effectively frozen the decision-making process in Bolivia.

Perhaps the most surprising thing about the government of President Hernan Siles Zuazo is that it survived for two years. Siles Zuazo's National Revolutionary Movement of the Left and its allies won three successive elections in 1978, 1979 and 1980, but were prevented from taking office each time by military action or electoral fraud. Bolivia had ten different governments between 1978 and 1982. Since Siles Zuazo came to power in October 1982 there have been seven known coup attempts.

This instability and continued strangulation of the government, while preventing the effective day-to-day functioning of the government, has at least created pressures for change. A positive sign may be found in the decision, by consensus, to advance presidential elections to June 1985. It is, of course, questionable whether these elections will lead to the creation of a government capable of undertaking the painful steps of restructuring Bolivia's economy. In any case, the United States should husband scarce foreign assistance resources until it becomes clear that the new government is willing to undertake substantive reforms.

ARGENTINA

Economic situation

The Argentine economy began a modest recovery in 1983, with GDP growing by 2.5% after a cumulative decline in 1981-1982 of 11%. This has been taken by some as a sign that the recession in Argentina has bottomed out. Nonetheless, while Argentina's economy is more robust than that of other Latin American countries, it still faces a $43 billion external debt; annual inflation of over 300%; declining government revenues (down by 1.5% of GDP in 1983) and a growing government budget deficit.

Moreover, the legacy of the previous military government, which had presided over an increase in external debt from $8 billion in 1975 to nearly $45 billion in late 1983, without a significant addition to the nation's capital base and infrastructure, has severly constrained the present democratic government's ability to deal with contemporary economic difficulties. Furthermore, the military, through incompetent management of the economy, brought disorganization and disruption to the entire system for producing goods and services. This legacy has made it extraordinarily difficult for the present government to effectively use Argentina's economic strengths to produce and export in sufficient quantities to meet debt service requirements, and promote vigorous economic growth.

Argentina's economic problems appear resolvable. It has a broadly-based economy and is well-endowed with human and natural resources. If the country is not subjected to economic disasters (such as a collapse in commodity prices) and the government remains committed to maintaining its economic reform program sustained recovery and growth is possible. This will be tested by its adherence to the austerity plan associated with the latest IMF stand-by agreement which will require squeezing government wages.

Political situation

Alfonsin's most powerful adversaries are the labor unions, particularly the Peronist-dominated labor federation. The unions have already expressed their reluctance to accept economic austerity measures. The unions claim that almost any alternative would be preferable to an IMF agreement and, as a consequence, they will not cooperate in wage reductions.

Furthermore, the unions will probably move to protect the jobs of rank and file members threatened by budget reductions. For example, Aflonsin is planning substantial cuts in Argentina's military budget. While in the wake of the Falklands/Malvinas debacle, the country might be willing to accept these reductions, Argentina has over 26,000 people employed in domestic arms industries. These workers are unionized and likely to have great influence on whether the government is able to follow through with the proposed cuts.

Alfonsin's government appears stable for now. Labor groups are expected to grow more resistive over the summer months, particularly if the government maintains its austerity program. Although the political role of the military has been limited since the elections, observers of the Argentina military question whether Alfonsin's impact has been more than superficial.●

ETHIOPIAN FAMINE RELIEF

● Mr. BUMPERS. Mr. President, the tragedy of the famine in Ethiopia has touched children and adults from around the country and moved them to join the African relief effort. I am pleased to note the generous actions of students at the Woodruff Elementary School in West Helena, AR. These students have dug deep into their own pockets and shown great initiative to raise $361 for the African relief effort. The following article appeared in the June 1, 1985, edition of the Phillips County Progress and details the efforts of the Woodruff Elementary School students. I ask that it be printed in the RECORD.

The article follows:

[From the Phillips County Progress, June 1, 1985]

WOODRUFF STUDENTS RAISE $361 TO ASSIST ETHIOPIAN RELIEF

Most of the students at Woodruff Elementary School come from middle, lower middle, and poverty level homes and, therefore, their pockets aren't exactly full of nickels and dimes when the go to school each morning.

But, when presented with a genuinely worthwhile project, the students somehow respond—and they did just that shortly after the news media broke the story of the African famine and the thousands of starving people in Ethiopia.

The students' interest was aroused after they had watched Tom Jarrel's special report on Ethiopia, which was aired on ABC. After viewing the program, the pupils sent a written request that they be allowed to raise funds for that country to Kenneth Murphee, their principal.

Murphy, of course, quickly approved the request and the students started to work.

In a two week period, the students conducted numerous benefits, including a magician show and a popcorn sale, and contributed to the fund individually.

When it was all said and done, the children had $361.11 in the coffers.

But they were not furnished. The students had heard that not all of the relief funds were getting to Ethiopia and, therefore, not benefiting those in need. They considered carefully each agency involved in the task of getting food and supplies to the African country and decided to send the money to the "Interaction Ethiopia" Fund. This was done Wednesday.

Murphee and all of the Woodruff teachers are extremely proud of their charges.

"They worked awfully hard on the drive," said a teacher. "And we were really a little bit amazed that they came up with a fairly large sum of money . . . the thing that made it nice was that they did it on their own, with very little help from the faculty."●

COST TO ATTACK

● Mr. GORE. Mr. President, the sheer complexity of decisions we must make in funding strategic nuclear weapons contributes to the political devisiveness of this subject. As it now stands, we debate strategic issues in isolation from each other, even though we know that legislative choices affecting any one element of the nuclear capabilities of the United States inevitably have consequences for the system as a whole. What we need is a way to understand and evaluate these interactions.

Last fall, I asked the Congressional Research Service to engage this problem by focusing on the concept of "cost to attack:" That is, the cost to the Soviet Union, measured in nuclear warheads expended, to destroy a given number of U.S. nuclear warheads, under conditions that could be varied at will in order to permit study and comparative analysis.

It was my hope that the cost-to-attack approach would lead to insights concerning a whole series of questions. For example, we could look at the effect of varying the number of MX missiles in silos; at the implications of deploying Midgetman missiles; at the consequences of increased Soviet ICBM accuracy for superhardened silos; at the impact of strategic defenses on ICBM vulnerability—all on a common scale of measurement.

If such things could be done, we could go beyond merely talking about strategic stability to defining it in precise terms, so that it could be studied under changing assumptions about forces on both sides, including not only their number, but their performance characteristics. We could also ask questions and get answers about the impact of arms control agreements of any kind we might like to examine.

As this work proceeded, even partial products greatly aided my own efforts to come to terms with strategic issues. Now, however, the project has been concluded—in my opinion with great success and promise—and I would like to share it with my colleagues and the concerned public. Therefore, I take this occasion to draw your attention to two companion-piece CRS studies: "Cost To Attack: Measuring How Strategic Forces Affect U.S. Security, A Methodology for Assessing Crisis Stability" and "Cost To Attack U.S. and Soviet Strategic Forces Under Three Alternative Arms Control Approaches."