S. HRG. 100-1015

ECONOMIC DEVELOPMENT IN CENTRAL AMERICA

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

S. 2252

JUNE 10, 1988

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

92-196 WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

COMMITTEE ON FINANCE

LLOYD BENTSEN, Texas, *Chairman*

SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DAVID PRYOR, Arkansas
DONALD W. RIEGLE, Jr., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
THOMAS A. DASCHLE, South Dakota

BOB PACKWOOD, Oregon
BOB DOLE, Kansas
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
DAVID DURENBERGER, Minnesota
WILLIAM L. ARMSTRONG, Colorado

James C. Gould, *Staff Director and Chief Counsel*
Edmund J. Mihalski, *Minority Chief of Staff*

Subcommittee on International Trade

SPARK M. MATSUNAGA, Hawaii, *Chairman*

LLOYD BENTSEN, Texas
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DONALD W. RIEGLE, Jr., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
THOMAS A. DASCHLE, South Dakota

JOHN C. DANFORTH, Missouri
BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
WILLIAM L. ARMSTRONG, Colorado
DAVID DURENBERGER, Minnesota

CONTENTS

OPENING STATEMENTS

COMMITTEE PRESS RELEASE

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

APPENDIX

Alphabetical Listing and Material Submitted

COMMUNICATIONS

ECONOMIC DEVELOPMENT IN CENTRAL AMERICA

FRIDAY, JUNE 10, 1988

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:06 p.m. in Room SD-215, Dirksen Senate Office Building, Hon. Spark M. Matsunaga (chairman of the subcommittee) presiding.

Present: Senators Matsunaga, Bradley, and Durenberger.

[The prepared statements of Senators Bradley and Durenberger appear in the appendix.]

[The press release announcing the hearing follows:]

[Press Release No. H-21, May 31, 1988]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARING ON S. 2252, A BILL TO ENCOURAGE ECONOMIC DEVELOPMENT IN CENTRAL AMERICA

WASHINGTON, DC—Senator Spark Matsunaga, (D., Hawaii) Chairman of the Senate Finance Subcommittee on International Trade, announced Tuesday that the Subcommittee will hold a hearing on S. 2252, a bill to remove impediments to Central American economic recovery, and to increase sugar import quotas, introduced by Senator Bill Bradley (D., New Jersey).

The hearing is scheduled for *Friday, June 10 at 2:00 p.m.* in Room SD-215 of the Dirksen Senate Office Building.

Senator Matsunaga said, "While political issues have dominated the U.S. policy debate about Central America, the link between economic development and political stability cannot be overlooked. The United States has an opportunity to contribute to the development of the region as one aspect of our national policy. However, as part of that process, we need to ensure the integrity of our domestic programs."

S.2252 proposes to cut U.S. government loan interest rates, provide support for debt swaps in order to reduce debt service, and relax sugar quotas for Central American countries. The bill applies to Costa Rica, El Salvador, Guatemala, Honduras and potentially Nicaragua.

The witnesses scheduled to testify will evaluate the extent of decline in living standards and economic activity of Central American countries, the degree to which U.S. economic policies could assist in reversing that decline, and the potential effectiveness and domestic impact of strategies to reverse that decline.

OPENING STATEMENT OF HON. SPARK M. MATSUNAGA, A U.S. SENATOR FROM HAWAII

Senator MATSUNAGA. The Subcommittee on International Trade will come to order. It goes without saying that United States policy toward Central American countries has been one of the most hotly debated subjects in both Houses of Congress during the 1980s.

This debate, however, has concentrated primarily on political and the security aspects of our relationship with the countries of the region. We cannot overlook the fact that the foundation of a long-term, secure relationship with our neighbors in Central America rests as much upon a stable basis for economic development as upon a buildup of military forces.

In short, without sustained economic growth, without growth in employment to match burgeoning growth in youthful populations, without hope for a brighter future for tomorrow's citizens of the countries of Central America, we are unlikely to stabilize effectively the political turmoil in the region.

I say this in the context of a foreign aid program which has donated $7 billion to the region during this decade. While this amount dwarfs the $1.8 billion contributed to the region in the preceding 35 years, the composition of aid has increasingly tilted toward security and military assistance.

The question being addressed in this hearing is what the United States can do to promote these developmental goals. Today, we will be receiving testimony on S. 2252, a bill introduced by the distinguished Senator from New Jersey, Mr. Bradley, to promote economic development in Central America and to increase the sugar import quotas.

In assessing various legislative proposals to improve the economic environment in Central America, we need to be cognizant of the unique position of the United States. As the major economic power of the hemisphere, we are expected—and expect of ourselves—to exercise leadership in developing policies to promote the stability of the region.

In my view, we also need to be aware, as the Kissinger Commission noted, that it is neither the role nor the sole responsibility of the United States, nor is it within the unilateral power of the United States, to resolve the economic problems faced by others, whether in Central America or elsewhere.

Most of the economic problems that will be discussed in today's hearing existed long before the Sandanistas came to power in Nicaragua, before the escalation of the bloody fighting in El Salvador, before the reduction of sugar import quotas began in 1982, and before the debt crisis intensified in the early 1980s.

I further believe that attacks on the integrity of existing domestic programs need to be evaluated on the basis of what policies are in the interest of American citizens, not only on the basis of the purported benefits to foreign policy goals.

S. 2252 proposes to increase substantially the import quotas for sugar for Central American countries. When we look at this proposal, we cannot evaluate it in isolation. From an international perspective, the Administration presently has under negotiation in the Uruguay Round of multilateral trade talks its proposal to radically alter agricultural trade by eliminating all trade distorting domestic and export subsidy programs and barriers to agricultural trade.

As chairman of the International Trade Subcommittee, I have been a strong supporter of Ambassador Yeutter's efforts in these negotiations. The successful completion of these negotiations would presumably take into account the complex and volatile market conditions which have always been characteristic of international trade in sugar.

These negotiations must address the major trade distortions in international agricultural trade, the Common Agricultural Policy pursued by the European Community. From a domestic perspective, we also must recognize the impact that the proposals to modify our sugar policy might have on the maintenance of a strong industry which contributes much to many communities in this country.

In addition, proposals have been offered by the Congress as possible remedies to offset reductions in the sugar quota and to benefit Caribbean and Central American countries. The Continuing Resolution passed by the Congress last December contained a provision to allow the importation of an additional 400,000 tons of sugar from Caribbean, Central American, and Philippine sugar exporters. However, six months later, this measure has yet to be implemented by the Department of Agriculture.

We have a distinguished group of witnesses this afternoon, who will engage in a comprehensive review of the general economic conditions in Central America. However, before I call upon the witnesses, I will ask Senator Bradley if he has any opening statement?

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Thank you very much, Mr. Chairman. Let me express my appreciation to you for being willing to hold this hearing on the bill. I hope it will bring a number of issues into focus.

I believe Democrats and Republicans agree that the United States' interests are strongly allied with a Central America that is economically prosperous, politically democratic, and socially just; but today, our interests are undermined by adverse conditions in the region.

The economies of Costa Rica, El Salvador, Honduras, and Guatemala are in deep depression. Depression in turn denies the governments the means with which to combat long entrenched social injustices. Those injustices fuel the insurgencies that threaten recent efforts to institutionalize political democracy.

This situation has developed despite one of the most massive assistance efforts undertaken by the United States Government in any region in recent years. Between 1980 and 1986, we provided Costa Rica, El Salvador, Guatemala, and Honduras with $3.1 billion in economic and development assistance.

In very rough terms, our nonmilitary assistance during the period was the equivalent of three percent of the four countries' gross national products. Yet, in every one of those countries, real per capita income in 1986 was substantially less than in 1980.

In Guatemala, per capita income has fallen a horrendous 21 percent; in El Salvador, 15 percent; in Honduras, 13 percent; and in Costa Rica, 10 percent. But those stark figures fail to convey the burden in human suffering and eroded political stability that has resulted from this economic disaster.

One purpose of this hearing is to receive testimony from experts on the economy of the region and individuals personally knowledgeable about the economic depression, business activity, and living conditions at all social levels.

A second purpose will be to examine whether U.S. policies have offset the impact of our economic assistance and thereby contributed to the current crisis. It is my view that our sugar policies and our ineffective approach to the foreign debt crisis both deny the governments and the private sectors of the region hundreds of millions of dollars in foreign exchange.

Foreign exchange is necessary to sustain capital formation and thus economic growth. Official foreign assistance, even when effectively used, is not a full substitute for financial resources generated by the region itself.

As a consequence of foreign exchange constraints, capital formation in the four democratic Central American countries has stagnated. During the period 1980-1986, capital formation fell $423 million, or 15.5 percent.

Had the sugar quota and debt relief proposals contained in S. 2252 been in effect during the period, the four Central American democracies would have turned that shortfall into a $2 billion increase.

During the 1980s, the Administration has repeatedly pointed with alarm to the security threat posed by the Sandinista government in Nicaragua and Communist insurgencies elsewhere in the region. They have poured billions into the region to combat this alleged threat, but the result has been economic stagnation and political turmoil.

If we are serious about the threat to our interests in the region, if we truly believe that those interests are buttressed by economic prosperity and social justice, then we must examine carefully the full range of our policies to determine whether our policies taken together are helping Central American countries grow or whether they are forcing them into deeper poverty and economic stagnation.

Mr. Chairman, I hope today's hearing will shed light on this issue and begin focusing the attention of the Congress, the Administration, and the public on the urgent need to stimulate economic recovery in Central America.

Mr. Chairman, I would ask unanimous consent if a study just concluded by the OAS on economic analysis of Central America during the 1980s could be included in the record.

Senator MATSUNAGA. Without objection.

[The report appears in the appendix.]

Senator BRADLEY. And again, I want to thank you for holding the hearing.

Senator MATSUNAGA. You are most welcome. Of course, we have with us four distinguished panels of witnesses. I do wish to point out the fact that we have in front of me the traffic light system, the green, the yellow, and the red. When the green light is on, of course you may continue to speak; when the yellow light comes on, it means you can continue to speak, but you must go like hell—(Laughter).

Because when the red comes on, you will have to stop. We will have 5-minute oral presentations and then a question and answer period. So, if you will keep your oral presentation at five minutes or less, we will appreciate it.

However, we have an immunity extended to the Administration witnesses. While they are not bound by the 5-minute rule, we hope that they will make their statements as brief as possible to allow time for questioning on their written testimony.

Our first panel of witnesses consists of Hon. Elliott Abrams, Assistant Secretary for Inter-American Affairs, Department of State; Hon., Richard Goldberg, Acting Under Secretary, International Affairs and Commodity Programs, U.S. Department of Agriculture; and Hon. David R. Malpass, Deputy Assistant Secretary for Developing Nations, Department of the Treasury.

We would be happy to hear from you first, Secretary Abrams,

STATEMENT OF HON. ELLIOTT ABRAMS, ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Secretary ABRAMS. Thank you, Mr. Chairman. I would like to thank you and the committee and the subcommittee for this opportunity to discuss economic development in Central America.

Let me begin by noting that we do this against a background of the growth of democracy in Honduras, El Salvador, and Guatemala and, of course, the continuation of democracy in Costa Rica. We do it against a background which I would paint as a little bit brighter than I think Senator Bradley did, in using the term "deep depression."

I think there has been some progress in stabilizing the economic situation. There was a severe contraction in the early 1980s, but more recently, there has been a bit of growth—real growth of about three percent, we think, in 1987; and probably a little bit more than that, 3.5, in 1988; maybe four percent in 1989.

More will be needed in terms of economic reform and outside assistance to reach a five percent target, but I don't think that the picture is quite as bleak as perhaps Senator Bradley does.

The growth, I think, is the product of economic reforms, some of which were supported by U.S. economic assistance. They were certainly undertaken with our help and against adverse circumstances.

It is obvious that there still remain some very large structural and macroeconomic problems in these countries, including over dependence on traditional exports, agricultural products, an inefficient manufacturing base, over reliance on high import tariffs, and gross inequities in income and opportunity within the countries.

Clearly, the primary responsibility for dealing with this falls to the countries in question. Our role is to continue our assistance and to encourage reforms that shift to the free market and the private sector those economic functions they perform best, while helping governments to improve social services like education and health that provide a basis for greater equity.

There are some other things that we can and should be doing. For example, scholarships which, in a sense, improve human capital can be important, not immediately but in the medium run on economic development, particularly when they are directed toward needier students.

We need to avoid protectionism here and keep our own markets open. That will be very helpful as well.

Let me just turn for a moment to the bill before us, which we welcome as a sign of seriousness of intent on the part of the Congress, and particularly Senator Bradley, with respect to these problems. Similarly, I might note that we very much welcome S. 1594, Senator Graham's bill; and I think H.R. 3101 that is its counterpart, which would extend and expand CBI, which has made a tremendous contribution already in Costa Rica, and which I think an be very helpful in the coming years as well.

We agree wholeheartedly with the premise that external economic support to the region will be needed over the next decade. That runs up against the probable budgetary realities. I don't know if we are going to be able to maintain the levels of aid that we have reached in the past five years or so, not just in Central America but in South America.

So, that is one issue that I think we need to face.

Also, like any Administration, I guess, we are concerned about earmarking and its reduction of the flexibility we like to have to make sure that funds are best used.

Finally, and this is perhaps for us the most important, we think our assistance must be linked to the recipient government's agreement to undertake those economic policy reforms required to promote sustained economic growth and increased equity. That linkage is vital in Central America as it is elsewhere.

This bill addresses the issue of sugar; and as you know, the Administration continues to object strongly to current U.S. sugar policy. We join you completely—wholeheartedly—in the view that that policy has to change.

We face together the obstacle of agricultural protectionism in the European Community and here. Just let me give an example with respect to sugar and what our program has done.

This price support program began in December 1981 and, since then, U.S. imports of sugar have dropped from four million tons to about three-quarters of a million tons, a decline of 80 percent. This has been a major blow in Central America, reducing earnings from nearly $200 million in 1981 to about $30 million estimated in 1988.

But—and the but is that we do not think that the way S. 2252 goes about it is the best way. The bill would provide greater access for the Central American countries, but there are other countries which are even more reliant on sugar and more damaged, for example, the Dominican Republic, by our current program.

The Dominican Republic has gone down from $350 million in sugar export earnings in 1981 to about $50 million in 1988; and we do not think that we can justify giving favorable treatment to Central America as opposed to some other very important sugar exporters. There is, as well, a GATT problem in that kind of discrimination.

Also, we would like to address the main flaw in the sugar program, which is the artificially high support price. Rather than establish quotas by legislation, we would prefer to reduce the level of price support sugar.

With respect to debt, we again welcome the recognition that debt is a major problem for the region. Though the profile of debt varies among the four countries, it is a major problem for all four.

What to do about the debt problem is obviously the subject of great lively debate right now. We think that the current approach of linkage to economic policy reform and case-by-case analysis is best approach; and in our view there is one key deficiency in the bill before us, and that is that it does not really differentiate among the countries, nor does it get at the policy reform linkage.

We are seeing some progress on the case-by-case approach to debt. We are seeing commercial banks work out solutions and new ideas, cooperating with the debtor countries.

In a sense, what is happening is that an effort is being made to use that pretty steep discount in the real market value of the debt in a way that advantages the debtor countries. And there are many ways this has been done.

The Morgan-Mexico Plan was one which did provide some relief, though not as much as had been hoped for, for Mexico. A very different set of circumstances led to the Bolivia debt buy-back plan, which extinguished about half a billion dollars in debt; and there are other proposals around.

But these proposals, we think, make better use of market mechanisms and take better into account the need for policy reforms in a case-by-case manner.

There are some other issues that the bill raises. Reducing the interest rate on official U.S. credits in Central American countries by four percent would reduce inflows into the U.S. Government and perhaps, if it is in the 150 account—and I am not sure it is—the question arises as to where the cuts would come from to make up that revenue.

I guess there is also what I would call the free rider problem. The bill would have us reduce interest paid to us; but it does not include working with other creditor governments, which then become free riders. As the countries in question have more income available, they have more income available to pay off other government creditors. So, we would like to see that addressed.

In the interest of time, let me stop with that and again say that we share the subcommittee's great interest in these problems and dedication to helping the democracies of the region cope with them, partly for straight economic growth reasons and partly to help stabilize the democracies that they have recently attained. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you, Mr. Secretary. Now, we will be happy to hear from you, Secretary Goldberg.

[The prepared statement of Secretary Abrams appears in the appendix.]

STATEMENT OF HON. RICHARD GOLDBERG, ACTING UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary GOLDBERG. Thank you, Mr. Chairman and Senator Bradley. I have to apologize, Mr. Chairman. We had an unprecedented occurrence in U.S. Government; we had a computer break-down, so we have not furnished you with our corrected statement that I will submit for the record, if it pleases the chairman and the rest of the committee.

I am going to summarize it, but we will submit the statement in full for the record.

Senator MATSUNAGA. Please.

Secretary GOLDBERG. Mr. Chairman, I appreciate the opportunity today to provide you and other members of the committee the department's views on S. 2252; and I will address most of my remarks to Section 2 of the bill, which is in regard to sugar.

This provides a minimum access to the U.S. market for certain Central American countries. We support legislation which would have the effect of reducing domestic sugar price support levels and bringing U.S. sugar prices more in line with world prices.

However, while S. 2252 as currently drafted authorizes adjustments in domestic price supports, further amendments are needed to bring the legislation into conformity with the requirements of the trade agreement permitting our current sugar quotas, as set forth in Head Note 2 of Schedule A of the Tariff Schedules of the United States.

In particular, the preferential allocation of quota increases to Caribbean Basin countries violates our obligation to provide nondiscriminatory market access and due consideration to the interests of materially affected GATT contracting parties, as Secretary Abrams alluded to.

Without an amendment to bring S. 2252 into conformity with our international obligations and other technical amendments, such as those we have submitted with respect to S. 1948, a bill to amend the tariff schedules of the U.S. to modify the quota on importation of sugar, we cannot support this legislation.

The department is also strongly opposed to any mandate to provide a minimum access level for Philippines and Caribbean Basin sugar under the department's sugar reexport program. The department views this provision as a "quick fix" that does nothing to address the long-term problems faced by the United States sugar industry.

The provision merely constitutes another attempt to relieve in the short term the problems caused by existing domestic sugar price support programs. As you know, we have long contended that the existing sugar price support legislation needs to be amended to correct numerous distortions in the domestic sweetener market.

Many believe that such distortions are confined to the adverse impact existing legislation has had upon sugar exporting countries and U.S. domestic consumers.

We believe that the distortions and adversities caused by existing legislation go well beyond the effects it has had on those two groups. In fact, we believe that existing legislation has adversely affected, or is on the verge of adversely affecting, absolutely every segment of the domestic sweetener market: sugar-containing product manufacturers, sugar producers, cane refiners, sugar exporting countries, workers, taxpayers, and consumers.

All of this has happened or will happen as a result of a level of domestic sugar price supports which does not reflect market conditions or realities. For this reason, we believe the future of the entire domestic industry is in jeopardy unless we reduce domestic sugar price supports and make the sugar program more market-oriented and rational.

It is in this context that we support legislation which would have the effect of reducing domestic sugar price supports and bringing U.S. sugar prices more in line with world prices. Reduction in the price support level will pull back excessive incentives to domestic production, pull down the advantages of using world priced sugar to produce sugar containing products for import into the United States, avoid sugar forfeitures and the corresponding penalties to the American taxpayer, save the sugar cane producing and refining sectors of the sweetener industry.

All of this, we believe, would happen if reform were accomplished; and reduced consumer payments for sweeteners and provide the same fair access to markets for foreign sugar that we want for our own farm exports.

In closing, I think it should be pointed out that our efforts in amending existing price support legislation are not aimed at dismantling the domestic sugar industry. On the contrary, we believe that it is essential to change existing legislation if we are to assure the viability of this industry over the long run.

There is much disagreement on how this can be achieved. Some believe production controls are the answer. We believe that only by reducing and eliminating the differential between world and domestic prices can we assure the long-term viability of our sugar industry.

This can only be accomplished by taking measures to lower the domestic price and raise the world price, or some combination of the two. Our recommendation is to take measures which both raise the world price and lower the domestic price. This is precisely what we have been attempting to do in our efforts to reduce domestic price support levels and liberalize world trade in sugar and other commodities in the Uruguay Round of the multilateral trade negotiations.

Finally, Mr. Chairman, I would note that the Department of Agriculture enthusiastically supports the new initiatives which would build on any of the concepts of the Caribbean Basin Economic Recovery Act.

This concludes my statement, Mr. Chairman. I would be very happy to answer questions that you or other members of the committee may have.

Senator MATSUNAGA. Thank you very much, Mr. Secretary. We will now hear from Deputy Assistant Secretary Malpass.

[The prepared statement of Secretary Goldberg appears in the appendix.]

STATEMENT OF DAVID R. MALPASS, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary MALPASS. Thank you, Mr. Chairman and members of the committee. I welcome the opportunity to discuss economic development in Central America.

One advantage of speaking third is that I have had more time to cross paragraphs out of my testimony; so I will be brief. My written testimony describes an economic policy environment in which developing countries could prosper, relates that environment to the Central American democracies in Costa Rica, Guatemala, El Salvador and Honduras, and provides some specific comments on S. 2252.

The primary economic development lesson of the 1980s, in my view, is the importance of market-based economic systems. The political foundations for such systems are democracy, a respect for individual rights, and non threatening neighbors. With these foundations and the personal and national courage to undertake economic changes, we believe that the four democracies of Central America would have good prospects for sustained economic growth.

While I do not bring a blueprint for running sound economies, I believe that some politically difficult economic changes clearly need to be taken by the countries of Central America. This effort should obviously begin in Nicaragua, which is breaking all the principles of sound economics and whose people are suffering as a result. But this hearing is on the democracies, so I would like to discuss two principles applicable to them.

An open economy is the starting point for economic progress. There are several key facets. First, the private sector must be allowed access to capital, including foreign exchange. Second, capital and goods must be allowed to flow easily into and out of the economy. Investment capital and therefore jobs and growth, will shun an economy which places controls on it. Third, market-based prices must be the clearing mechanism for goods, foreign trade, the labor force, and exchange rates. And fourth, an open economy requires a non confiscatory tax system, one which leaves much of the profit with those who earned it.

Sound government macroeconomic policies are equally important. In addition to removing market restrictions which close the economy, governments must leave more resources and challenges to the non government sector. Governments don't make profits; so it is crucial that spending by the governments and related peristalsis be brought under control.

Sound monetary policy has eluded Central America in recent years. Printing presses have been used to meet government payrolls, undermining currencies that were once stable. The resulting inflation has led to a severe misallocation of resources and of people's time and energy.

While these principles are generally accepted, perhaps even in the countries themselves, they are not being applied assiduously. My written statement describes each of the economies and makes some suggestions for reform. In the interest of time, I will move to the bill at hand, but I want to emphasize our belief that each country should work toward its own successful system rather than rely on global approaches.

I would like to provide some brief comments on S. 2252 in the context of this economic overview. We profoundly share the purpose of the bill—promoting economic development in Central America.

The bill proposes three steps to assist in this: the securitization of debt, using U.S. Government guaranteed bonds issued by these countries in exchange for their obligations to commercial banks; a reduction in the interest rates on U.S. Government loans to those countries; and an increase in U.S. sugar quotas for the region so as to boost their export earnings.

The current international debt strategy is built on a case-by-case, market oriented approach based on sound economic reforms with external financial support. We cannot endorse either sweeping debt forgiveness or broad-based guarantee proposals and have been on the record many times with regard to this fundamental policy.

As we interpret this legislation, all commercial banks—both foreign and domestic—could voluntarily tender their sovereign claims to the four countries at a discount in exchange for a new security that is backed by the full faith and credit of the U.S. Government. If the legislation were interpreted as mandatory and commercial banks were required by law to tender their claims, this would raise a host of additional concerns.

Again, as the legislation is drafted, the discount would be set by secondary markets. While we strongly endorse letting the market value financial transactions, as in the case of the two recent Brazil debt equity auctions and the Mexican debtbond offering, this secondary market is not a valid proxy for the value of bank claims. The market is thin, and supply outweighs demand; thus, the process of ascertaining the fair value of these credits can be difficult and highly judgmental.

The proposal in S. 2252 would politicize the debt work-out process in several ways. First, by offering a U.S. Government guarantee of the newly issued bonds, secondary market prices would rise in anticipation, increasing the contingent liability of the U.S. Government. The U.S. would inevitably become enmeshed in the negotiation between the countries and their commercial banks in an effort to find a fair price for the transfer.

Second, the bill itself makes a political value judgment, offering two countries the opportunity to transfer 100 percent of their debt and the two others only a 40 percent opportunity. This is the type of dilemma the U.S. Government would be in if this technique—the selective offer of the full faith and credit of the United States—were enacted.

Furthermore, other countries may merit U.S. Government support as much as these four, leading to a diplomatic nightmare and a lobbyist's dream. In examining this proposal, we should keep in mind that U.S. Government guarantees are not costless. The U.S. already has a large national debt to finance; and to this end, the provision of guarantees is likely to add to it.

The bill also suggests an initiative aimed at reducing the interest rates on claims owed to the United States Government. If Congress legislated such an initiative, it would likewise have to appropriate funds to make up the interest rate differential, four percent in this case.

Alternatively, the increase net outlay in the 150 International Affairs Account would have to be offset, which would reduce funds available for other debtor countries, including the poorest countries of sub-Sahara in Africa and the multilateral lending institutions.

Reducing rates of interest on U.S. Government loans to a select group of developing countries would also establish a precedent for similar treatment of other U.S. Government assets. Thus the proposal appears to us to provide a relatively small savings to Central America at a large cost to the U.S. Government.

U.S. quotas in general cause a tremendous loss of income to developing nations and to U.S. consumers. With respect to sugar quotas, the only permanent solution is the elimination of the disparity between domestic and world prices by opening the U.S. market to domestic and foreign producers on a more competitive basis.

We recognize that this goal would have to be achieved over several years.

To conclude, Mr. Chairman, I believe that the purpose of the bill is meritorious. Economic development in Central America is important to all of us and should be pursued. However, the proposals in the bill would have consequences and costs far beyond Central America and must be evaluated in that context.

I look forward to a discussion here today on these issues. Thank you.

Senator MATSUNAGA. Thank you very much, Mr. Malpass. Since Senator Bradley is the author who introduced this bill, which is the subject of this hearing, I will first call upon him to ask questions. I notice here the presence of Senator Durenberger of Minnesota. Then, I will all upon him for his opening statement or questions. Senator Bradley?

[The prepared statement of Secretary Malpass appears in the appendix.]

Senator BRADLEY. Thank you very much, Mr. Chairman. Mr. Abrams, is there any way that you can account for this phenomenon of economic assistance to the area going up and yet, in terms of gross domestic product in these countries, a significant drop in growth rates?

Secretary ABRAMS. As I pointed out in my opening statement, in places like Guatemala, per capita income has fallen 21 percent; El Salvador, 15 percent; Honduras, 13 percent; Costa Rica——

Senator BRADLEY. How in your view could this have happened at the same time that we were sending aid of nearly $3 billion to the area?

Secretary ABRAMS. A combination of factors, I think, Senator. One is, in some of the countries, bad economic policy which first of all militated against economic growth and which also led to capital flight.

Second, the political context was worse and worse throughout the 1980s. Unlike the 1970s, which were years of growth, which would no doubt have discouraged both foreign investment and domestic investment, probably contributed to some capital flight.

It can be argued—and in fact, I think it is argued in today's Wall Street Journal--that our aid had a counterproductive effect in allowing governments to delay economic policy reforms and thereby contributing to a lack of economic growth.

Senator BRADLEY. Has the Administration done any analysis as to what amount of foreign exchange was lost because of the existence of sugar quota reductions, of restrictions on CBI and debt servicing charges, and other measures?

Secretary ABRAMS. Maybe that is a question that Mr. Malpass might want to respond to as well.

Secretary MALPASS. I have one source of data here. It is from the Institute for International Economics, which is a private sector group. Their estimate is that the sugar quotas cost as much as $410 million based on a 1984 estimate.

Now, the figure would be substantially higher today. Perhaps the Department of Agriculture has a comment.

Secretary GOLDBERG. Senator, I have a couple of numbers that would address that issue. We estimate the Philippines have lost between——

Senator BRADLEY. We are not on the Philippines; we are on Central America.

Secretary GOLDBERG. $350 million in foreign exchange earnings between 1984 and 1988 in the Caribbean.

Senator BRADLEY. So, they lost $350 to $400 million in foreign exchange earnings?

Secretary GOLDBERG. Yes, sir.

Senator BRADLEY. This means foreign exchange that is not going into the countries because of the quota. Do you have any calculation on restrictions on the CBI or on debt servicing charges? You may or may not; if you do, would you provide them to the record?

Secretary GOLDBERG. Certainly.

Secretary ABRAMS. Certainly, on debt service charges, we can make a calculation. We can make a calculation on the value of reduction, for example, by four percent in debt payments.

Secretary MALPASS. I do have that. Is that what you were referring to?

Senator BRADLEY. Yes.

Secretary MALPASS. All right. Obligations owed to the U.S. Government by the four countries are approximately $1.7 billion. So, a four percent reduction would cost about $70 million annually to the U.S. Government.

Senator BRADLEY. Now, I have written to Mr. Abrams about the bill, and Mr. Abrams wrote a letter to me in response, in which he raised a number of questions. And I think that these are questions that I would like for Mr. Abrams to respond to and perhaps Mr. Malpass, or both of you can share them, because they relate to the debt component of the bill.

In the letter, first, it is stated that other governments would ask for the same relief from the U.S. Government on interest rates, that the bill accords to Costa Rica, El Salvador, Guatemala, and Honduras. And I wondered if you could tell me which governments?

Secretary MALPASS. In my view, most governments which had debt outstanding with the United States would request similar treatment; but I don't believe it would be limited only to foreign governments. The U.S. Government is owed money by many domestic institutions as well.

Senator BRADLEY. Let's just keep it at foreign governments.

Secretary MALPASS. All right.

Senator BRADLEY. Why couldn't the United States say "no"?

Secretary MALPASS. Certainly, the United States could make that effort; but saying "no" would be difficult. Mr. Abrams may be able to give an inside view on the difficulties of picking and choosing between countries. How would you say "no," for example, to Bolivia, or how would you say "no" to many of the other very good friends of the United States who have debts outstanding to our government?

Senator BRADLEY. But isn't it the job of government to discriminate between competing claims and requests for resources? It seems to me you do that every year in the budget when you decide what aid you send to these countries. You don't send the same aid to all countries.

Secretary ABRAMS. It would be, I think, difficult to resist the expansion of a program. If you are looking at a program like CBI, CBI treats the countries of the region equitably. This proposal, in a sense, does not—not only in debt but in a worse way on sugar; and I think that we would hear from a lot of friendly governments about what they would view as inequitable treatment.

Senator BRADLEY. You have never said "no" to a government?

Secretary MALPASS. I am in the position of saying "no" rather frequently.

Secretary ABRAMS. He even says "no" to the State Department.

Secretary MALPASS. Right. (Laughter)

We work pretty closely together, but sometimes we say "no".

I think that it is important to see what impact the bill has also on the region in terms of its economic development. Movement towards debt forgiveness or debt reduction opens up a host of incentive problems for countries that are trying to get new debt, for example. How could new lenders move into Central America if the interest rate on outstanding obligations is being brought down?

Senator MATSUNAGA. Senator Durenberger, do you have any questions?

OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Yes. Mr. Chairman, I would like to quickly make an opening statement, if I might. I have a longer statement that I would like to have made part of the record.

Senator MATSUNAGA. Without objection.

Senator DURENBERGER. I will indicate to you as I have indicated to Bill Bradley that the single, most critical factor contributing to economic stagnation in both Central and South America is the extraordinary debt repayment burden. I know that you, and Bill, in-particular, have been deeply committed to finding solutions to the debt crisis in Central America.

Bill and I have been working on this for the last 2 to 3 years. I want to compliment him for his efforts in this regard.

In my view, if democracy is going to survive in Central America, we must not only forgive a portion of the area's $25 million debt, but maybe we ought to do what Mitterand did. A couple of days ago, he announced that his government was going to forgive a third of the government debt owed by the sub-Sahara African countries.

We ought to do that just for starters. We also need to mount this Marshall Plan type commitment to help build the economies in those countries; but we are also dealing, as Elliott and some of us know so well, with a lot of political problems and drug problems and a lot of other things as well.

We need to get some help from our allies. For example, the Japanese and many of the Europeans could make a far greater commitment to the hemisphere, if they just opened up their markets to products exported by third world countries, including the Central American countries.

I know that one of the answers is not to dump the U.S. sugar program. I am going to ask Mr. Goldberg to justify why the sugar producers ought to be the first to volunteer to commit suicide in America. I mean, you are going to hear from Al Hansen, who is one of Dick's former neighbors. He comes from Baker, MN. He isn't going to tell you about the drought up there; they couldn't even get the beets in the ground up there this year, I would imagine.

But I think he will talk to you practically about what is causing the $350 million problem in Central America relative to what is happening in the United States market. The sugar program in the United States Is not the problem. There are far worse protectionist sugar programs all over the world.

There isn't a sugar beet grower in my part of the country who wouldn't give up all of this for a marketplace, but you can't find the market in the world today. I dare you, Dick, to explain to us in the three minutes I have left—or take your own five minutes on the next round—how the world market operates today. Try to explain to us just exactly who is displacing whom in this world market.

So, much as I can sympathize with the suggestion from the Administration and my colleague from New Jersey that we ought to address the lack of a world market, it seems to me that the way to do it is not for us to be the first to volunteer to fall on our swords. And I wonder if, Dick, you might respond in some way to that?

Mr. Goldberg. If I might, Mr. Chairman, before I respond to Senator Durenberger—in response to Senator Bradley's question about how much money had been lost in the four-year period by the 12 CBI nations, that figure should be over $1 billion, not $350 million. The $350 million referred to another country; so, that is a significant departure from what I previously told you.

As to the sugar program, Senator, as in all U.S. farm programs that have had in the past high support levels, it builds incentives for increased production, not only in this country but in other countries as well. And as you well know, what has happened in other programs with the ratcheting down of support levels, we have increased our markets, decreased to some extent some production, and brought our prices more in line with world markets.

In the sugar situation, as I indicated in my testimony, the ratcheting down of support levels and a progressive type program in the U.S. sugar industry would have the effect of reducing the incentives, reducing production by some who may or may not be inefficient in sugar production by taking away those incentives; and we believe that the net result would be an increase in world prices and a price at which U.S. sugar producers and exporters would be in a position to gain additional markets.

As it is now, if we continue on the course that we are with the current sugar program, as I indicated, we are putting people out of work in this country. The sugar refining industry is at a reduced capacity. People are not working; refineries are closing, and we have a very, very negative situation going on in this country.

That is, in brief, what I feel is necessary, not to mention the consumers of America who pay a great deal more for sugar than they should be paying.

Senator MATSUNAGA. Secretary Abrams, as a representative of the State Department, I would expect that your view of the operation of the sugar program would focus on sugar as a foreign policy issue. As you well know, there are many regions of this country which depend upon sugar as a major economic factor.

Hawaii and Minnesota, for example—but Hawaii in particular—would suffer a great loss in its economic infrastructure if the sugar industry should go under. Now, from a strict point of foreign policy, how do you see sugar playing a role?

Secretary ABRAMS. Theoretically, we believe as a country in free trade, just as we think that others should buy our airplanes if we make better airplanes. So, we perhaps should buy their sugar if they make cheaper sugar.

And in a number of countries in the region, they may well be able to produce sugar at cheaper prices. In the 1970s, we did take a great deal more sugar from the Caribbean Basin area, from the Central American countries, but from other of the Caribbean Islands as well—the Dominican Republic more than any other single one—but from virtually every island in the region.

What we have done in the 1980s is to cut down a really heading towards zero our sugar imports from the region, and that is in a relatively short period of time. So, the economic blow most of all to the Dominican Republic, but to a lesser extent to the Central American countries, has been very large.

It is one thing to say to them: You need to move to a nonsugar-based economy; you need to retrain employees. It is another thing to say: Do it in two years; do it in three years. In effect, this is what we have said to them.

Now, in the case of the Central American countries, we have come around and said: We will give you a lot of American foreign aid money. American consumers, one can argue, are paying twice because first they pay for expensive sugar, and then they pay for foreign aid through their taxes.

In the case of the Dominican Republic, we get a little bit of a bargain. We don't give them much foreign aid money. So, what we are doing is bankrupting that country; and since it is a stable democracy and a friend of ours, that is really not in our interests either.

So, from a foreign policy point of view, we are undercutting our own foreign policy goals, those goals being to support the friendly democracies in the region and help their economies. It doesn't make sense from a foreign policy point of view.

Senator MATSUNAGA. The Omnibus Trade Bill, which was vetoed by the President, had a provision wherein the removal of subsidies would be negotiated, especially I am thinking of sugar subsidies in the European Economic Community, the EEC.

Mention has been made, for example, by Secretary Goldberg and you intimate, that sugar is produced much more cheaply in foreign countries; and the present quota system keeps the price of sugar up, at the expense of the American consumer.

But isn't it a fact—and I might put this question to Secretary Goldberg—that the European Community subsidizes to the tune of 14 cents a pound or more for a farmer to raise a pound of sugar? And that same sugar is dumped in the United States through various sources for as low as two cents and four cents a pound, way below the cost of their production and the cost of the production in the European Community is as much as 22 cents a pound.

So, it is not the ability of foreign countries to raise sugar at a cheaper cost, but their policies which would have been negotiated under the provisions of the Omnibus Trade Act; and that would have corrected the situation. Is this not so, Secretary Goldberg?

Senator DURENBERGER. Mr. Chairman, if I might, I think what you meant to say was that the EEC is dumping all of this heavily subsidized sugar out in the world market, not in the United States.

Senator MATSUNAGA. Yes.

Senator DURENBERGER. They are dumping it out there in the market that a lot of the people from Central America would like to get into, but they can't get into it because of the dumping from the EEC.

Senator MATSUNAGA. That is true. What they call the so-called "world market," as you know, represents but 10 percent of the total market; and here you are advocating that the price in the United States should be the same as the world market, when actually the world market is way below the cost of production in any country.

Secretary GOLDBERG. Mr. Chairman, if I might respond? Senator Durenberger is correct; the subsidized exportation of sugar from the European Community does go into other markets. To my knowledge, there is no European sugar imported into the United States, not in that form. It is possible in other ways, I presume; but I don't know of any way that it gets here.

With respect to the Omnibus Trade Bill, unless I missed something in the bill, I don't recall sugar subsidies as a part of it. There is a provision in the bill, of course, that involves the negotiating authority for the GATT negotiations in order to reduce subsidies on all agricultural products over a period of time, including sugar.

Senator MATSUNAGA. That is correct.

Secretary GOLDBERG. That provision, of course, is in that bill. Let's see; you had one other point, Mr. Chairman, that I wanted to respond to. Oh, yes, with respect to what would happen if we had a ratcheting down of U.S. domestic support programs for sugar, we don't believe and I don't think any study has shown that the U.S. sugar price is within reach of what is currently the world market price.

I can't tell you what the price would be, but it would be something between the current 9.5 cents, which is the current world price, and our sugar support price. And depending upon supply and demand and the adjustments that various sugar producing countries would make if they were in the real world, I don't know exactly what that number would be.

In certain years, I presume it could be at or close to what current support levels are. You just don't know, but I don't think that it would seek the low level, which is the current world price.

Secretary MALPASS. Mr. Chairman, we should note that President Reagan has called for an end to agricultural subsidies around the world, and he is working aggressively to that end in the economic summits and the Uruguay Round. I would share your view that the subsidies of the European Community are a major problem in this world market.

Senator MATSUNAGA. I see my time has expired.

Senator BRADLEY. Mr. Chairman, I have two other quick questions.

Senator MATSUNAGA. Fine. Please proceed.

Senator BRADLEY. A little back on the debt. The question first was: Would this be contagious? If you provided some interest rate or debt relief to one country, the logic of your argument is that you have to provide it to every country.

The answer to that is you can say "no." You have said "no"; that is part of being in government. You decide; you weigh; you make judgments.

Now, another objection in the letter to interest and debt relief was that the debt relief might tempt debtors to drive down the value of their debt. Now, as I look at what the market price for Costa Rican debt is, it is 15 cents on the dollar. How could it drive it down any further? Wouldn't the opposite be true? Isn't it at 15 cents because the market figures—they might not repay that debt?

And if you had some debt and interest rate relief, might not the price increase? Might not the value of the debt increase? How could it drive it down any further?

Secretary MALPASS. I testified that, given a voluntary program, it may actually raise the price of the debt in the secondary market in that commercial banks and the developing countries—

Senator BRADLEY. All right. So, on that part of Mr. Abrams' letter, we will just put a big X under?

Secretary MALPASS. I think not.

Senator BRADLEY. That is not right any more?

Secretary MALPASS. No. One of the things to keep in mind in dealing with a secondary market that is so thin, it would be difficult to tell ahead of time what might actually happen to it.

Senator BRADLEY. All right. Another objection was that, if you provided any interest rate relief or debt forgiveness, there would be a risk that discipline among the debtors would disappear. Now, could you focus specifically on Costa Rica, which in 1985 and 1986, really made some significant economic reforms and really got nothing out of it in terms of interest rate relief or debt relief? How would this work that people lose discipline?

Secretary ABRAMS. Let me just jump in since it is my letter.

Secretary MALPASS. Please.

Secretary ABRAMS. It is not Costa Rica you are so much concerned about and I am so much concerned about. It is that, if you treat equally and give equal, if you will, concessions, valuable benefits to countries which have excellent domestic economic policies and those that have crummy ones, what is the incentive for the government in terms of your debt relief program? None; you have no conditionality.

Senator BRADLEY. So, that means that for countries that do better, interest rate relief makes more sense than for countries that don't do well. Right?

Secretary ABRAMS. It makes more sense to induce better performance by saying that one of the rewards of it is——

Senator BRADLEY. Right, which seems to me to make my argument, which is you don't treat all countries the same. You treat them differently based upon the level of effort that they make, their economic policies, and a variety of other things.

Secretary ABRAMS. We tend, but we tend not to do it so much on geography. But yes, we treat them differently depending on how they perform in terms of domestic economic policy. We like to stick to that differentiation.

Senator BRADLEY. Mr. Goldberg, let me ask you a question. What is the Administration's position on the sugar reexport proposal that was in last year's budget reconciliation?

Secretary GOLDBERG. The Administration, Senator, continues to oppose that bill. As you recall, the chairman mentioned the implementation of the bill. We initially had a legal problem with the implementation of the bill. We have now published an interim rule and are in the process of getting a final rule out, but the Administration continues to oppose that bill.

Senator BRADLEY. What would it cost the taxpayers?

Secretary GOLDBERG. I am told about $50 million per 100,000 tons, but I think that there are other reasons why.

Senator BRADLEY. $50 million per 100,000 tons?

Secretary GOLDBERG. Yes.

Senator BRADLEY. Can you do a quick calculation?

Secretary GOLDBERG. I think the bill called for 400,000 tons.

Senator BRADLEY. So, you are talking about $200 million it will cost the taxpayers?

Secretary GOLDBERG. Yes, sir, but there are other parts of the bill that disturb us more than the outlay.

Senator BRADLEY. One last question, and that goes back to your letter, Mr. Abrams, where you note that Costa Rica would benefit disproportionately from commercial debt relief in the proposal. El Salvador and Honduras would benefit disproportionately from U.S. Government loan interest relief.

And you might have added that Guatemala would benefit disproportionately from sugar quota relaxation. So, why isn't that a good reason to pursue all three? And then, you end up with something close to all countries benefiting about the same?

Secretary ABRAMS. The reasons for opposing different parts of it are different than I think given in the remarks I gave earlier. We have a different reason for being somewhat critical of the sugar proposal than we have of being somewhat critical of the debt proposal.

As it happens, the way the bill works out if it were passed exactly as written, it would provide—you might say the bottomline—an equitable amount of relief to these countries.

Senator BRADLEY. Thank you. You don't need to go on any further. Thank you. (Laughter)

Secretary MALPASS. Senator Bradley, may I clarify an earlier point?

Secretary ABRAMS. But he can go on, right? (Laughter)

Secretary MALPASS. With regard to the effect on secondary market prices, I think there is an explanation to that. In your bill, it is not clear whether it is a voluntary mechanism or to some degree a mandatory mechanism. If it were a mandatory mechanism——

Senator BRADLEY. Keep it in the voluntary mode.

Secretary MALPASS. If it were mandatory the secondary market price might be driven down. It depends on the reading of the bill which way you interpret the movement of the prices.

Senator BRADLEY. Thank you very much, Mr. Chairman.

Senator MATSUNAGA. I have just one question of Secretary Abrams. In addition to the use of foreign sugar production for human consumption, there have been a number of efforts in Central America to use raw sugar cane in the production of alternative fuels, such as ethanol. Now, in the Omnibus Trade Bill, which was vetoed by the President, there was a provision which was intended to liberalize the duty-free eligibility of ethanol imports from some Central American countries, including Costa Rica, as well as Jamaica in the Caribbean.

Now, these imports currently are having difficulty in entering the U.S. market. The President's veto message mentioned this provision as being objectionable. Now, it seems contradictory to take the position that you are here relative to helping the economy of the Central American countries and the Caribbean and yet to have the President oppose that measure.

Now, how do you explain this? Do you have any idea as to why the President opposed that provision in the trade bill?

Secretary MALPASS. The trade bill has gotten into a political situation; and so, from the standpoint of explaining the trade bill and the veto, I don't know that I want to tackle that.

I would point out that the ethanol situation has been an unfortunate one for the Caribbean Basin as a whole in that the rules have been changed several times over the years. So, Caribbean countries are now feeling the effects of these changes. There was a positive environment for ethanol for a while. Now there is a less positive environment, and it is hard to tell what the future environment will be.

Senator MATSUNAGA. I have other questions, but in the interest of saving time, I will submit those questions to you in writing.

Did you have something else?

Secretary ABRAMS. Just one other comment. Several of you on the subcommittee have commented on the European sugar subsidies. I just wanted to say that the problem of protectionism in Europe is one that we find throughout Latin America.

There have been some cases where meat from Europe was being delivered, was being sold cheaper in Brazil than meat from Argentina or Uruguay, as an example, which is obviously the market at work. We have also found that in the 1980s, something like 70 percent of the increase in exports from Latin America over the 1980 figure has come to the United States with a relatively open market, rather than going to Western Europe or Japan.

So, I think all three members of the subcommittee have correctly pointed out that part of the solution to Latin America's economic problems has got to be worked out with the other major industrial countries.

Senator MATSUNAGA. Yes, I certainly agree with that. Maybe this happened before your time, Secretary Abrams but when we had the sugar program of 1934 in effect for 40 years—from 1934 to 1974—we had no problem with sugar. That is, sugar ranged in price from nine to sixteen cents a pound throughout those 40 years.

Prior to the adoption of that program in 1934, the price of sugar used to jump from two cents to a dollar a pound. There was no stability; so the industry and the employers and employees could never depend upon what the price of sugar would be. They could not plan into the future.

But that sugar program for 40 years stabilized the sugar industry to such an extent that it became a very viable industry in States like Hawaii, Louisiana, Minnesota, and so forth; but we repealed that Sugar Act in 1974, which was a big mistake, I think.

I was the floor manager in the House when the bill was debated. Maybe that is why we lost—(Laughter)

But I made a prediction that if the Sugar Act were repealed today—I said on the floor—in two weeks time the price of sugar will jump from 16 cents to 27 cents a pound. I was wrong; it went up to 67 cents a pound, and that is what made the European Community go into the sugar industry.

Up to 1974, before we repealed the Sugar Act, the European Community were importers of sugar. They didn't export any sugar; but then the price of sugar was so good, they could subsidize the farmer at 14 cents a pound and still make a profit. So, they went into the beet sugar production business.

Until today, they produce a surplus, a surplus which they dump on the world market; and that surplus sugar finds its way through other countries, even through our neighbors, such as Canada—a very good friend of ours. They mix it with other grain and send the cheap sugar into the United States to the extent of thousands of tons a year.

You see, that is what is causing all the problems to the domestic industry. Of course, if we had more time we could go into this, but I think time is of the essence; and we have several other witnesses to hear today.

I want to thank all three of you for taking time out of your busy day; I know how busy all of you are, just as we are here in the Congress. Thank you very much.

Secretary GOLDBERG. Thank you, Mr. Chairman.

Secretary ABRAMS. Thank you, Mr. Chairman.

Secretary MALPASS. Thank you, Mr. Chairman.

Senator DURENBERGER. Mr. Chairman, as they are leaving, I have just one thought. That was an excellent piece of history; and you might have added the fact that in 1977, about 59 of these import and export countries wanted to get together and have an international sugar agreement for five years that would come back to some of this stability. And it was the EEC that said "no, we don't want it."

Senator MATSUNAGA. Our next panel of witnesses consists of the Honorable Jack H. Vaughn, former Ambassador to Panama and Colombia, former Assistant Secretary of State for Latin America, Director for Conservation Financing, Conservation International, Washington, DC; and Father William F. Mullan, former Regional Superior Maryknoll Fathers and Brothers, Central America, New York, NY.

I understand that the other two intended witnesses are not here. So, Mr. Vaughn and Father Mullan, we will be happy to hear from you. Mr. Vaughn, we will be happy to hear from you first.

STATEMENT OF JACK H. VAUGHN, FORMER AMBASSADOR TO PANAMA AND COLOMBIA, FORMER ASSISTANT SECRETARY OF STATE FOR LATIN AMERICA, DIRECTOR FOR CONSERVATION FINANCING, CONSERVATION INTERNATIONAL, WASHINGTON, DC

Mr. VAUGHN. Thank you, Mr. Chairman.

Senator MATSUNAGA. And we have the traffic light system, as you know.

Mr. VAUGHN. All right. I am delighted to be here today to share with you some of concerns and to congratulate you on this bill, Senator Bradley. I am in full accord; I think it is needed. I think your timing is extraordinary.

I think the stagnation in world debt, generally worse than stagnated Latin American debt specifically, had to break. I think this is an important, positive way to break into it, and it is so desperately needed in Central America.

Mr. Chairman, when I was last in AID, I was Administrator for Latin America, back in 1979 and 1980; and I asked my environmentalist to take a look at Central America in terms of degradation, pollution, and environmental problems. The story that he brought me was just frightening. But even more frightening is what has happened in the subsequent eight years.

I work in environment, mostly in Latin America and mostly in the field of debt equity—swapping, debt for debt, debt for decree, and that kind of program. So, I am somewhat attuned to what you are after here, and I like it.

We suffer from a long-standing inability to create a long-range bipartisan approach to the problems of small, poor nations; and no matter what we do, it seems they end up remaining "banana republics." I am reminded sometimes that our approach to Central America is exactly the same as that of the Cubans and the Russians.

We concentrate power; we strengthen the military and tighten up the system; and we have to break out of that. I think your bill may be a way to start the break. I would advise in this regard that, if we provide a greater support to the sugar industry, we build in incentives.

I think it is clear that it is unwise at this juncture for us to do anything in the agricultural field where we don't, on the other side of the coin, say to them: But look what this is doing to your country in environmental impact.

Today, there are four major exports from Central America. The largest export is topsoil. There are millions and millions of tons of Central American topsoil that flow to the Caribbean and to the Pacific as well. And those of us who have been tramping around Central America for 40 or 50 years, see this as an overwhelming problem that has caught up with those economies.

The second export is people. The peasant who, because of environmental degradation and loss of topsoil or from poor cultural practices, either goes to the city or goes further into the jungle—if there is any remaining—or comes to the United States. And none of those courses of action would I describe as a winner.

The third export is capital. The capital flight, going on since the end of World War II, reached new heights most recently in Panama. This in effect negates any big move economically in those countries.

And the fourth main export, as you know, is drugs: marijuana and cocaine, passing through and exported from there. And the killing of the people and the raping of the land go on; and the blind staggers of U.S. policy makers becomes ever more halting.

If one were to judge just by the most recent case of Panama, our policy would appear to be driven by the aspiration of creating the worst possible scenario. We certainly have achieved it.

More in my area, Mr. Chairman, the long-standing abuses of pesticide, herbicide, and fungicide use in Central America, with so many of those elements that are banned in the United States, has led to uncontrollable increases in malaria, in Black Sigatoca—which is a banana disease—cacao and coffee blights. The only good news is that they have also had major tobacco blights.

Pesticide intoxication kills hundreds of peasants in Central America every year. Micro Climatic changes are occurring from deforestation in all six Central American countries and Panama and are causing micro climatic changes—mini droughts and desertification everywhere.

In the meantime, Central American private investment has slowed, as Senator Bradley pointed out; intra-regional trade is disappearing; capital flight and the brain drain accelerate. Mr. Chairman, this area desperately needs turning around. In the entire twentieth century, there has been only one piece of good news in Central America in my view; and that was in the 1960s when, in our wisdom and theirs, we began a program called The Central American Common Market.

The doubters almost overwhelmed us, the same kind of doubters who were saying: "No, it won't work in Europe. How can you possibly get the French to join the Common Market?" Well, it started to work in an amazing way, and then the football war between Honduras and El Salvador started it down; and we have been kicking it down ever since.

But I see federation as the only answer; and in this bill, to the extent that it begins to look at the whole of the area and to do things for the common good and for more than one, it may give us a chance to break the banana republic syndrome again.

I have just one last comment, sir.

Senator MATSUNAGA. All right.

Mr. VAUGHN. I would like to draw the parallel, in closing, between what the Spaniards did to lose Central America and what we have done to lose Central America, though not in the classic sense, because the State Department is traditionally accused of losing a country, which we never owned or never wanted to; but in the sense that the Spaniards had a chance in the post-colonial period to provide a vision, to get a consensus, to point some directions and then give subsidies to go in those directions.

And the Spaniards had a lot more advantages than we; they had the common heritage and the common language and the common religion and so forth. But with our investment and our efforts, we have an awful lot in common, too. It is just that we have lost the vision, which is the Central American countries—the people—cannot progress unless they get together politically, economically, and socially.

Certainly, in my area—in environment—all of those programs and all of those problems don't recognize political boundaries; and that, to be resolved, must have a unified regional approach. Thank you.

Senator MATSUNAGA. Thank you very much, Mr. Vaughn. We will be happy to hear from you now, Father Mullan.

STATEMENT OF FATHER WILLIAM F. MULLAN, FORMER REGIONAL SUPERIOR, MARYKNOLL FATHERS AND BROTHERS, CENTRAL AMERICA; NEW YORK, NY

Father MULLAN. Thank you, Mr. Chairman. And Senator Bradley, I would like to express my deep respect for you in your interest in the debt crisis in Central America and particularly how it affects the poor people of Central America.

I worked for 24 years as a missionary for Maryknoll in Central America in all five countries, mostly in Guatemala. I have been asked in this paper to describe the situation of the poor of Central America from my point of view as a missionary.

In submitting this paper, I am conscious of the proposed bill for a type of debt relief and a proposed increase of sugar quotas for the countries of central America. I will start by describing the situation of people, whom I knew in 1977, and their situation ten years later.

In mid-1977, John, an agent of the Peace Corps, and I went to several villages in Guatemala, where I was the Catholic pastor. We were beginning several projects to bring drinking water to those villages. The Indian leaders of the villages were hopeful that, with the sale of corn, they could purchase the plastic pipes necessary; and they promised to do manual labor free. They were asking for technical assistance of the Peace Corps.

We were accompanied that day by Jose, a young Indian student whom I was helping through teacher's school. He was going to be the first Indian teacher of that particular language group. We returned late in the afternoon to the rectory in the main village.

The young woman, Isabel, had recently returned from a week-long workshop of native women in the city. She was learning about cooperatives and was beginning to help organize the native women so that they could make better quality native materials and get them to the tourist markets in the city. A Peace Corps woman was coming up to help that woman help the women with all of this.

The men of the villages were organizing themselves. The women began to take advantage of the cheap travel expenses. A little more than a year ago, all of the people mentioned in the above story were and still are suffering from social and economic disasters.

By October 1986, both the Peace Corps agents had left Guatemala before seeing their projects become anywhere close to being effective. They had to flee dangers due to civil war and brute repression. Nobody in the whole area was buying fertilizer because the costs had risen way beyond their capacity. The cooperatives had all failed, and the costs of transportation to the city had increased beyond the normal financial means of the poor. Traveling was no longer safe, as in the 1970s.

Jose and Isabel had married. Like all Guatemalans, they had passed through a period of suffering and terror due to the attempt of armed revolution and repressive counterinsurgency. After receiving his teacher's title, Jose worked in a rural village school until many people began to disappear in the area; and he had to leave out of fear.

He became another of the many unemployed school teachers. Jose and Isabel went out to a farm cooperative in the jungles that had been abandoned by its original owners due to the violence in 1981. They worked land given to them by the government, but they feared that the original owners would come back from the refugee camps in Mexico.

They came down to Guatemala City and found me. Isabel and one of their two babies were very sick from parasites, most likely because of contaminated water. Isabel was very pale and dirty, and her cheeks were swollen; she showed signs of malnutrition. They had traveled three days by bus and truck, after walking many hours out of the jungle. All their money was gone.

They had stopped to seek help from two doctors employed in government rural clinics. The doctors had no medicine available, and they could not purchase the medicine at the one private pharmacy on the way because of high cost. Jose was very frightened because the little plastic bag containing his identification booklet was stolen; he was stopped and questioned by the army at a checkpoint and they threatened to arrest him; but seeing Isabel and the children, they let him go.

I took Isabel to a doctor working at a Catholic clinic because the doctors and nurses of the government hospital were threatening to go on strike. They were claiming that their salaries were not equal to the increase in the cost of living. The local currency was devaluated.

I promised to purchase the medicines and make sure that Isabel got the medical tests required. Jose had to return to his jungle farm and take his turn on civil patrol duty to avoid suspicion and punishment.

Before he left, he found an Indian family living in wooden, one-room shack who provided a roof for Isabel and the children while they recuperated. I paid for her food, and Jose promised to pay me back.

Having worked as a missionary priest in more than 30 areas throughout most of Central America for 24 years, I claim that what has happened to Isabel and Jose is typical of what has happened to many of the poor Central Americans.

The United States Catholic Bishops in 1986 wrote a letter called Economic Justice for All; and in that letter, they say that the quality of the national discussion about how the economic future will affect the poor most of all in this country and throughout the world. Decisions must be judged in the light of what they do for the poor, what they do to the poor, and what they enable the poor to do for themselves. The fundamental moral criterion for all economic decisions, policies, and institutions is this: they must be at the service of the people, especially the poor.

And the Guatemalan Bishops in their recent statement, The Cry for the Land, February 1988, say: "Like the Latin American Bishops of Pueblo, we, too, feel and observe that the most devastating and humiliating scourge in Guatemala is the situation of dehumanizing poverty suffered by the campesinos who painfully bring forth from Guatemalan soil a daily sustenance for themselves and their families."

And in the last section of this paper that I have submitted, the Bishops say: "If this sleeping giant—the poor majority—is not invited and prepared to participate in the building up of a better Guatemala, and this can apply to all Central American countries, it will awaken embittered by contempt heaped upon it over many centuries and may become a source of even more painful and violent conflict."

And finally, Mr. Chairman, I would like to propose that this letter of the Guatemalan Bishops be submitted to the record.

Senator MATSUNAGA. Without objection, it will be included in the record of the hearing.

Father MULLAN. Thank you, sir.

[The prepared statement of Father Mullan and the letter from the bishops appear in the appendix.]

Senator MATSUNAGA. Senator Bradley, do you have any questions?

Senator BRADLEY. Yes, Mr. Chairman. Thank you.

Senator MATSUNAGA. Please proceed.

Senator BRADLEY. Mr. Vaughn, maybe you could share with us your view of how the political crisis in the region is related to the deteriorating economic conditions in the area.

Mr. VAUGHN. Surely. I believe that the most serious source is political. I think that the political systems of Central America don't satisfy any longer those societies. I think they need a restructuring, a kind of federalizing.

There hasn't been any change. I have been working in Latin America all my life, and I see the same system of the overly concentrated power, prestige, perks, irrelevance to what is going on in the rest of the country there. So, where we have the debts that have been run up by our Latin American friends over the pasts 12 years and so misspent on overpriced, obsolescent military hardware and for capital flight and the rest, that is a direct result—as I see it—of the fact that these are city states.

You know, the government is there in the capital city to serve the needs of the local bureaucrats and the power structure and all the rest in the capital city, which doesn't bear much relationship to the rest of the country. And that is an enormous problem because our trying to intervene in that is imperialistic; you know, it should be their obligation to pick their own form of government, but that is the problem.

And people wonder why Costa Rica is so different, and that is the answer. I mean, for 200 years, Costa Rica has had a policy or political system whereby the small town person was a full-fledged citizen. They had their New England town meetings 135 years ago, and the farmer with 20 acres and 200 chickens will come into the Union Club in San Jose on Saturday in a tuxedo; and that is why it is different. That is not the case in any other Central American country or in Mexico, or certainly in Panama.

Senator BRADLEY. Thank you very much, Mr. Vaughn. Father Mullan, what kind of programs do you think would complement the debt and interest rate relief and sugar quota programs that I have suggested in order to have the benefits shared with the poor?

Father MULLAN. I find that it is very difficult to come up at this moment with any particular plan. I think that the situation is so difficult and so complex and, historically speaking, the tremendous oppression that has been against the poor majority for a long, long time is involved in all of this.

But I am very much in favor of whatever aid can be given or any relief that can be given. I think you are quite aware of the tremendous pressure that these countries are under.

Senator BRADLEY. Do either one of you have an idea as to why the sizable amounts of aid that have been provided in the last several years have not worked, haven't improved things?

Mr. VAUGHN. I certainly do. I think that there is a tendency always to generalize and compare Honduras with El Salvador; but the most significant reason is that the military tail has wagged the economic dog, that so much has gone to military—to military related, direct or indirect.

I suppose the guerrillas in El Salvador have blown up two and a half billion dollars worth of infrastructure that has had to be replaced—maybe close to three billion dollars. And we know what has happened in Honduras—extraordinary distortion of that economy because of military needs that are totally nonproductive, both in terms of U.S. foreign policy, it turns out, as well as in economic terms.

Father MULLAN. I would like to make an attempt to answer that question. I think the basic economy of exporting beef, cattle, sugar, cotton from Central America, although it does bring in income and does provide jobs—and the Guatemalan Bishops do say that in their letter, that they realize that the agricultural business of Central America, particularly Guatemala, is the highest source of revenue into the country.

But at the same time, that type of economy, it seems to me, takes a lot of land to bring in income, which goes into the hands of a few people. The wages that are given to the workers are very minimal. Workers who are brought down to the plantations suffer a lot living there, and the vast majority of Central Americans live out of a different type of economy. They live out of subsistence farming.

So, I don't think our aid programs have been geared towards that, to how to help the vast majority of the people to subsist in their type of life, which is living off the land of subsistence farmers.

Senator MATSUNAGA. Thank you very much, Father Mullan and Mr. Vaughn. I had questions, but then Senator Bradley asked them all. (Laughter)

Thank you for coming before the subcommittee.

Mr. VAUGHN. Thank you.

Father MULLAN. Thank you.

Senator MATSUNAGA. We will now call upon the next panel of witnesses. Mr. Alvin A. Hansen, Chairman of the Board, MIN-DAK Farmers Sugar Cooperative, Baker, MN; Mr. Francis S. Morgan, President and Chief Executive Officer, Hamakua Sugar Company, Inc., Honolulu, HI; and the Honorable Gilberto Goldstein, President Honduras Sugar Association and Member of Congress, Government of Honduras, Tegucigalpa, Honduras, Central America.

We will be happy to hear from you all. We shall start with Mr. Hansen. I must say that Senator Durenberger had been anxiously waiting to hear from you, but then he had another engagement and had to leave. I am sorry that we couldn't get through the other witnesses sooner. So, we would be happy to hear from you first, Mr. Hansen.

STATEMENT OF ALVIN A. HANSEN, CHAIRMAN OF THE BOARD, MIN-DAK FARMERS SUGAR COOPERATIVE, BAKER, MN

Mr. HANSEN. Mr. Chairman, I am Alvin Hansen of Baker, MN. My wife and I have been actively farming in western Minnesota for 35 years, and I am presently serving as Chairman of the Board of the MIN-DAK Farmers Cooperative located in Wofton, ND.

Mr. Chairman, it has been and continues to be the underlying intention of the sponsors of this proposal to destroy the current United States sugar policy and dismantle this essential industry which has served the American people well; and there have been no sugar shortages, prices remain stable and at a level to consumers which is below the average level paid by consumers around the world.

And forfeitures to the Government have been avoided. It is a Federal program which meets the needs of the consumer without adding to the Federal deficit. The central issue before us today, Mr. Chairman, is why beet growers are opposed to this bill and why it should be rejected by this subcommittee.

First, any reduction in the loan rate whatsoever by Congress or the Administration would begin a process of dismantling the United States sugar industry and is totally unacceptable. During the 1985 farm bill debate, the sugar minimum loan rate was examined, analyzed at length in both agriculture committees, and overwhelmingly supported by both Houses.

Our farmers and processors have made many long-term business decisions based on that five-year commitment by Congress. When the farm bill is up for reauthorization in 1990, it is proper then and only then for the agriculture committees to reexamine the rate and set it at a proper level once again.

Second, Congress has historically established specific minimum loan levels and/or guidelines on commodities and left it to the Administration to carry out the law. This proposal would allow the Secretary to make major policy decisions as well as carry them out.

I don't think the Congress ought to turn what is clearly their responsibility over to the Secretary of Agriculture.

Third, it is ironic that at the same time this bill hands over critical decision-making on policy from the Congress to the Secretary, it attempts to congressionally mandate specific import levels which are and must clearly remain administrative decisions.

A great deal of market analysis by the United States Department of Agriculture goes into setting the quota levels, and they cannot be just arbitrarily set and assigned to countries without a major disruption in the marketplace or without throwing the United States sugar policy into disarray.

Fourth, world prices have continued to strengthen toward a level at which import quotas could be removed by presidential proclamation, and the sugar program could operate as it has in the past under a system of duties and fees.

Fifth, Mr. Chairman, this proposal is specifically designed as a foreign aid package for a select group of countries. We will not tolerate any attempt to amend current sugar provisions or saddle a disproportionate amount of the cost of this or any other proposal on the backs of the American sugar farmers.

Finally, Mr. Chairman, the most shocking part of this proposal is the total disregard for the fact that the United States sugar industry is just as important to our State economies as the industry is to the economies of these foreign exporters.

In terms of importance, usually behind the production of coffee, cotton, and bananas, sugar ranks third in El Salvador and Guatemala, fourth in Costa Rica, fifth in Honduras. Compared to other crops in the United States, the sugar crop ranks first in Wyoming, first in Hawaii, second in Florida, third in Idaho, third in North Dakota, third in Louisiana, third in Idaho, fourth in Michigan, fifth in Minnesota, and in the top 12 of 250 crops in California.

In my home region of Minnesota/North Dakota, the sugar industry generates almost one billion dollars of economic activity per year. Besides about 17,000 full-time and part-time jobs associated with the industry, over $27 million are paid in taxes by the industry in our area to help finance our schools, our hospitals, roads, and other State and Federal projects.

But this bill before you today, Mr. Chairman, proposes to destroy that. It says to the sugar farmers of these United States that we, the sugar farmers, are supposed to be a sacrificial lamb in the name of short-term solution to foreign debt.

This proposal crosses that line which says to me that foreign producers are more important to this country than tax-paying American producers. Concern for our neighbors and friends in this hemisphere and around the world is right; and if our country has the ways and means to help, then it is right to help them.

But this proposal is technically wrong, economically wrong and, I might say, patriotically wrong. The sugar beet growers of this coun-

92-196 0 - 89 - 2

try strongly urge this committee to reject this proposal. Thank you, Mr. Chairman, for the opportunity to appear before your committee.

Senator BRADLEY. Mr. Chairman, it is unclear to me what his position is on this issue. (Laughter)

Senator MATSUNAGA. He is opposed to your bill. (Laughter)

Thank you, Mr. Hansen. That was an excellent statement.

[The prepared statement of Mr. Hansen appears in the appendix.]

Senator MATSUNAGA. I am especially pleased to welcome our next witness to this hearing; he has been a very close friend of mine for many years. Mr. Francis Morgan is Chairman and Chief Executive Officer of Hamakua Sugar Company and also serves as Chairman of the Hawaii Sugar Planters Association.

Mr. Morgan has worked in the Hawaii sugar industry for 40 years, and for 20 years he ran the operations of a large Hawaii company, The Davis and Company. In 1984, at an age when most men retire, he bought the Hamakua Sugar Company from The Davis when that company was taken over by foreign owners, in order to preserve its operations and the jobs of 1,000 employees.

Now, he continues to run the company, assisted by his three children and his son-in-law; and I wish to welcome you, Frannie, as you as so well known throughout the State, and we would be happy to hear from you.

STATEMENT OF FRANCIS S. MORGAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HAMAKUA SUGAR COMPANY, INC., HONOLULU, HI

Mr. MORGAN. Thank you very much, Mr. Chairman, and good afternoon, Senator Bradley.

Sugar is very important to the economy of Hawaii. Three-quarters of our crop land is devoted to sugar. Direct employment in the sugar industry of Hawaii is 7,000 people. It has been estimated that for each person who is directly employed by a sugar company, there are another two and half whose employment depends on the operation of those companies. So, you can see that some 25,000 people's livelihoods are supported by the sugar industry.

An economist for one of our local banks made a study of the effect of the demise of the sugar industry if it happened in the State, and his estimate is that the unemployment rate in the Islands of Hawaii, Maui, and Kawai would increase to about 20 to 25 percent in that event.

Hawaii produces about a million tons of sugar a year, a very stable level throughout the years. We also produce about 10 percent of the electricity that is used in the public grids. We supply that amount.

Sugar is the third largest source of income in the State, behind tourism and Federal expenditures.

So, the successful operation of this present sugar program is vitally important to Hawaii. The U.S. sugar industry as a whole, contrary to some of the comments that have been made, is an efficient sugar-producing business.

The average cost of producing sugar in the United states is only very slightly above the world cost. In Hawaii, we are about the world average, so that about half of the sugar that is produced in the world costs more than it does with us.

The domestic industry produces about seven million tons; and if this were to go out of production, there is no way that this amount of sugar could be supplied from the surplus free world market without causing a significant shortage of sugar and a marked price increase.

In our opinion, the sugar program is a good program. It has provided for a reliable supply of sugar to the consuming public. It is stable and very fair prices. Actually, the price in the United States are below the average price that is actually paid in the world.

Any comparison of our prices with the so-called world market prices is deliberately misleading and inappropriate. This world market only comprises about 10 percent of the world production and is really insignificant. About 70 percent of the sugar that is produced in the world is consumed in the country of its origin, and all of that sugar is sold under some sort of a program which enables the producers to get adequate return and is insulated completely from this small residual world market.

Section 2 of S. 2252 is a particularly ill-advised and inappropriate vehicle for changing the U.S. policy. It would artificially and immediately create a surplus of sugar, 500,000 tons initially, coming into the country; and this would create a surplus.

And there is no way that we could shut off domestic production. Crops are in the ground; in the case of sugar, those crops will continue for several years. And this would force a drastic reduction in the price of sugar and probably a reduction in loan rates.

Now, this would cause severe disruption to the domestic industry, which in turn would upset the world sugar balance. Besides the damage to the sugar growers themselves, it would create major disruption of all the ancillary activities that depend on their farmers and their activities, such as suppliers, service operations, banks, lending institutions, and so forth.

The primary beneficiaries of any program such as this would be the large industrial users where every one cent reduction in the price of sugar would add $275 million to their profits.

Now, we are aware of the problems in the Central American countries, and we do support programs to help them. We have actively supported this program for the import/reexport of 400,000 tons; and we believe that that is a program that should help the situation, and we do support that.

In summary, we very strongly oppose the sugar provisions of S. 2252. I certainly thank you for the opportunity to come and testify before the committee.

Senator MATSUNAGA. Thank you, Frannie. We will be happy now to hear from you, Mr. Goldstein.

[The prepared statement of Mr. Morgan appears in the appendix.]

STATEMENT OF HON. GILBERTO GOLDSTEIN, PRESIDENT, HONDURAS SUGAR ASSOCIATION; AND MEMBER OF CONGRESS, GOVERNMENT OF HONDURAS, TEGUCIGALPA, HONDURAS, CENTRAL AMERICA

Mr. GOLDSTEIN. Thank you, Mr. Chairman. Mr. Jaime Rosenthal, Vice President of Honduras, was unable to attend these hearings because of personal reasons, very pressing ones; and he asked me to convey his regrets.

On Tuesday, I met with President Oscona, and he asked me to give you his best wishes and appreciation for your committee's, Mr. Bradley's and Mr. Lautenberg's concern about us down there in Central America.

The sugar industry in Honduras goes back to the times of the Spanish Conquistadors. It was produced as "panels" and, since then, Honduras has always grown sugar cane. The industry as we know it today dates back to the 1920s and, since that time, has been an activity of great importance in the economy of the country.

It is a basic area for employment, producer of foreign currency, and a pillar in the economy of our country. We are a poor country, both in resources and in technology. And until we are able to become a more developed country and our export products can be more sophisticated, we need the definite support from our friends in those things we best know how to produce, such as coffee, bananas and, of course, sugar.

Producing and processing the sugar cane, plus the innumerable secondary jobs surrounding sugar production, require a very large amount of unskilled labor. Thus, the labor force in the industry is made up in a large percentage of the most needy "campesinos," small farmers and the like. They need the job.

So, the industry is basically providing much needed jobs in the rural areas of Honduras where unemployment is most acute.

Honduras is basically an agricultural country, and approximately 60 percent of its population lives in the rural areas. Thus, when one of the basic products such as sugar has depressed prices or quotas that close the traditional markets, the effects on the economy and population are dramatic.

The cane cutting season lasts approximately six months. During those six months, the industry employs approximately 25,000 workers directly, plus an additional similar number of workers who are employed by the cane growers, transport entities, and other related jobs.

The sugar industry is the second largest employer in Honduras, after coffee. The industry was forced to cut down its production of sugar from approximately 250,000 short tons in the years 1981 to 170,000 short tons in 1988, a reduction of approximately 28 percent.

This reduction in production affected the labor force in a similar percentage in their income, as the zafra time had to be reduced from six months to four months.

The sugar industry in Honduras is made up of six sugar mills, with a grinding capacity of 24,200 short tons of cane per day. Six of these mills belong to the private sector, with a grinding capacity of 17,200 tons, and two mills are government owned with a capacity of 7,000 tons.

The installed capacity of these mills can produce 350,000 short tons of sugar per year, and in 1988 they only produced 170,000 short tons. Thus, the Honduras sugar industry is operating at below 50 percent capacity.

The historic market of all the sugar of Honduras was the U.S.A. Up to 1981, all the sugar exported from Honduras went to the United States. It was not until 1982 that we had to go to the world market for the first time.

In 1981, the dollar value of the sugar exported to the United States was $47.4 million; and since then, it has been diminished to the point that in 1987 it went down to $5.7 million. And in 1988, the figure will be even lower.

The loss of almost all the U.S. market has forced Honduras to sell its sugar exportable surplus to the world market with a heavy loss of monetary value, an increase in unemployment, and a large impact in our debt service.

The four democratic countries of Central America are now going through a very serious economic, social, and political period in their history and urgently need the understanding and cooperation of their great ally and friend. The best proven way to foster a democracy is by strengthening its economy, provide employment for its population, and means of a decent and honorable subsistence.

The best friend is the one who helps in a way that allows the recipient to use that assistance in a dignified manner. I believe that the bill, S. 2252, introduced by Mr. Bradley and Mr. Lautenberg, is one that allows Honduras and the three other Central American democracies to utilize more fully some of their already installed sugar productive capacity, and it definitely is a step in the right direction.

The bill has also some financial benefits. The interest rate reduction on official loans could mean a saving to Honduras of as much as $8 to $20 million a year, with the benefit that the future value is assured. This is an important benefit.

The guarantee of the private sector held debt contains some mixed benefits. The main benefit, of course, would flow to the U.S. banks, but Honduras would also benefit by improvement of its credit ratings.

On the other hand, without the guarantee, some of the banks holding Honduras' debt are now selling that debt to persons interested in investing in Honduras through debt swaps. These encouraging debt swaps increase investment while reducing Honduras' debt. Since the amounts involved are very small in the case of Honduras, the benefits are less obvious.

Positive expectations, of course, are the key not only to Honduras' development but to all of Central America. Perhaps the biggest threat to all of our economies is the negative expectations created by the existence of a Marxist military dictatorship next door and the stresses and wars that reality has spawned.

These regional political realities severely affect long-term investment and the willingness of governments to make difficult reforms. We in Honduras are convinced that until all of the countries in Central America are living under some kind of democratic pluralism, none of the countries will be able to develop fully functioning, healthy in a beautiful democratic political and economic system. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Goldstein. Senator Bradley, do you have any questions?

[The prepared statement of Mr. Goldstein appears in the appendix.]

Senator BRADLEY. Thank you very much. Yes, Mr. Chairman. Mr. Goldstein, you said that in 1981 you produced 250,000 tons and in 1988 it is down to 170,000 tons?

Mr. GOLDSTEIN. Yes, sir.

Senator BRADLEY. What happened to the people who were working in this industry?

Mr. GOLDSTEIN. We had to maintain them all. So, we cut down the time of grinding. Where they used to work six months, we had to cut down to four months so that these workers could at least eat a little bit because we felt it was more important to keep a little food in their stomachs than none at all.

Senator BRADLEY. So, the drop in per capita income in Honduras of about 13 percent could be related directly to this cutback in sugar production and, therefore, the amount of time people worked?

Mr. GOLDSTEIN. Definitely. We are the second largest employer in our industry. The reason that we have dropped from being a one or two export commodity was because the quotas and the prices went down so low that we had to cut down.

Senator BRADLEY. And would you say that your experience is that, when people don't work and don't eat, they are more likely to be attracted to revolutionary ideology?

Mr. GOLDSTEIN. They even die, Mr. Senator, when they don't eat. (Laughter)

But definitely. Of course, being poor and unhappy and needy tend to send people to do things they do not normally do. I do not think that poor is communism. I do not relate at all, but poor is needy; and I think when the hand of a friend is held out, such as now we are doing it to you, sir, I think the friend should respond.

Senator BRADLEY. Now, in 1981, Honduras got $47 million for sugar sales. That has dropped to $5.7 million in 1987. As someone who understands economics, understands a developing country and understands a dynamic, does it make any sense to you to cut back on the amount of income that you can get from sugar creating a situation where there is economic dislocation and economic unrest, and then decide to send more United States economic aid?

If you had an active sugar industry, wouldn't that mean there wouldn't be as great a demand for some of the aid proposals?

Mr. GOLDSTEIN. Completely, sir. I am a strong believer that a beggar cannot be grateful. I am a strong believer that a friend is grateful when he is helped in what he can do best.

We know how to produce sugar; we are efficient in sugar. We have been doing it for over 400 years, in one way or the other; and today we are told no more—you have no markets. We are excluded in a way from the U.S. by quota. We are not participating in— We do not participate with the socialists because of our ideology.

We have no access to the Asian markets; so we are stranded with an industry that is very important, one that we know how to work at; and yet we cannot sell. Our industry is not in the hands of a few; it is in the hands of many, many, many stockholders and owners. Thus, by hurting this industry, you are hurting all the people of Honduras.

Senator BRADLEY. Now, Mr. Hansen, could you read the last sentence of your testimony?

Mr. HANSEN. "The concern of our neighbors and friends"—is that the one you want?—"of this hemisphere and around the world is right; and if our country has the ways and means to help, then it is right to help."

Senator BRADLEY. Now, would you read the sentence before that?

Mr. HANSEN. Before that?

Senator BRADLEY. Yes, summarizing your opposition.

Mr. HANSEN. "This bill before you today, Mr. chairman, proposes to destroy the American sugar industry. It says to the sugar farmers in these United States that we, the sugar farmers, are supposed to be a sacrificial lamb in the names of short-term solutions to foreign debt.

"This proposal crosses that line which says to me that foreign producers are more important to this country than tax-paying American producers."

Senator BRADLEY. There was another sentence in there about patriotism. What was that one?

Mr. HANSEN. All right. "This proposal is technically wrong, economically wrong and, if I may say, patriotically wrong."

Senator BRADLEY. All right. Could you explain why it is patriotically wrong?

Mr. HANSEN. Senator, you would be destroying an industry that has a tremendous impact on the areas throughout the United States.

Senator BRADLEY. Let's see. What was the beet production last year, Mr. Hansen?

Mr. HANSEN. The total beet production?

Senator BRADLEY. That is right.

Mr. HANSEN. I don't have those figures with me.

Senator BRADLEY. According to the Department of Agriculture, it was 3.9 million tons in 1988; in 1986, it was 3.2 million tons. This proposal would increase the quota by 600,000 tons. If all of it came from sugar beets, which is unlikely that it would do, you would be back at 1986 numbers. Is that a question of patriotism—the 600,000 tons? Would that destroy the beet industry in the United States to be at the level of 1986?

Mr. HANSEN. In the first place, Senator, last year throughout the United States was a very unusual year. It was the best crop produced throughout the United States—the highest ever, or at least in recent history. And I would venture to guess, with the drought that we are having in the area today, you will see that import quota raised this year.

Senator BRADLEY. So, you are in favor of increasing the import quota?

Mr. HANSEN. Would we be in favor? Only if there were a shortage of sugar.

Senator BRADLEY. I see. A shortage of sugar, but you produced the most that you ever produced last year, 3.9 million tons. My question is: This isn't really a question of patriotism, is it?

Mr. HANSEN. Senator, to us this is a case of survival for the American industry; and the bill that you have before you, in my opinion, is transferring funds from us to the sugar users.

Senator BRADLEY. To the sugar users?

Mr. HANSEN. To the sugar users.

Senator BRADLEY. To the consumers of the country.

Mr. HANSEN. So, you would probably annihilate the domestic industry with your bill.

Senator BRADLEY. My time is up, Mr. Hansen, but it is beyond me how when production was at its 1986 level, you would have destroyed the U.S. sugar industry. I don't see it as a question of patriotism; I see it as what we see often in the Finance Committee, somebody coming in saying we want a little more, and I understand that.

But I would not characterize it as a question of patriotism. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you, Senator. Now, Mr. Goldstein, I understand that the government of Honduras is involved in making some of the decisions regarding the domestic pricing and production of sugar in your country.

Now, it is my further understanding, according to the U.S. Embassy in Honduras, that the government of Honduras guarantees its sugar producers a payment of 24.5 cents a pound for white sugar, which is in fact higher than the 1987 Chicago wholesale price for refined white sugar.

Now, could you please explain the system of regulation of the sugar industry in Honduras?

Mr. GOLDSTEIN. Yes, Senator. Because the price of the world market went to such low figures between 1982 and 1986, the world market average that Honduras sold was the highest in 1982 at $9.68 to the lowest in 1985 at $4.68. These prices were so dramatically below cost of production that, unless the government stepped in to allow us to sell part of our production in the local market at a better price, all the companies would fold, would have gone under because they could not even exist.

So, a price was fixed at 49 cents of our local currency, which translates into 24.5 cents U.S., which allowed us to exist with the hope that the future would bring a better market or a better price in the world market.

So, in a way, the government and the consumers have been subsidizing the industry only to exist in a survival attempt. This is over time becoming worse and more difficult.

Senator MATSUNAGA. So, while you say that you are efficient in the production of sugar, still your cost, as compared to production costs in the United States, is even higher. Is that not correct in some instances?

Mr. GOLDSTEIN. No, Senator, we are lower. When we sell at four cents, we are losing about nine to ten cents. The U.S. cost of production, we understand, is around 17 to 18 cents. We are more efficient, we think, in producing.

It is just that we are forced to sell way below our cost, and we are forced to do it because we are so poor that we cannot afford to give unemployment any more unemployed.

Senator MATSUNAGA. Your government pays 24.5 cents. Now, what is the actual cost of production to the farmer?

Mr. GOLDSTEIN. The actual cost of production in Honduras is about 17 cents.

Senator MATSUNAGA. That is even higher than it is in Hawaii today.

Mr. GOLDSTEIN. I think we are very competitive, Senator.

Senator MATSUNAGA. So, I turn to you, Mr. Morgan. What is the cost of sugar production in Hawaii?

Mr. MORGAN. In the last few years, it has been in the area of between 16.5 and 17 cents. That is at the factory gate.

Senator MATSUNAGA. And what has been the support level?

Mr. MORGAN. Under the 1981 Farm Act, the provisions call for a 17 cent loan rate. Gradually, that went up to 18 cents; and under the present Act, which started in 1985, it has been stable at 18 cents. Under the program the USDA has established a market stabilization price, which is 21.76 cents, which is supposed to be—if you could get that price—then you can at least get the 18 cent loan rate.

In Hawaii, actually what we get at the plantation—the mill gate—is less than 17 cents.

Senator MATSUNAGA. Now, how do you explain this world market price which is down to 8.5 or even down to four cents a pound?

Mr. MORGAN. The world market is really not a legitimate market for comparison of prices. It is the residual market that is only those that surplus sugar that doesn't have a regular home, or it is subsidized by some government that subsidizes their own producers and it goes into that.

So, it is really not a market that should be used for comparison purposes at all. The prices, as I said, that are actually paid throughout the world are substantially in excess of that, in comparison with the prices that we get—as I have mentioned—the USDA world sugar and molasses situation and outlook report gave some comparisons.

For instance, in comparison with our loan rate of 18 cents, in the EEC it is 26 cents; in Japan, it is 94 cents; in Pakistan, it is 18 cents; in Australia, it is 12 cents; in Bangladesh, it is 25 cents; in Taiwan, 35 cents; in Chile, 13 cents.

So, our prices compare very favorably.

Senator MATSUNAGA. I see my time is up. I will have more questions to the three of you that we will put in writing, and we would appreciate it very much if you would answer those questions in writing for the record.

Senator MATSUNAGA. We still have another panel of witnesses; so, I will have to cut off our discussion at this point. Thank you very much, all three of you.

Mr. GOLDSTEIN. Thank you.

Mr. MORGAN. Thank you.

Mr. HANSEN. Thank you.

Senator MATSUNAGA. Our next panel of witnesses consists of Mr. Pedro-Pablo Kuczynski, Chairman, First Boston International, New York City, New York; and Mr. James B. Hurlock, Partner of White & Case, New York City.

While I would like very much to remain and listen to your testimony, like every other Senator, we have other appointments; and I will turn over the chairmanship now to Senator Bradley. Since he, of course, is the introducer of the bill, I think he will have the appropriate questions for you both.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator MATSUNAGA. I will turn the gavel over to you.

Senator BRADLEY. Thank you very much. Mr. Hurlock, welcome to the committee. Why don't you begin?

STATEMENT OF JAMES B. HURLOCK, PARTNER, WHITE & CASE, NEW YORK, NY

Mr. HURLOCK. Thank you, Senator Bradley. I appreciate this opportunity to speak on the subject of the international debt situation.

"Muddle through" continues to be the official policy of the U.S. Government and U.S. commercial banks in the face of an increasingly precarious international debt crisis. While this policy has survived for more than six years, the known casualties are increasing; and the substantial increment of debt imposed on the already overburdened economies of the developing countries threatens to add to the list.

The apparent survival of some debtor country economies merely masks the inevitable sacrifice of others on the altar of keeping interest payments current at unsupportable market rates.

During the past 6 years, the U.S. Government through its Treasury Department and the U.S. commercial banks, have adopted a strategy that as a matter of highest priority protected their reported earnings from the commercial banks.

Bank consortia worked assiduously to persuade a majority of their members to support restructuring programs that provided so-called "new money" to ensure current payments of interest. There has been no real new money sought or loaned.

Medium term credit necessary to promote growth and investment evaporated as many commercial banks understandably sought to limit their overall exposure. The approach followed over the past 6 years has failed, even though some debtor countries—particularly those with the larger economies—have so far survived.

A number of developments within the last year, however, suggest that new approaches to the debt crisis are ripe for consideration. U.S. money center banks have now set aside reserves equal to between a quarter and a third of the value of their exposure to problem debtors, while some regional banks have actually written some sovereign loans off their books.

We have witnessed negotiated experiments and debt principal reductions, such as the Mexican proposal and the Bolivian repurchase of approximately half of its outstanding commercial debt at a price of approximately 11 cents on the dollar, albeit it with funds donated by other friendly governments.

But most important, the old policy as applied to most of the debtor countries is now openly recognized as a failure. In the last week, both the United States and, to a greater degree, France have acknowledged that a concessionary approach must now be considered.

In the case of the United States, the poorest African debtors may now expect some relief with respect to official debt, but apparently not that of the United States. The merely poor do not yet qualify for other countries' concessions.

In the case of France, broader options have been suggested. The proposed legislation under review today provides for interest rate reduction on official debt owed to the United States and establishes a mechanism to encourage debt exchanges. These and other developments indicate that the time is opportune to reexamine the respective roles of the official lenders, the multilateral agencies, the commercial banks, and the sovereign borrowers in the process of debt renegotiation.

I would like to focus on the proposal that payment schedules and, in particular, interest rates be contractually related to an objective measure of a country's ability to make debt repayments. The repayment of principal by common agreement is not an immediate issue. It can be and, in many cases, has been postponed for a substantial number of years.

The payment of interest is, however, an immediate problem. There are many formulas whereby the amount of interest that debtor country would be required to pay in hard currency on a current basis could be limited to an amount which represents an acceptable proportion of its available foreign exchange.

Forgiveness of principal can achieve this end, but may have an unnecessarily severe effect on current earnings of banks and is not conducive in the long run to responsible conduct by debtors. Interest payments may, however, be indexed on a formulated basis to such key economic variables as foreign exchange reserves, net export earnings, or annual growth in domestic product. Until recently, official lenders have not given serious consideration to such proposals on the ground that bilateral loans would become confused with aid, which has been anathema to the Paris Club.

Yet the recent statements of both the United States and France indicate that official lenders now have seen fit to moderate this position in certain cases. The legislation proposed by you, Senator Bradley, also focuses on the need to establish realistic interest rates on official debt.

Commercial banks, on the other hand, have thus far rejected any proposal that they accept less than a market rate of interest on their loans to developing countries on the ostensible grounds that acceptance of below-market interest rates of interest would force a write-down of loans under applicable regulations and further would discourage lenders from providing any additional loans.

These contentions ring hollow since, as previously noted, the same lenders have in the last year taken substantial charges against earnings to reserve for Third World debts, and their overall exposure to developing countries has been declining even under the current regime of market rates of interest.

As for the accounting and regulatory impact of accepting less than a market rate of interest, current accounting principles and bank regulations could be more explicit; but a careful analysis makes clear that negotiated interest relief will not necessitate a write-down of principal.

Senator BRADLEY. You may continue for another minute. I will use the chairman's prerogative here.

Mr. HURLOCK. Thank you. The key word is "negotiated." The generally accepted accounting principles applicable to so-called "troubled debt restructurings" under Financial Accounting Standard 15—FASB 15, as it is known—of the Financial Accounting Standards Board specify that negotiated reductions of stated interest rates and even accrued interest do not require a bank either to write-down or reserve against the underlying principal amount of its loan asset, so long as the minimum cash receipts specified by the new loan terms exceed the book value of the restructured loan.

By contrast, unilateral reductions by a sovereign borrower and the payment of interest or prolonged interest arrearages force banks and their accountants to reevaluate and, in appropriate cases, to write-down the related principal amount.

It has been argued that FASB 15 has not been applied to sovereign rescheduling and should not be. There is no support for this position in logic or in the language of FASB 15. To the contrary, where no bankruptcy procedure exists, as in the case of sovereign debt, it is essential to find a method for con sensual rescheduling. FASB 15 provides that method.

The accounting and regulatory treatment of a negotiated interest rate reduction is far less drastic than the accounting and regulatory consequences of reserves established by many banks within the past year or the write-downs required to be taken by banks participating in the Mexican or Bolivian transactions.

As compared to two alternatives currently being followed with respect to many debtor countries, namely principal forgiveness through debt exchanges and doing nothing, a negotiated interest rate reduction, therefore, may offer advantages to banks rather than result in accounting or regulatory nightmares.

Indeed, in light of the rules for orderly rescheduling included in FASB 15 that do not require write-downs of principal and enhance long-term prospects for payment in full, banks that continue to increase their exposure to developing countries through hollow new money exercises or that pursue policies that result in substantial write-downs of reserves, may not be following prudent banking practices and may not be acting in the best interests of their shareholders.

The regulatory framework for a negotiated and equitable reduction of current debt service already exists. No new bank or international agency need be created, and no new source of financing need be developed to implement an interest rate relief scheme.

What is needed now is for the first sovereign debtor and a significant group of its commercial bank creditors, perhaps under the auspices of an appropriate international referee, to take a leadership role in exploring this potential alternative to protracted and worsening crisis.

Thank you, Senator.

Senator BRADLEY. Thank you very much, Mr. Hurlock. Mr. Kuczynski?

[The prepared statement of Mr. Hurlock appears in the appendix.]

STATEMENT OF PEDRO-PABLO KUCZYNSKI, CHAIRMAN, FIRST BOSTON INTERNATIONAL, NEW YORK, NY

Mr. KUCZYNSKI. Thank you. My name is Pedro Kuczynski. I am the Chairman of the International Group at First Boston in New York, which is a major investment bank. I am familiar with Central America, having been the economist for the World Bank on that area during most of the 1960s; but of course, my knowledge is somewhat dated.

I have submitted my testimony for the record, and I would just like to make a few points about it. I included all six countries of the isthmus, including Nicaragua and Panama, because I think it makes for some interesting comparisons.

I think there are two major points about the past. The first one is that clearly the Central American economic picture throughout the region, including Panama and Nicaragua, is really quite dismal.

The debt of the region has grown faster than the debt for the whole of Latin America. This is partly because of accumulated arrears and also a substantial growth in trade and short-term credit, as well as IMF credits. All told, the external debt of the area is about $25 billion, as against exports of roughly $6.5 billion, which have stagnated or declined in the last few years.

The debt-to-export ratio has deteriorated dramatically, even more than for the whole continent, from around 160 percent of one year's exports in 1980 to roughly 400 percent today; and while this is a Latin American phenomenon—

Senator BRADLEY. That is for—

Mr. KUCZYNSKI. Six countries; but actually, if you take Panama and Nicaragua out, it is the same percentage.

Senator BRADLEY. So, their debt payment—what they owe every year—is four times what they earn from their exports?

Mr. KUCZYNSKI. The total that they owe is four times what they earn in one year from their exports.

Senator BRADLEY. So, if they sold all their exports, they would be able to pay one-fourth of the debt that they owe?

Mr. KUCZYNSKI. That is right. I think the other point that is important in regard to Central America is that, while this burden is very heavy for Central America, it represents very little to the financial world.

The banking debt of the four countries that we are talking about here is roughly $3 billion out of total debt to banks of Latin America of $325 billion. So, it is roughly one percent. It is very little in the total, but it is very important to these rather small and impoverished economies.

Now, as far as the outlook is concerned, we all know there is a prolonged drought in Central America which has affected the agricultural output for the last couple of years, and we also read in the paper about the move into Central America of major international drug traffickers, who obviously prosper in the type of turmoil that exists in several, but not all, of the countries.

I strongly believe that the only way out of the debt problem—in Latin America, in Africa, and in this particular case in Central America—has to come from a mixture of three things which go together.

The first is economic reform; and while some of these countries have made progress in that area, some have also backslided. We helped Costa Rica, for example, on privatization, and the first transaction was done; and then the rest were stopped. And I think that budget deficits could be reduced along those lines.

We read in the Wall Street Journal today about some of the excesses of statism in El Salvador. So, that is clearly one area, but I think one should include in reform as well not just the privatization and market liberalization, but also a social infrastructure which is being badly neglected throughout the region and in Latin American as a whole.

Infant mortality rates are up; school retention rates are down, malnutrition is rising. What I am really talking about is a redirection of public spending away from industry towards social infrastructure.

I think the second area is capital inflows, and there I think that one of the major requirements is to reinforce the capital of the Inter-American Bank, which has been the largest multilateral lender there; that is under discussion at the moment, as well as expanding its fund for special operations.

Now, coming to the third element, which is debt relief, I am very strongly in favor of debt relief for the Central American countries. I don't think it creates an earth-shaking precedent for the banking system, given the sorts of numbers that I have outlined.

I strongly support your proposal to cut interest on official credits. There is, after all, plenty of precedent for that. The foreign military sales program guarantee, which is now under way, represents a much larger cut in U.S. revenues than would be the case here.

So, I think there is plenty of room to do that. It is being done by the French in Africa; it should certainly be done by the U.S. in Central America and maybe some other small, highly indebted countries in the region.

As far as programs to convert debt into long-term guaranteed bonds, I also strongly endorse that. There is obviously a question of the mechanics of how to do that, and there are many ways possible.

I think that the basic reason that the Morgan and Mexico proposal did not result in a larger exchange of debt is that there was no upside for the banks. The banks don't really see why they should write off part of the debt today when debtors are in poor shape and not gain later on if the debtors are in better shape.

So, I think what has to be designed is some form of supervision through AID or the Inter-American Bank, where this type of package can be put together; where in exchange for a substantial discount on the principal today, the debt would be divided into two portions, a debt portion at a much reduced amount—maybe 50 to 60 cents on the dollar, or something on that order—which would cut the debt service very substantially and quite immediately; and the other portion would be a so-called "equity portion," which would be called if exports and foreign reserves improved under the supervision of the agency acting as the agent for the program.

I think that the U.S. could help monetarily by making available zero coupon guarantees at very little cost. If you think that a 20-year guarantee on the debts that we are talking about here—in the case of banks which are three billion in the four countries—to guarantee the final payment of those three billion 25 years hence, with an agency security today, would cost eight cents per dollar, which is roughly $240 million.

That is small potatoes compared to the U.S. aid program in Central America. So, basically, to conclude, I think one can get a lot of "bang for the buck" here without too much expenditure of public funds, without really creating much of a precedent.

Because everybody knows the serious condition of these countries, one ought to be able to get a lot of mileage economically in this area at very little fiscal cost.

Thank you very much. I am delighted to be here, even though it is Friday afternoon and a lovely day outside.

Senator BRADLEY. I want to thank both of you for making the effort to come and staying through the hearing. I would like to ask just a few questions.

[The prepared statement of Mr. Kuczynski appears in the appendix.]

Senator BRADLEY. The debt/export ratio, let's say, that you shared with us, let's even say 40 percent of all exports go to pay debt service, or whatever, what does this level of debt imply for the prospects for economic growth in Central America?

Mr. KUCZYNSKI. I think that one doesn't have to be Merlin the Magician to realize that it is obviously a major hindrance to economic growth if something like 40 percent, as you said, Senator, of current foreign exchange income goes to service the debt. This represents something like five percent of GNP; it is far too high a number, considering the very feeble domestic savings that these countries have in a time of war, for many of them.

Senator BRADLEY. So, basically, 40 percent of all of the foreign exchange goes to pay banks, which means that there is less investment domestically and less available for the purchase of exports from other countries.

Mr. KUCZYNSKI. Not just banks. A lot of it goes to pay back official creditors.

Senator BRADLEY. Yes, banks and governments.

Mr. KUCZYNSKI. Right.

Senator BRADLEY. Let's take one country, say Costa Rica. Could you maybe tell us the impact of debt policy on Costa Rica, Mr. Hurlock?

Mr. HURLOCK. I think, Senator, you outlined in your earlier remarks a large part of the effect on Costa Rica. There has been a sharp reduction in GDP. There has been a clear reduction in the standard of living. There has been a very substantial reduction for the nation of investment. And it is wholly attributable, it seems to me, to the fact that there are no foreign exchange reserves available for investment.

That has created an atmosphere in which any other funds that might be available for investment have been deterred. So, the effect is an increasing effect and a continuing effect on the economy. If we sit here long enough, it will continue to deteriorate.

Senator BRADLEY. So facing this deteriorating circumstance, if we propose interest rate relief and some debt relief, you fear the Administration will say no, we can't do that because, providing interest or debt relief to the six or three or four countries in Central America, would force us to offer it to everybody.

Now, is that a plausible concern in your view. Mr. Kuczynski?

Mr. KUCZYNSKI. I do believe that precedents are important, but I think that if one looks at where AID has put its money in the last few years, it has in fact gone primarily to the Central American countries. So, the amount of other AID credits outstanding in the rest of Latin America are very small in comparison.

So, the precedent in the case of official credits is not there really in economic terms, forgetting the political and juridical arguments which might exist. So, I am not concerned about the precedent argument.

I think another point on the precedent is that these countries are in such bad economic shape that I would find it very difficult to argue against some form of relief, at least at the present time.

Senator BRADLEY. Mr. Hurlock?

Mr. HURLOCK. I think the precedents argument has been used repeatedly in the context of the international debt problem, not so much to argue legitimately about the difficulty of distinguishing between debtors, but to fend off for as long as possible the granting of any concession to any debtor.

If we really talk honestly about the difficulty or lack of difficulty in creating distinctions among debtors, let us be very clear that this is something that the IMF and the World Bank, AID, and all governments of the world are doing every day of the year. It cannot be something that cannot be done particularly in an area as sensitive to the United States as the Central American area is.

Senator BRADLEY. So, what in your view is the reason why the Treasury Department does not see the wisdom of this?

Mr. HURLOCK. For the reason that I just gave, which is that the line must be held on concessions; and once you start the concession, then they have a fear of not knowing where it is going to end, or so they say.

They know very well that it can be handled, but it is a position which the Federal Reserve, Treasury, and the commercial banks in the United States have defended vigorously and ever more vigorously since 1982.

Senator BRADLEY. Now, the Treasury Department has suggested that the answer to this is new money. Has new money been forthcoming in Central America over the last six years?

Mr. HURLOCK. George Orwell would have been proud of our Treasury Department. They have put the title "new money" on that amount of lending which has been done specifically to bring interest arrears current.

There has been to my knowledge—and I have some knowledge of a number of situations—no real new money in any of these situations.

Senator BRADLEY. So, the term "new money" when it comes to Central America essentially means banks loaning themselves the interest that the countries owe?

Mr. HURLOCK. That is correct.

Senator BRADLEY. In a rather remarkable display of either confusion or cynicism?

Mr. HURLOCK. Something of both.

Senator BRADLEY. Now, Mr. Kuczynski, isn't it true that when banks have recognized LDC loan losses through reserves built up or through swaps or whatever, that the price of their stock is increased?

Mr. KUCZYNSKI. Yes, that is true.

Senator BRADLEY. Why is that so, in your opinion?

Mr. KUCZYNSKI. Because I think it clears the deck of assets whose recovery is quite uncertain.

Senator BRADLEY. It means that investors look at the bank now and say: Now, here they were holding X country's debt on their books at 100 cents on the dollar, and it is selling in the secondary market at 10 cents or 40 cents. And so, maybe if there is less of that debt on the books, it is probably a better investment for me to make. Right?

Mr. KUCZYNSKI. I think that is correct, with the caveat, though, that the second remarket numbers do not necessarily reflect an active market. It is as the spokesman for the Treasury said, a rather thin market.

Senator BRADLEY. Mr. Hurlock, do you have any opinion on that?

Mr. HURLOCK. We have history to guide us, Senator Bradley. When the first round of provisioning was suggested by CitiBank and the other banks followed, the immediate effect was an increase in the stock price of a substantial number of those banks.

Senator BRADLEY. So, if you were a wise bank investor, you would look for which of the banks are actually dealing with their debt problem, their Third World debt problem, wouldn't you?

Mr. HURLOCK. Absolutely.

Senator BRADLEY. You would figure that the bank that moved to either provide some relief, either debt or interest rate relief, would probably be a better bet over the mid to long term, would you not?

Mr. HURLOCK. Any step that I could be persuaded would reduce the likelihood of a further write-off or increase the likelihood of profit would lead me to invest in that bank. Yes.

Senator BRADLEY. So, the question is: Who is benefiting from this particular approach? I mean, are U.S. exporters benefiting from this refusal to provide interest or debt relief?

Mr. HURLOCK. In no way that I understand are they benefiting.

Senator BRADLEY. Mr. Kuczynski?

Mr. KUCZYNSKI. I think that nobody is benefiting, but there is a limit to the amount of write-offs and provisions that can be taken.

Senator BRADLEY. But certainly, the amount that we are talking about in this particular bill——

Mr. KUCZYNSKI. Has already been taken.

Senator BRADLEY. Has already been taken? Is totally insignificant?

Mr. KUCZYNSKI. That is right. You know, what we are talking about here is $3 billion out of $325 billion. In the case of U.S. banks, it is about $2 billion out of $100 billion. So, it is two percent in the case of U.S. banks which are predominant in Central America.

Senator BRADLEY. But we are really just talking about some restructuring?

Mr. KUCZYNSKI. That is right.

Senator BRADLEY. We are not talking about forgiveness.

Mr. KUCZYNSKI. No, no.

Senator BRADLEY. You might draw the distinction, Mr. Hurlock.

Mr. HURLOCK. There are competing theories for approaches to the term which some people don't like to use of debt relief, which is either to forgive principal, which has the effect of reducing the interest burden; but it also eliminates the obligation of the debtor ever to pay that amount of principal, as opposed to merely reducing interest rates for whatever period of time is necessary to accommodate the economic difficulties of the debtor.

It can be argued, it seems to me, that it is less wise at this juncture to simply forgive debt than it would be to accommodate the actual economic condition of the debtor. When banks and their debtor countries meet to discuss the problem, the famous gap which is discussed, is not a principal gap; it is an interest rate gap.

And these countries were all capital importers up until the 1980s; and one would hope that, with proper adjustment and time, they will return to that status, at which time it would seem to me their debts ought to be repaid.

Senator BRADLEY. And the reason the interest rate gap is the discussion relating to cash flow?

Mr. HURLOCK. It relates to the existence or nonexistence of foreign exchange in amounts necessary to pay that year's requirement.

Senator BRADLEY. So, if interest rates were lower, there would be more foreign exchange available to purchase U.S. exports or to invest internally?

Mr. HURLOCK. At a minimum, yes.

Senator BRADLEY. What about the regional banks? Do they like this idea of no interest rate relief, new money, keep putting in new money?

Mr. HURLOCK. The regional banks, being the least sophisticated banks caught up in this problem, were the leaders in not wishing to put new money in on top of the money that was already in, on the very simple proposition that they had sufficient exposure in a difficult situation.

So, they had led the effort not to continue on that course. They have had tremendous pressures put on them to continue and to keep the banking groups whole, in a sense of everybody participating in that effort.

Senator BRADLEY. So, the present debt policy is not in the interest of exporters. It is not in the interest of small banks. So, whose interest is it in?

Mr. HURLOCK. It beats me.

Senator BRADLEY. What about the question of voluntary? In your view, would banks be willing to purchase securities, or would the market be willing to purchase securities that are guaranteed by the U.S. Government as envisioned under the bill?

Mr. KUCZYNSKI. I think that they obviously would be.

Senator BRADLEY. Why would that be so? Treasury said that they didn't think that this would work.

Mr. KUCZYNSKI. The securities that the U.S. Treasury guarantee would provide is infinitely better, even at a substantial discount that the present value of the loans.

Senator BRADLEY. Is there any credence whatsoever to the fear expressed today that, if you provide that guarantee for some debt in Guatemala, suddenly you would have to provide that for Brazil and Argentina?

Mr. KUCZYNSKI. I do think there is a basis for that fear, and I think we can get around that, however.

Senator BRADLEY. How?

Mr. KUCZYNSKI. I think that you can, instead of giving an outright guarantee on the whole debt, purchase an instrument such as the zero coupon bond or something equivalent, at very little cost, as I mentioned earlier. That would do the same thing and do the guarantee, rather than simply put a U.S. Government seal directly on the paper.

Senator BRADLEY. Mr. Hurlock?

Mr. HURLOCK. I think the problem is real. That is, others will certainly ask for similar guarantees, but I don't see any reason why one has to exceed. The economic conditions of Costa Rica and Brazil are hardly comparable, and there are adequate differences to justify discrimination and a different approach.

And if the United States Government, and particularly its Treasury Department, doesn't have the strength to make that discrimination and to make it stand, then we are in a very difficult situation.

Senator BRADLEY. In other words, if we can't say "no," then we are in trouble?

Mr. HURLOCK. I should think so.

Senator BRADLEY. Let me thank you both and ask if either one of you have any other thought that you would like to leave with the subcommittee as we consider this bill. It will inevitably come to the floor.

I think that we have covered most of the objections that anyone could possibly make. I think that each of you, as well as the other witnesses, have effectively responded to them; but do you have anything else you would like to share with the committee?

Mr. KUCZYNSKI. I will stay out of the sugar thicket.

Senator BRADLEY. It is the sugar field—(Laughter)

Mr. KUCZYNSKI. The sugar field. Just to wind up, I strongly support the idea of the U.S. Government being the largest bilateral lender in these countries by far, giving some interest relief, as part of a program that includes reform in a number of these countries.

Second, on the debt for bond swap, I think most banks would respond very strongly to that. I am not entirely sure if it should be through a direct guarantee or an indirect guarantee or a mechanism with a strong official agent; but one of those forms, I don't think, creates a precedent, if it is done properly.

Senator BRADLEY. Mr. Hurlock, you have the final word.

Mr. HURLOCK. Thank you, Senator Bradley. I am no more at home in the sugar field than Mr. Kuczynski; but I think it is worth pointing out that the testimony elicited today about the changes in the commodity exports of the Central American region go as far as one need go to explain that the crisis in Central America is a structural crisis.

It is not a liquidity crisis. It is not something that will be solved by dealing with this year's maturities or next. We will have to deal with the overall commodity and structural problems of those economies in order to be successful.

To do that, we need time. Those countries need time. That is why I think the contents of your bill in both respects go directly to the problem as nothing else that I have seen does.

Senator BRADLEY. Thank you very much. The only question, I suppose, is: Will we be able to respond to the crisis in Central America soon enough, or will we wait until it gets to the point where the kind of solutions that are talked about today and embodied in this bill are no longer available because it has deteriorated too far?

Of course, that has been the call for the last six years as the Administration has consistently turned away from any kind of interest or debt relief and persisted on a rigid course that is followed by virtually no one else and benefits no one else.

Thank you very much. The committee is adjourned.

[Whereupon, at 5:00 p.m., the hearing was adjourned.]

APPENDIX

ALPHABETICAL LIST AND MATERIAL SUBMITTED

PREPARED STATEMENT OF ELLIOTT ABRAMS

I would like to thank the committee for this opportunity to present the Administration's position on S. 2252, which presents a plan to encourage economic development in Central America and to comment on how these proposals fit in with our continuing commitment to peace and democracy in this region.

I particularly welcome the emphasis of this hearing on a longer-term look at the conditions necessary for economic development in that region. A lasting peace and more deeply-rooted democracy in Central America will depend critically on building economies that offer real opportunities for a better life, not just for the privileged few, but for all the people.

Most Central American countries have come a long way in building both political and economic institutions. That does not mean that we have attained our objectives; a huge amount remains to be done. But in focussing on the many serious problems we need to overcome, we should not lose sight of the progress achieved to date. Let me give you a brief overview of the political and economic contexts before we get into the specific proposals being examined at this hearing.

The first fact we need to recognize is that Central Americans are working hard to consolidate democracy in an area where only a few years ago democratic governments were the exception. A commitment has been made, and we must help and encourage it in every way possible.

There has been tremendous progress in building and reinforcing democratic institutions in Guatemala, El Salvador, Honduras and Costa Rica. However, the odd man out is Nicaragua. There, authoritarian rule continues to deny the citizens of that country the rights and freedoms enjoyed by their neighbors in the region.

The second fact I want to emphasize is that the economic revitalization of the Central American region, while far from complete, is well underway. Central America, with our assistance, has made significant progress in stabilizing its economic situation following the severe contraction of the early 1980s. Real GDP growth in 1987 for the four democracies, close to 3%, exceeded the rate of population increase for the first time this decade. Barring unforeseen circumstances, GDP growth is projected to be 3.5% this year and around 4% in 1989. As the Administration reported to Congress in our 1987 "... Plan for Fully Funding the Recommendations of the National Bipartisan Commission on Central America", a target of more than 5% growth by 1992 is possible, if economic reform continue and if adequate funding is provided.

This growth is encouraging. It is the product of significant economic reforms -- reforms supported by large amounts of US assistance and undertaken by the four democracies under adverse circumstances. Notwithstanding the progress, these countries must still overcome major structural and macroeconomic problems to adapt to an increasingly competitive world. These problems include overdependence on traditional exports like coffee and bananas, an inefficient manufacturing base over-reliant on high import tariffs, and, perhaps most important, the continuing gross inequities in income and opportunity for the majority of the population.

Primary responsibility for changing their economies and social systems, of course, falls to them. Our role is to continue our assistance and to encourage reforms that shift to the free market and private sector those economic functions they perform best while helping governments to improve social services like education and health that provide a basis for greater equity.

Our support for sustained growth encompasses more than government-to-government economic assistance. There is no better way to help our neighbors to the south than by keeping our markets open and encouraging US investment. Scholarships, too, have a bearing on economic development. They help build human capital and facilitate the transfer of technology. Directed to needy Latin students, they also enlarge opportunities within societies.

Strong, diversified economies, operating in a democratic and free environment, are best able to meet the range of challenges ahead, from security to social improvement, without resort to costly and desperate stop-gap measures.

Now let me turn to the specific proposals which are on the table. First of all, I want to emphasize that we welcome the interest and willingness of this Committee and of Senator Bradley and the other sponsors of this legislation to offer creative proposals to promote development in Central America.

We agree wholeheartedly with the fundamental premise of this bill that increased external economic support to the region will be needed over the next decade. But while we can all accept that as a general principle, the budgetary reality is that declining aid levels have limited our ability to support U.S. objectives. This applies not only in Central America but throughout this hemisphere. For example, for FY 1988, we requested ESF of $502 million for Central America and $198 million for the rest of the region in ESF for FY 1988 while the allocations for FY 1988 are $440 million and $22.3 million. We need, first of all, to address squarely the basic issue of declining levels of aid overall.

Furthermore, the US government -- in this Administration and in any successor Administration -- needs to retain sufficient flexibility in the allocation of aid to ensure that the funds are put to their best and most efficient use.

Finally, our assistance must be linked to the recipient governments' agreement to undertake those economic policy reforms required to promote sustained economic growth and increased equity. This linkage is vital to our efforts in Central America and elsewhere.

The bill does well to address the issue of sugar. This Administration objects strongly to the current US sugar program and we congratulate you on your acknowledgement of the need to change US sugar policy. The obstacle we face quite simply is agricultural protectionism, both in the United States and the European Community.

Just look what the US sugar program has done. Since the inception of the U.S. price support program for sugar in December 1981, U.S. imports of sugar have dropped from over 4 million tons to 750,000 tons this year; that's a decline of 80%. This has been a major blow to the Central American countries, where sugar is a major export crop and the industry, one of the major employers. In 1981 the four Central American democracies earned about $195 million from their sugar exports to the U.S. In 1988, we estimate that these countries will earn only about $31 million.

The proposal in S. 2252, however, gets at only part of the problem. The bill would provide much greater access to the US market for Central American countries, but no improvement for other sugar suppliers such as the Dominican Republic. The Dominican Republic's earnings from sugar exports to the US have declined from $356 million in 1981 to an estimated $49 million in 1988. There is no way to justify giving favorable treatment to Central America in our sugar policy when sugar is so important to so many other countries. Focusing only on the quota levels of the Central American countries brings with it another problem, one relating to GATT rules. Concern for our obligations to all our trading partners under the GATT is important, particularly when we remember that the world economy has an enormous stake in the success of the Uruguay Round of Multilateral Trade Negotiations.

More fundamentally, the proposal in S. 2252 does not address directly the main flaw in the US sugar program, the artificially high support price. Rather than establish quotas by legislation the Administration prefers to reduce the level of price support for sugar. This would allow an upward movement of our sugar import requirements and, thereby, a higher import quota for each country eligible for a quota. Recently the Administration informed Congress that we would support an amended version of another bill of Senator Bradley's on sugar introduced last year, (S. 1948).

The best solution to the sugar problem for Central America, as for other suppliers, requires action both domestically and internationally -- a direct reduction of price supports in our own program and similar action on the part of the European Community. Consumers would benefit as efficient producers gain their deserved access to markets. Substantial benefit would accrue to Central America without damaging the interests of other sugar supplying countries.

I welcome the recognition in this bill that debt is a major problem for the region. While the debt profile and debt service burdens vary among its countries, for all of them dealing with debt complicates the task of achieving sustained per capita growth.

The debt problem looms large in all of Latin American and the Caribbean, and not just Central America. It has generated a situation in which capital-poor countries are exporting capital to capital-rich countries. According to the World Bank, in 1986, net transfers out of Costa Rica, El Salvador, Guatemala and Honduras were $423 million and total debt service of $1.1 billion took 25 % of their combined receipts for exports of goods and services. I am fully aware that capital outflows reflect more than debt service, and in particular that additional large elements of flight capital play an important role. But net financial outflows from countries which have tremendous development needs is unacceptable and cannot be sustainable over time.

How to encourage and achieve economic growth in Latin America and elsewhere and just what to do on the debt problem are the subjects of a lively and voluminous debate. That is all to the good because the problems are difficult and there are no quick fixes.

We are taking a correct approach in emphasizing the need to work toward economic policies and conditions that will promote and sustain economic growth at the same time as we deal with specific debt problems. I support our case-by-case approach to the debt problem and an emphasis on economic policy reform. In our view, a key deficiency in the bill before us is that it does not encompass these two fundamental principles. It does not really address the diverse economic and financial situations of the individual countries in Central America and it does not offer mechanisms to support and encourage real and significant policy reform. Moreover, the bill does not consider very carefully the question of foreign governments and their possible role.

On the debt problem as such, we are seeing progress in the case-by-case approach. We are seeing the banks work out solutions and come up with new ideas in cooperation with the developing countries. With the secondary market valuing these countries' debt well below face value -- sometimes as low as 10 percent of face value -- many approaches to dealing with the debt problem, such as debt-equity swaps, are trying to take advantage of this market discount. Many ideas are being continually explored by creditors and debtors.

The recent Morgan/Mexican debt swap plan, for example, had several interesting features including the purchase of USG zero-coupon bonds as collateral for the principal of new Mexican bonds issued in exchange for a portion of the commercial bank debt. Mexico was able to purchase $3.7 billion in debt at an average price of 70 cents on the dollar in exchange for $2.6 billion in new Mexican bonds.

In very different circumstances, Bolivia and its bank creditors agreed on a "debt buy-back" plan where funds donated by several countries to an IMF-managed fund were used to purchase debt from interested banks at 11 cents on the dollar. Banks offered over $300 million in debt but, since accumulated arrears were extinguished by the purchase, the real value to Bolivia was about $500 million. In effect, Bolivia was able to cut its bank debt almost in half.

We must continue to search for innovative solutions adapted to the situation of the debtor countries involved such as those I have described. Key players in the debt arena such as creditor and debtor governments, commercial banks and international financial institutions like the World Bank must keep policy and tactics under constant review to insure that each is doing as much as possible within the context of a voluntary, market-oriented, case-by-case approach.

I have already mentioned that we do not think that the legislation before us takes adequately into account the differing situations and needs of the countries involved nor does it offer ways to promote economic reform. The problems vary from country to country and solutions have differing impacts as well.

Proposals advanced in the bill also raise other issues. Reducing the interest rate on official U.S. credits to Central American countries by four percent raises would reduce inflows to the U.S. Government. Under our budgetary rules, these revenue shortfalls must be offset by cuts elsewhere in the foreign assistance program, presumably in programs benefitting Central America.

The bill proposes an official US guarantee on both the principal and interest of new debt instruments that would be issued by Central American governments and then exchanged for a portion of their commercial bank debt at a discount based on secondary market prices for their debt. This would be a significant break with our current policy on dealing with international debt problems. It would transfer from the commercial banks to the American taxpayer the portion of the risk represented by the secondary market value of any commercial bank debt exchanged for a new debt instrument. Moreover, there are potential risks in the proposal such as that of sapping the discipline of debtor countries and providing a temptation to drive down the value of their debt. Finally, provisions to finance the guarantees are not discussed.

Both the interest rate and guarantee provisions would lead to a clamor from a number of other countries in the hemisphere and elsewhere seeking equal treatment.

In conclusion, let me note again my appreciation for the interest shown by this Committee in exploring these issues. How we decide these questions will make a difference to the future economic growth and development of the Central American countries, and to building peace and democracy in the region. They also have implications for what we do elsewhere in tackling similar problems. We look forward to working with this Committee in addressing these problems.

STATEMENT BY OFFICE OF SENATOR BILL BRADLEY

United States Senate
WASHINGTON, DC 20510

HOW S.2252 WORKS

The purpose of the debt relief section of S.2252 is to encourage economic development in Central America by facilitating the exchange of existing debt obligations that Central American countries owe to private financial institutions for new obligations with lower debt service; and by reducing the burden of debt these countries owe to U.S. government agencies.

Under S.2252, the U.S. government would cut the interest rate on outstanding U.S. government loans to Costa Rica, El Salvador, Guatemala, and Honduras by 4 percentage points. This would reduce the debt service of Central America by $67 million per year. The government would negotiate with other creditor countries to encourage them to provide similar relief.

The U.S. government would also guarantee the interest and principal on certain new securities which Costa Rica, El Salvador, Guatemala, and Honduras issue in exchange for existing debt obligations held by private financial institutions. The new securities would receive a U.S. guarantee if they had a maturity of at least 20 years, and if they bore an interest rate and face value that would yield a market value substantially equal to the secondary market value of the existing debt for which they were swapped.

Central American governments and commercial banks would be free to negotiate any specific deal they chose. But banks would benefit from the U.S. guarantee only if they accepted new securities that reduced Central American debt service in line with secondary market discounts. If Central American countries swapped new securities for 40% of outstanding commercial debt on terms reflecting secondary market prices at the end of 1987, their debt service would fall by $64 million per year. In addition, Central American repayment of principal on commercial debt would fall by $240 million per year for the first two or three years following the swap.

With respect to sugar, S.2252 would freeze quota levels at today's levels for all countries other than Honduras, Costa Rica, Guatemala, and El Salvador. For these countries, there would be:

(1) an immediate addition of 350,000 tons to the current year's quota;
(2) a 600,000 ton increase for following years; and
(3) an optional 100,000 ton quota for Nicaragua if ver specific and verifiable milestones toward reform are met.

Such an increase in U.S. sugar quotas will allow nearly $100 million -- the subsidy value of access to our protected markets -- to flow to these pivotal countries this year. In following years, the enlarged quota will permit in excess of $150 million to flow annually to these countries.

As it stands, the U.S. sugar support price is maintained by the ever-shrinking quota system. S.2252 directs the Secretary of Agriculture to adjust the support price so as to permit this new higher level of imports without the forfeiture of domestic sugar loans. By lowering the support price slightly, the increase in imported sugar can occur without substantial cost to the taxpayer, and with other obvious benefits to U.S. consumers.

The total U.S. sweetener market today is some 18.7 million tons. A 600,000 ton increase in imports represents just 3% of the market. At their greatest, the new quota levels established in S.2252 are less than the quota level allowed just two years ago.

U.S. government loan interest relief, U.S. guarantees for debt swaps that reflect market discounts, and sugar quota relaxation are all complementary. Guatemala would benefit most from sugar quota relaxation, Costa Rica would benefit most from commercial debt swaps at secondary market rates, and El Salvador and Honduras would benefit especially from U.S. government loan interest relief. For the first few years after enactment, S.2252 would provide $540 million per year of support to Central America at a taxpayer cost of $67 million per year. The bill would provide $300 million per year of support to Central America after the first three or four years.

STATEMENT OF SENATOR DAVE DURENBERGER
Senate Finance Subcommittee on International Trade
June 10, 1988

Dave Durenberger

Mr. Chairman, I want to commend you for holding today's hearing and bringing together such a diversified panel of witnesses to examine ways to encourage economic development in Central America. In my view, the single most critical factor contributing to economic stagnation in both Central and South America, is the extraordinary debt repayment burden which cripples these countries' ability to invest in their economies.

Mr. Chairman, I know that you and Senator Bradley are deeply committed to finding solutions to the debt crisis in Central America. Yet I was surprised to see that one of my constitutents, Alvin Hansen of Baker Minnesota, will be testifying in his capacity as Chairman of the Board of the MIN-DAK Farmers Sugar Cooperative. I know that Alvin can tell you about the day-to-day struggle he, and all of the farmers in the Midwest, have been enduring throughout this year's drought. But I am sure that Alvin would agree that he's not an expert on Central American debt.

THE U.S. SUGAR PROGRAM IS NOT THE PROBLEM

The legislation we are considering today addresses the issue of writing down Latin American debt and changing the U.S. sugar import quota program. I just do not see a relationship between these two issues and I want to go on record to reiterate my complete opposition to any proposal that would allow the Secretary of Agriculture to lower domestic sugar support prices in exchange for increasing the sugar quotas for Central American countries, or for any other reasons.

The real problem that the Central American countries face in regard to sugar, is not the U.S. support program. The problem is not "Made in Washington," it is "Made in Paris and Brussels." Worldwide overproduction of sugar and concommitant low prices are the problem. And that problem is a direct result of the unfair government subsidies provided to growers in the European Community (EC).

The countries of Central America must wean themselves from continued dependency on the sugar plantation. Opening up the U.S. quota will not help these countries achieve the economic diversification that the Kissinger Commission recommended for them.

THE THIRD WORLD DEBT CRISIS

Mr. Chairman, third world debt is not merely a problem. It is crisis! And it is not just an economic crisis, but a political crisis that could transform the political landscape of the Western Hemisphere. The social and economic deprivation which results when governments are forced to use their limited resources to service their debts to Western bankers, instead of encouraging investments for the benefit of their people, cannot long endure. Revolutions and governmental upheaval are the inevitable consequence.

Since 1980, the external debt of the six Central American Countries has more than doubled. It has jumped from $11.5 billion to nearly $25 billion. More discouraging is that their debt as a percentage of exports has jumped from 160 percent of exports to nearly 400 percent of exports. The countries of Central America are falling further and further behind in their effort to meet the demands of foreign bankers. This process must be reversed. And the only answer is debt relief and debt forgiveness.

I want to commend my distinguished colleague, Bill Bradley, for the leadership he has provided in encouraging debt forgiveness. For more than two years, Bill has been speaking out in favor of debt foregiveness and interest abatements. And I believe the Administration now recognizes that new approaches to Latin American debt must be considered. The recent effort to convert a portion of Mexico's debt into a security backed by the

U.S. government is a modest first effort. Other steps must be considered.

THE IMPORTANCE OF HAVING AN OVERALL ECONOMIC POLICY

Senator Bradley has proposed that the interest rate on U.S. government bilateral loans to the Central American countries be reduced by 4 percent. Most of these loans already carry fairly low rates of interest, and I don't think that a 4 percent reduction will alleviate the debt load to a significant extent.

Instead, I think we should consider an outright forgiveness of a portion of this Central American debt. Two days ago, France's President Francois Mitterand announced that his government would forgive one-third of the government debt owed by sub-Saharan African countries. That is the type of bold leadership I would like to see applied to the democracies in Central America.

Mr. Chairman, debt relief is not the only answer to the social and economic crisis in Central America. We need to have a policy that emphasizes long-term growth, infrastructure investment, and diversification of the economic base of the region. The foundation for a real policy in Central America was laid out four years ago in the bipartisan Kissinger Commission report. The problem is that we just have not fulfilled the economic commitments that were recommended.

A MULTILATERAL APPROACH

If democracy is to survive in Central America, we must make a Marshall Plan type of commitment to assist in building the economies of these countries. But we cannot and should not do it alone. Western security is not alone predicated on protecting the sea lanes of the Middle East, or the Pacific Rim, or the frontiers of Western Europe. Western Security depends on promoting democracy and economic growth in our hemisphere. And to promote economic growth in the region, it is incumbent upon our allies, especially the Japanese and the Europeans, to provide far more economic assistance to Central America.

We have provided, and will continue to provide, the economic and military leadership for the Western alliance. It is now incumbent on our allies to sharply increase their economic commitments to Central America as part of their contribution to the alliance.

Moreover, our allies must open their markets to the products exported by third world countries, including Central American countries. The United States can no longer be the engine of world growth by importing everybody else's products. Japan and Western Europe must do far more. In the past four years, the United States has been importing nearly two-thirds of the products exported by the lesser developed world. Europe has imported barely 20 percent of LDC production and Japan has imported less than 10 percent. That pattern must change.

And as part of that change, our allies in the European Community (EC) must begin to dismantle their policy of providing excessive farm subsidies which encourages their farmers to overproduce several agricultural products, especially sugar.

THE NEED TO AVOID EXCESSIVE UNILATERALISM

Every major sugar producing nation, Brazil, Australia, Thailand, the Phillippines, Canada, Japan, and the EC intervenes to protect its domestic industry from the wild fluctuations in the world sugar market. I see no reason to even consider changes in the U.S. sugar program without a firm commitment from all of our trading partners, especially the EC, that they are willing to give up their unfair domestic subsidies.

Mr. Chairman, this is a global problem that cannot be solved by unilateral actions by the United States. We learned the lesson of excessive unilateralism when we deregulated telecommunications. The U.S. market was flooded with imported telecommunications equipment, while our trading partners refused to allow our competitive domestic equipment manufacturers similar access to their markets.

There are thousands of people in rural Minnesota whose livelihoods are linked to the production and processing of sugar beets, and the related production of high fructose corn syrup. These people are just beginning to recover from the economic devastation that jolted rural America in the mid-1980s. They are now struggling against the vagueries of drought and the prospect of a much smaller crop, if any, this summer. This is no time to even consider pulling the rug out from them by unilaterally changing the rules of the sugar trade.

TESTIMONY OF RICHARD W. GOLDBERG
ACTING UNDER SECRETARY FOR
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE
JUNE 10, 1988

Mr. Chairman, I appreciate the opportunity today to provide you and other members of the Subcommittee the Department of Agriculture's views on S. 2252, a bill to provide minimum access to the U.S. market for certain Central American countries. I will confine my remarks to section 2 of this legislation which provides for preferential access by certain Central American countries to the U.S. sugar market.

We support legislation which would have the effect of reducing domestic sugar price support levels and bringing U.S. sugar prices more in line with world prices. However, while section 2 of S. 2252, as currently drafted, authorizes adjustments in domestic price supports, further amendments are needed to bring this legislation into conformity with the requirements of the trade agreement permitting our current sugar quotas, as set forth in headnote 2 of Schedule 1, Part 10, Subpart A of the Tariff Schedules of the United States.

In particular, the preferential allocation of quota increases to Caribbean Basin countries violates our obligation to provide nondiscriminatory market access and due consideration to the interests of materially affected GATT contracting parties. Without an amendment to bring this section of S. 2252 into conformity with our international obligations, and other technical amendments such as those we have submitted with respect to S. 1948, a bill "To amend the Tariff

Schedules of the United States to modify the quota on the importation of sugar", we cannot support this legislation.

The Department also strongly opposes any mandate to provide a minimum access level for Philippine and Caribbean Basin sugar under the Department's sugar reexport program. The Department views this provision as a "quick fix" that does nothing to address the long term, fundamental problems faced by the U.S. sugar industry. The provision merely constitutes another attempt to relieve in the short term the problems caused by the existing domestic sugar price support program.

As you know, we have long contended that existing sugar price support legislation needs to be amended to correct numerous distortions in the domestic sweetener market. Many believe that such distortions are confined to the adverse impact existing legislation has had upon sugar exporting countries and U.S. domestic consumers.

We believe that the distortions and adversities caused by existing legislation go well beyond the effects it has had on those two groups. In fact, we believe that existing legislation has adversely affected or is on the verge of adversely affecting every segment of the domestic sweetener market -- sugar-containing product manufacturers, sweetener producers, cane refiners, sugar exporting countries, workers, taxpayers and consumers.

Manufacturers of sugar-containing products have been put at a competitive disadvantage with foreign producers. They must use high priced domestic sugar to manufacture their products while foreign manufacturers have access to world price sugar which is available at about one-third the domestic price. The result has been a shift to lower cost substitute sweeteners such as High Fructose Corn Syrup (HFCS), an increase in imports of sugar-containing products, and a loss of employment and infrastructure in the U.S. domestic industry manufacturing such products. As a result, U.S. companies are either going out of business in the face of lower priced imports of sugar-containing products or moving their facilities to overseas locations to gain access to world price sugar. In short, as a result of existing sugar price support legislation, this industry has lost employment and production capacity.

Sweetener producers have to date benefited greatly from existing price support legislation but are on the verge of being adversely affected by the same legislation. This is because the existing legislation has encouraged domestic sweetener production and drastically reduced imports. I will explain further.

The high level of domestic price support for sugar has greatly increased domestic sweetener production and led to a drastic reduction in imports of raw cane sugar, from about 5 million tons on average before existing price support legislation was enacted in 1981, to 750,000 short tons in 1988. The reduced imports translate into a direct decline in domestic requirements for raw cane sugar refining capacity. We have lost 50 percent of our capacity in the cane refining industry since the enactment of this legislation and additional cane refining facilities are likely to be closed before the end of the year. There has likewise been a drastic reduction in employment in the cane refining industry.

The result is that this industry's viability is on the line and this means bad news for sugar cane producers. Specifically, sugar cane producers rely on the cane refining industry as an outlet for raw cane sugar. If the domestic cane refining industry goes out of business, then producers of sugar cane will no longer have a domestic outlet for marketing raw cane sugar. They at best would have to have the raw cane sugar refined overseas and this would result in a corresponding reduction in their returns. In short, not only has existing legislation adversely affected employment and processing in the cane refining industry, it is also on the verge of adversely affecting the viability of the sugar cane producing industry.

We all know that the reduction in sugar imports to the lowest level in well over 100 years has had a devastating impact on our sugar exporting allies such as the Philippines and the countries in the Caribbean Basin. These countries have seen their access to the United States sugar market reduced by over 75 percent in just four years. Because their exports of sugar to the United States have not been maintained at the same level as four years ago, the Caribbean Basin countries will have lost over $1 billion, and the Philippines nearly $350 million, in foreign exchange earnings between 1984 and the end of 1988.

The exporting countries and U.S. cane refiners have been on the front line in meeting the consequences of domestic price support legislation which has rapidly moved us to a point of near self sufficiency in domestic sweetener production. Back 100 years ago, imports met 95 percent of domestic sweetener consumption requirements. Today, imports meet only 5 percent of domestic sweetener consumption requirements. This policy-induced move to self-sufficiency is no different than the closed markets in Europe and Japan that U.S. farmers now face and decry.

When we reach self sufficiency in sweetener production within the next few years, existing legislation will have adversely affected every segment involved in the domestic sweetener market. At that time, we will face a situation where there will be excess supplies of sweeteners and forfeitures of sugar to the Government. Then, the taxpayers will begin footing the bill for forfeitures and all sweetener producers will face lower returns resulting from the excess supplies.

All of this has happened or will happen as a result of a level of domestic sugar price support which does not reflect market conditions or realities. For this reason, we believe the future of the entire domestic industry is in jeopardy unless we reduce domestic sugar price supports and make the sugar program more market oriented and rational. It is in this context that we support legislation which would have the effect of reducing domestic sugar price support levels and bringing U.S. sugar prices more in line with world prices.

A reduction in the price support level will pull back excessive incentives to domestic production, pull down the advantages of using world price sugar to produce sugar-containing products for import into the United States, avoid sugar forfeitures and the corresponding penalties to the American taxpayer, save the sugar cane producing and refining sectors of the sweetener industry, reduce consumer payments for sweeteners, and provide the fair and reasonable access to markets for foreign sugar exporters that we seek for our own farm exports.

In closing, I think it should be pointed out that our efforts at amending existing price support legislation are not aimed at dismantling the domestic sugar industry. On the contrary, we believe that it is essential to change existing legislation if we are to assure the viability of this industry over the long run.

There is much disagreement on how this can be achieved. Some believe production controls are the answer. Our dismal experience with supply controls in highly protected markets has taught us that this "answer" only postpones and aggravates the necessary adjustments. We believe that only by reducing and eliminating the differential between world and domestic sugar prices can we assure the long-term economic soundness of our sugar industry. And this can only be accomplished by taking measures to lower the domestic price, raise the world price, or some combination of the two.

Our recommendation is to take measures which both raise the world price and lower the domestic price, and this is precisely what we have been attempting to do in our efforts to reduce domestic price support levels and liberalize world trade in sugar and other commodities in the Uruguay Round of multilateral trade negotiations. Finally, I would like to note that the Department of Agriculture does support new initiatives which would build on many of the concepts of the Caribbean Basin Economic Recovery Act.

This concludes my statement Mr. Chairman and I will be happy to try and respond to any questions.

=============

Statement by Mr. Gilberto Goldstein

This bill would attempt to aid the Central American countries'management of their external debt in two ways by issuing US government guarantees on new instruments to refinance commercial bank debts and by reducing the interest rate charged on outstanding USG loans by four percentage points.

In the case of Honduras, these measures would provide some positive benefits, although limited. GOH commercial bank debt at the end of 1987 was roughly equal to $500 million, with $230 million in renegotiation. The Bradley bill would provide USG guarantees on new instruments to refinance this debt, which is currently trading at about 30 cents on the dollar. The net effect would be to increase the credit rating of the GOH and assist banks which wanted to sell these loans by increasing their market value. This could aid Honduras by enabling the country to obtain new loans at lower interest rates.

The second part of the proposal, which would reduce the interest rate charged on USG loans, could lower Honduras'annual interest charge by some $8 to $10 million each year. This estimate is base on the following USG credits and loans to Honduras: (outstanding balance in million dollars).

<u>FMS (Foreign Military Sales)</u> $ 37.2

-- loans contracted prior to 1983
-- market interest rates
-- annual savings = $ 1.5 million

<u>PL 480 (Titles I and III)</u> $ 125.0

-- loans for 20 years
-- 2 percent interest rate for first ten years, 3 percent thereafter
-- annual savings = $3.2 million

<u>DA (AID Development Assistance)</u> $ 150.0

-- the loan component of DA has fallen with respect the the grant component since 1983
-- 2 percent interest rate on outstanding balance
-- annual savings == $2.5 million

<u>ESF (AID)</u> $ 80.0

-- since 1985, all ESF has been grants
-- 2 percent interest rate on outstanding balance
-- annual savings = $1.5 million

<u>Other Financial Assistance Programs</u>

-- EXIM Bank	$ 4.5
-- HIG	$ 66.0
-- OPIC	$ 1.0
-- MAP (grants)	
-- IMET (grants	
-- Section 416 (grants)	

The loan guarantee programs (such as EXIM Bank's TCIP and HIG) would likely not be covered by this bill, since the loans are actually made by private lenders. The direct lending programs of EXIM and OPIC are non-concessionary, base on market interest rates. Since both institutions are operated as autonomous agencies, Congress would have to make sure that they are included.

BENEFITS FOR THE SUGAR INDUSTRY

It is my strong opinion that to be fairly distributed the proposed additional allocation to certain Central American Countries should be distributed at 25% for each of the elegible countries. On this basis I estimate that for Honduras it will be important additional source of foreign exchange that on would be assure for the future.

MAJOR BENEFITS FOR HONDURAS

The interest rate reduction on official loans could mean a savings to Honduras of as much as 8 to 10 million dollars a year, with the benefit that the future value is assured. This is an important benefit.

The guarantee of private sector-held debt contains some mixed benefits. The main benefit, of course, would flow to U.S. banks, but Honduras would also benefit by improvement of its credit rating. On the other hand, without the guarantee, some of the banks holding Honduras' debt are now selling that debt to persons interested in investing in Honduras through debt swaps. These encouraging debt swaps increase investment while reducing Honduras'debt. Since the amounts involved are very small in the case of Honduras, the benefits are less obvious.

Positive expectations, of course, are the key not only to Honduras development but to all of Central America. Perhaps the biggest threat to all of our economies is the negative expectations created by the existence of a communist military dictaroship next door and the stresses and wars thar reality has spawned. There regional political realities severely affect long term investment and the willingness of governments to make difficult reforms.

We in Honduras are convinced that until all of the countries in Central America are living under some kind of democratic pluralism, none of the countries will be able to develop fully functioning, healthy demoractic political and economic systems. While this legislation is important because everything helps, if one is truly concerned about central América on must come to grips with the reality of the communist gobvernment in Nicaragua and the threat in El Salvador. Apparently there are a lot of people in the U. S. and in the U. S. Congress who believe that the Sandinistas are at heart democrats and liberal reformers. They are not, and theris existence casts a cold chill on those Honduras who wish to look upon the future of their country with optimism.

THE SUGAR INDUSTRY OF HONDURAS

The sugar industry of Honduras goes back to the times of the Spanish Conquistadors. It was produced as "panela" (raw sugar blocks), and since then, Honduras has always grown sugar cane. The industry, as we know it today, dates back to the 1920s and since that time has been an activity of great importance in the economy of the country. It is a basic area for employment, producer of foreign currency, and a-pillar in the economy of Honduras.

We are a poor country, both in resources and in technology, and until we are able to become a more developed country and our export products can be more sophisticated, we need the definite support from our friends in those things we best know how to produce such as coffee, bananas, sugar, lumber and meat.

Producing and processing the sugar cane, plus the innumerable secondary jobs surrounding sugar production, require a very large amount of unskilled labor. Thus, the labor force in the industry is made up, in a large percentage, of the most needy "campesinos", small farmers and the like. They need the job. So the industry is basic in providing much needed jobs in the rural areas of Honduras where unemployment is most acute. (figures speak of unemployment and underemployment in the rural areas of Honduras of as high as 50%).

Honduras is basically an agricultural country, and approximately 60% of its population lives in the rural areas, thus when one of the basic products, such as sugar or coffee, has depressed prices or quotas that close the traditional markets, the effects on the economy and population are dramatic.

The cane cutting season, "the zafra", lasts aproximately six months, between the month of December till June. During those six months the industry employs aproximately twenty five thousand workers directly plus an additional similar number of workers who are employed by the cane growers, transport entities and other related jobs. The sugar industry is the second largest employer (after coffee) in Honduras. The industry was forced to cut down its production of sugar from approximately 250,000 short tons in the years 1983-84 to 170,000 short tons in 1988- a reduction of approximately 28%. This reduction in production affected the labor force in a similar percentage in their income, as the zafra time had to be reduced from six months to four months.

The sugar industry in Honduras is made up of eight sugar mills with a grinding capacity of 24,200 short tons of cane per day. Six of these mills belong to the private sector with a grinding capacity of 17,200 short tons and two mills are government owned with a capacity of 7,000 tons. The installed capacity of these mills can produce 350,000 short tones of sugar per year and in 1988 they only produced 170,000 tons. Thus the Honduras sugar industry is operating at below 50%

capacity. (The government is undertaking a program to privatize certain production activities in which it is now engaged including the two sugar mills mentioned above).

The historic market of all the export sugar of Honduras was the U.S.A. Up to 1981 all the sugar exported from Honduras went to the United States. It was not until 1982 that we had to go to the world market for the first time. In 1981 the Dollar value of the sugar exported to the U.S. was 47.4 million and since then it has been diminishing to the point that in 1987 it went down to $5.7 million and in 1988 the figure will be even lower. The following figures indicate Honduras sugar exports to the U.S. in quantities and Dollar value from 1981 to 1987.

YEAR	EXPORTS TO THE US IN 100 LBS	EXPORTS TO THE US IN DOLLARS
1981	1,821,860	47,378,517
1982	360,049	5,779,006
1983	801,262	15,538,617
1984	1,146,353	23,090,030
1985	964,340	19,566,458
1986	330,832	6,332,587
1987	302,259	5,707,587

The loss of almost all the US market has forced Honduras to sell its sugar exportable surplus to the world market with a heavy loss of monetary value.

The following figures correspond to Honduras sugar exports to the world market since 1982,year in which the country iniciated its sales to this market.

YEAR	EXPORTS TO THE WORLD IN 100 LBS.	EXPORTS TO THE WORLD IN US DOLLARS	AVERAGE PRICE PER 100 LBS US DOLLARS	COST EX-FACTORY PER 100 LBS US DOLLARS
1982	1,559,790	15,108,343	9.68	19.48
1983	1,408,610	10,905,107	7.74	18.68
1984	904,927	6,010,094	6.64	19.77
1985	1,205,888	5,643,556	4.68	19.39
1986	1,941,368	12,259,739	6.31	18.71

The four democratic countries of Central America are now going through a very serious economic, social and political period in their history, and urgently need the understanding and cooperation of their great ally and friend. The best proven way to foster a democracy is by strenghtening its economy, provide employment for its population and means of a decent and honorable subsistance. The best friend is the one that helps in a way that allows the recipient to use that assistance in a dignified manner. I believe that the bill S.2252 introduced by Mr. Bradley and Mr. Lautenberg is one that allows Honduras, and the three other Central American democracies, to utilize more fully some of their already installed sugar productive capactiy, and it definitely is a step in the right direction.

GILBERTO GOLDSTEIN
President
Honduras Sugar Producers Association

June 10, 1988

ALVIN HANSEN

MR. CHAIRMAN, I AM ALVIN HANSEN OF BAKER, MINNESOTA. MY WIFE AND I HAVE BEEN ACTIVELY FARMING IN WESTERN MINNESOTA FOR THIRTY-FIVE YEARS, RAISING BEETS, WHEAT, BARLEY AND SOYBEANS. I AM PRESENTLY SERVING AS CHAIRMAN OF THE BOARD OF THE MINN-DAK FARMERS COOPERATIVE, LOCATED IN WAHPETON, NORTH DAKOTA. MY WRITTEN STATEMENT IS ENDORSED BY THE AMERICAN SUGARBEET GROWERS ASSOCIATION, REPRESENTING ALL BEET GROWERS FROM EACH OF THE THIRTEEN BEET GROWING STATES. ON BEHALF OF MY FELLOW GROWERS, WE APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE.

THE BILL BEFORE THIS COMMITTEE TODAY CONTAINS PROVISIONS IN ADDITION TO THOSE ADDRESSING THE SPECIAL SUGAR IMPORT QUOTAS. MY REMARKS ARE DIRECTED ONLY AT THOSE PORTIONS OF THE BILL WHICH IMPACT UNITED STATES SUGAR POLICY.

MR. CHAIRMAN, I WISH TO ESTABLISH AT THE OUTSET OF MY TESTIMONY THAT IT HAS BEEN AND CONTINUES TO BE THE UNDERLYING INTENTION OF THE SPONSORS OF THIS PROPOSAL TO DESTROY THE CURRENT UNITED STATES SUGAR POLICY AND DISMANTLE THIS ESSENTIAL INDUSTRY, WHICH HAS SERVED THE AMERICAN PEOPLE WELL. I WOULD LIKE TO TAKE A MOMENT TO REVIEW THE SUCCESSES OF THE CURRENT SUGAR PROGRAM.

WHEN THE HOUSE AND SENATE VOTED OVERWHELMINGLY TO REAUTHORIZE THE SUGAR PROVISIONS IN THE 1985 FARM BILL, THEY DID SO IN ORDER TO ACHIEVE FIVE BASIC OBJECTIVES. THEY WERE:

1) AVOID SHORTAGES OF AN IMPORTANT COMMODITY IN THE AMERICAN FOOD CHAIN;

2) STABILIZE PRICES FOR CONSUMERS AND PRODUCERS;

3) ENCOURAGE EFFICIENT PRODUCTION;

4) AVOID GOVERNMENT OUTLAYS; AND

5) PRESERVE AN ESSENTIAL AND MAJOR AGRICULTURAL INDUSTRY IN THE UNITED STATES.

THREE YEARS AFTER THE PASSAGE OF THE 1985 FARM BILL, ALL OF THE OBJECTIVES HAVE BEEN MET. THERE HAVE BEEN NO SHORTAGES,

PRICES REMAIN STABLE AND AT A LEVEL TO CONSUMERS WHICH IS BELOW THE AVERAGE LEVELS PAID BY CONSUMERS AROUND THE WORLD, AND FORFEITURES TO THE GOVERNMENT HAVE BEEN AVOIDED. IT IS A FEDERAL PROGRAM WHICH MEETS THE NEEDS OF THE CONSUMER WITHOUT ADDING TO THE FEDERAL DEFICIT.

SINCE THE LATE 1970s THE U.S. SWEETENER MARKET HAS GONE THROUGH A MAJOR TRANSITION PERIOD. HIGH FRUCTOSE CORN SWEETENER (HFCS) HAS MADE SIGNIFICANT INROADS INTO THE DOMESTIC SUGAR MARKET. HFCS PRODUCED IN THE UNITED STATES IS THE LOWEST COST SWEETENER IN THE WORLD. THE HFCS MARKET IN THE UNITED STATES CONSUMES 534 MILLION BUSHELS OF CORN PER YEAR (EQUIVALENT TO 4.5 MILLION ACRES), AND ADDS APPROXIMATELY 25¢ PER BUSHEL TO THE PRICE THAT OVER ONE MILLION CORN FARMERS RECEIVE FOR ALL OF THEIR CORN SOLD ON THE CASH MARKET. THIS MARKET HAS BEEN AN ATTRACTIVE ALTERNATIVE TO DUMPING SURPLUS CORN INTO THE LAP OF THE FEDERAL GOVERNMENT AT TAXPAYER COST.

WITH THE RAPID EXPANSION OF HFCS IN THE U.S. SWEETENER MARKET, AMERICAN CONSUMERS ARE NOW BEING PRIMARILY SUPPLIED BY U.S. BEET, CANE AND CORN FARMERS. THIS MEANS THAT OUR TRADITIONAL FOREIGN SUPPLIERS MUST RELY MORE ON SALES IN THE WORLD MARKET. UNFORTUNATELY, THE UNDERLYING PROBLEM WITH THE WORLD MARKET IS THAT IT CONTINUES TO BE A DUMP MARKET AT DEPRESSED PRICES WHICH RARELY PROVIDE EXPORTERS AN OPPORTUNITY TO RECOVER THEIR PRODUCTION COSTS.

EVERY MAJOR SUGAR PRODUCER AROUND THE WORLD USES SOME FORM OF SUPPORT AND/OR PROTECTION FOR ITS INDUSTRY. A SUMMARY OF THOSE COUNTRIES AND THEIR SUPPORTS AND PROTECTIONS HAS BEEN PREPARED BY LANDELL MILLS COMMODITY STUDIES OF LONDON, ENGLAND AND IS ATTACHED AS EXHIBIT 1. THE PRIMARY CAUSE OF WORLD SURPLUS SUGAR CAN BE LAID AT THE FEET OF THE EEC SUGAR REGIME. THE EEC SUGAR SURPLUS REPRESENTS 98% OF WORLD SURPLUS. THE EEC SUBSIDIZES AND DUMPS ITS SUGAR OUTSIDE ITS BORDERS AT FIRE SALE PRICES, DEVOURING MARKETS WHICH ARE NEEDED BY THOSE DEVELOPING NATIONS WHICH EXPORT. THE EEC HAS BEEN AND

CONTINUES TO BE THE GREATEST SINGLE OBSTACLE IN STABILIZING THE WORLD MARKET.

AN ATTEMPT WAS MADE IN 1977 BY 59 MAJOR EXPORTING AND IMPORTING NATIONS, WHICH INCLUDED THE UNITED STATES AND THOSE COUNTRIES CONTAINED IN THIS PROPOSED BILL, TO DEVELOP AN INTERNATIONAL SUGAR AGREEMENT (1978-1982, EXTENDED THROUGH 1984). THE OBJECTIVE OF THE AGREEMENT WAS TO STABILIZE THE PRICE OF SUGAR ON THE WORLD MARKET AT FAIR AND EQUITABLE PRICE LEVELS -- 17¢ PER POUND TO 21¢ PER POUND WAS THE PRICE LEVEL IN 1983 AT WHICH WORLD SUGAR COULD BE FREELY TRADED WITHOUT THE ACCUMULATION OR RELEASE OF STOCKS TO INFLUENCE THE PRICE. THE EEC REFUSED TO PARTICIPATE IN THE AGREEMENT OR COOPERATE WITH ITS OBJECTIVES, RENDERING THE AGRÊEMENT INEFFECTIVE. OVER THE PAST TEN YEARS, TEN COUNTRIES HAVE MADE ATTEMPTS TO CHALLENGE AND CHANGE THE EEC POLICY, WITHOUT SUCCESS.

THE IDEAL SOLUTION TO THIS PROBLEM WOULD BE IF THE MAJOR SUGAR EXPORTING COUNTRIES WOULD REMOVE THEIR DIRECT AND INDIRECT SUPPORTS AND PROTECTIONS OF THEIR SUGAR INDUSTRIES, THE UNITED STATES COULD THEN ABANDON ITS POLICY, AND THE U.S. INDUSTRY WOULD FARE JUST FINE. INDEPENDENT ANALYSES SHOW THAT UNDER A TOTALLY FREE MARKET IN WORLD SWEETENERS, THE WORLD SUGAR PRICE WOULD RISE TO A LEVEL WHERE MANY EXPORTERS, LIKE THOSE UNDER DISCUSSION TODAY, WOULD HAVE PROFITABLE MARKETING OPPORTUNITIES. HOWEVER, UNTIL SUCH DECISIONS ARE MADE MULTI-LATERALLY AND SIMULTANEOUSLY, THE UNITED STATES CANNCT TOLERATE ANY UNILATERAL ADJUSTMENTS IN ITS PROGRAM.

THE CENTRAL ISSUE BEFORE US TODAY, MR. CHAIRMAN, IS WHY THE PROVISIONS PERTAINING TO SUGAR IN THIS BILL ARE TOTALLY INAPPROPRIATE AND SHOULD BE REJECTED BY THIS SUBCOMMITTEE. THE PROPOSED BILL WOULD STRIKE THE MINIMUM LOAN RATE (18¢ PER POUND FOR RAW SUGAR) FROM TITLE NINE OF THE FOOD SECURITY ACT OF 1985 AND TRANSER THE AUTHORITY TO SET THE MINIMUM LOAN LEVEL FROM CONGRESS TO THE SECRETARY OF AGRICULTURE.

FIRST, ANY REDUCTION IN THE LOAN RATE WHATSOEVER BY CONGRESS OR THE ADMINISTRATION IS TOTALLY UNACCEPTABLE TO THE SUGARBEET GROWERS IN THIS COUNTRY. ANY REDUCTION IN THE LOAN RATE WOULD SIMPLY BEGIN A PROCESS OF DISMANTLING THE UNITED

STATES SUGAR INDUSTRY. DURING THE PROCESS OF REAUTHORIZING THE 1985 FARM BILL, THE SUGAR MINIMUM LOAN RATE WAS EXAMINED, ANALYZED AND DEBATED AT LENGTH IN THE COMMITTEES AND WAS OVERWHELMINGLY SUPPORTED ON THE FLOOR OF BOTH HOUSES. OUR F RMERS AND PROCESSORS HAVE MADE MANY LONG-TERM BUSINESS DECISIONS BASED ON THE 5-YEAR COMMITMENT BY CONGRESS.

I CAN ASSURE YOU, MR. CHAIRMAN, THAT WHEN WE ARE LOOKING AT A LOAN LEVEL WHICH IS SCHEDULED TO STAY AT THE SAME RATE FOR SIX YEARS, WE HAVE TO BE EFFICIENT. EACH YEAR WHEN I PUT THE SEED INTO THE GROUND, I TAKE A GAMBLE WITH MOTHER NATURE. EACH YEAR AS INFLATION GOES UP, IT RAISES THE ANTE OF WHETHER I CAN MAKE A PROFIT. NO COST OF LIVING ADJUSTMENTS, NO MERIT PAY, AND THE ONLY ONE INTERESTED IN AN ANNUAL REVIEW IS MY BANKER. BEET GROWERS, LIKE ALL FARMERS, LOVE THEIR WORK BUT COMPETE AGAINST THE ELEMENTS FOR OUR PAYCHECK. SO FAR THIS YEAR MANY FARMERS IN OUR REGION HAVE HAD THEIR SPRING PLANTINGS DRIED OUT, BLOWN OUT, FROZEN OUT OR DROWNED OUT, AND AFTER THE SECOND AND EVEN THIRD PLANTING OF OUR CROP, OUR NERVES ARE WORN OUT. I DARE TO SAY THAT I MAY BE THE ONLY ONE IN THIS HEARING ROOM TODAY WHOSE 1988 INCOME SHRINKS EVERY DAY IT DOESN'T RAIN. WHETHER I MAKE A PROFIT OR NOT, WE HAVE GOT TO HAVE BEETS TO RUN THE FACTORY IN ORDER TO SERVICE OUR CUSTOMERS.

WHEN THE BEETS FINALLY COME, AND I BELIEVE THEY WILL, WE WILL FIGHT THE WEEDS, INSECTS AND DISEASES. IF WE CAN AVOID THE SPOTTY HAILSTORM AND EARLY FREEZE THROUGH THE SUMMER AND FALL, HOPEFULLY WE CAN BREAK EVEN. MR. CHAIRMAN, I DO NOT WISH TO OVERDRAMATIZE MY POINT, BUT ABSOLUTELY THE LAST THING WE NEED IS GOVERNMENT CHANGING THE RULES IN MID-STREAM. WHEN THE FARM BILL IS UP FOR REAUTHORIZATION IN 1990, IT IS PROPER THEN AND ONLY THEN FOR THE AGRICULTURE COMMITTEE TO REEXAMINE THE LOAN RATE AND SET IT AT A PROPER LEVEL ONCE AGAIN.

<u>SECONDLY</u>, CONGRESS HAS HISTORICALLY ESTABLISHED SPECIFIC MINIMUM LOAN LEVELS AND/OR GUIDELINES ON COMMODITIES AND LEFT IT TO THE ADMINISTRATION TO CARRY OUT THE LAW. THIS PROPOSAL WOULD ALLOW THE SECRETARY TO <u>MAKE</u> MAJOR POLICY DECISIONS, AS WELL AS CARRY THEM OUT. I DON'T THINK THE CONGRESS OUGHT TO TURN WHAT IS CLEARLY THEIR RESPONSIBILITY OVER TO THE SECRETARY OF AGRICULTURE.

THIRDLY, IT IS IRONIC THAT AT THE SAME TIME THIS BILL HANDS OVER CRITICAL DECISION-MAKING ON POLICY FROM THE CONGRESS TO THE SECRETARY, IT ATTEMPTS TO CONGRESSIONALLY MANDATE SPECIFIC IMPORT LEVELS FROM GUATEMALA, HONDURAS, EL SALVADOR, COSTA RICA, OR NICARAGUA, WHICH ARE AND MUST CLEARLY REMAIN ADMINISTRATIVE DECISIONS. MR. CHAIRMAN, YOU WILL RECALL THAT CONGRESS ONCE HAD THE RESPONSIBILITY FOR SETTING COUNTRY-BY-COUNTRY IMPORT QUOTAS UNDER THE OLD SUGAR ACT (1934-1974). YOU WILL ALSO REMEMBER THAT IT WAS NOT AN ACTIVITY WHICH THE CONGRESS RELISHED. IN MY VIEW, IT WOULD BE A GRAVE ERROR TO RETURN TO SUCH A SYSTEM. A GREAT DEAL OF MARKET ANALYSIS BY THE DEPARMENT OF AGRICULTURE GOES INTO SETTING THE QUOTA LEVELS, AND THEY CANNOT BE JUST ARBITRARILY ESTABLISHED AND ASSIGNED TO COUNTRIES WITHOUT MAJOR DISRUPTION IN THE MARKET-PLACE OR WITHOUT THROWING U.S. SUGAR POLICY INTO DISARRAY.

FOURTHLY, IT SHOULD BE NOTED THAT WORLD PRICES HAVE CONTINUED TO STRENGTHEN TOWARD A LEVEL AT WHICH IMPORT QUOTAS COULD BE REMOVED BY PRESIDENTIAL PROCLAMATION, AND THE SUGAR PROGRAM COULD OPERATE AS IT HAS IN THE PAST UNDER A SYSTEM OF DUTIES AND FEES.

FIFTHLY, THIS PROPOSAL IS SPECIFICALLY DESIGNED AS A FOREIGN AID PACKAGE FOR A SELECT GROUP OF BENEFICIARY COUNTRIES. IF THE CONGRESS WISHES TO DESIGN A FOREIGN AID PACKAGE DEALING WITH SUGAR OUTSIDE THE PARAMETERS OF THE SUGAR SECTION OF THE FARM BILL TO BE SHARED BY ALL AMERICANS, OUR INDUSTRY HAS AND WILL SUPPORT SUCH ACTION. THE U.S. BEET GROWERS CONTINUE TO SUPPORT A SPECIAL ARRANGEMENT WITH THE CARIBBEAN BASIN COUNTRIES AND THE PHILIPPINES, WHICH CONGRESS PASSED LAST YEAR AND THE REAGAN ADMINISTRATION REFUSES TO IMPLEMENT. HOWEVER, WE WILL NOT TOLERATE ANY ATTEMPT TO AMEND CURRENT SUGAR PROVISIONS OR SADDLE A DISPROPORTIONATE AMOUNT OF THE COST OF THIS OR ANY OTHER PROPOSAL ON THE BACKS OF AMERICAN SUGAR FARMERS.

FINALLY, MR. CHAIRMAN, THE MOST SHOCKING PART OF THIS PROPOSAL IS THAT A U.S. SENATOR WOULD SUBMIT SUCH A PROGRAM WHICH SHOWS A TOTAL DISREGARD FOR THE FACT THAT THE UNITED STATES SUGAR INDUSTRY IS JUST AS IMPORTANT TO OUR STATE ECONOMIES AS THE

INDUSTRY IS TO ECONOMIES OF THESE FOREIGN EXPORTERS. IN TERMS OF IMPORTANCE, USUALLY BEHIND THE PRODUCTION OF COFFEE, COTTON AND BANANAS, SUGAR RANKS THIRD IN EL SALVADOR AND GUATEMALA, FOURTH IN COSTA RICA, AND FIFTH IN HONDURAS. COMPARED TO OTHER CROPS IN THE UNITED STATES, THE SUGAR CROP RANKS FIRST IN WYOMING AND HAWAII, SECOND IN FLORIDA, THIRD IN IDAHO, NORTH DAKOTA AND LOUISIANA, FOURTH IN MICHIGAN, AND FIFTH IN MINNESOTA, AND IN THE TOP TWELVE OF 250 CROPS IN CALIFORNIA.

AN ECONOMIC IMPACT STUDY OF THE SUGARBEET INDUSTRY IN THE FERTILE MINNESOTA/NORTH DAKOTA REGION OF THE RED RIVER VALLEY HAS BEEN CONDUCTED AND WILL SOON BE MADE PUBLIC. PRELIMINARY REPORTS FROM THAT STUDY SHOW THAT THE INDUSTRY IN OUR REGION GENERATES ALMOST ONE BILLION DOLLARS OF ECONOMIC ACTIVITY PER YEAR. WHILE A BILLION DOLLARS MAY NOT SEEM LIKE A LOT OF MONEY IN OUR NATION'S CAPITAL, IT STILL IS A TREMENDOUS AMOUNT IN THE RURAL ECONOMIES OF THE NORTHERN PRAIRIES. BESIDES THE MANY THOUSANDS OF FULL-TIME AND PART-TIME JOBS ASSOCIATED WITH THE INDUSTRY, YOU MAY ALSO WISH TO NOTE THAT TWENTY-SEVEN MILLION DOLLARS ARE PAID IN TAXES BY THE INDUSTRY IN OUR AREA TO HELP FINANCE OUR SCHOOLS, HOSPITALS, ROADS AND OTHER STATE AND FEDERAL PROJECTS. THAT'S WHY THIS INDUSTRY IS IMPORTANT TO OUR STATE AND SEVERAL OTHER PRODUCING STATES IN THIS COUNTRY.

THE SUGAR INDUSTRY IN OUR REGION IS UNIQUE IN THE FACT THAT THE FARMERS COOPERATIVELY OWN THE BEET PROCESSING FACILITIES. OUR FARMERS HAVE MADE A GREAT FINANCIAL COMMITMENT AND TREMENDOUS SACRIFICES IN ORDER TO MAINTAIN A VIABLE CROP ALTERNATIVE IN OUR REGION. WE HAVE BEEN PROGRESSIVE IN OUR THINKING, EFFICIENT IN OUR PRODUCTION, AND ENTHUSIASTIC ABOUT OUR FUTURE AND THE FUTURES OF OUR SONS AND DAUGHTERS. BUT THIS BILL BEFORE YOU TODAY, MR. CHAIRMAN, PROPOSES TO DESTROY THAT. IT SAYS TO SUGAR FARMERS IN THESE UNITED STATES THAT WE ARE SUPPOSED TO BE A SACRIFICIAL LAMB IN THE NAME OF A SHORT-TERM SOLUTION TO FOREIGN DEBT. THIS PROPOSAL CROSSES THAT LINE WHICH SAYS TO ME THAT FOREIGN PRODUCERS ARE MORE IMPORTANT TO THIS COUNTRY THAN TAXPAYING AMERICAN PRODUCERS.

CONCERN FOR OUR NEIGHBORS AND FRIENDS IN THIS HEMISPHERE AND AROUND THE WORLD IS RIGHT; AND IF OUR COUNTRY HAS THE WAYS

AND MEANS TO HELP, THEN IT IS RIGHT TO HELP. BUT THIS PROPOSAL IS TECHNICALLY WRONG, ECONOMICALLY WRONG, AND, IF I MIGHT SAY, PATRIOTICALLY WRONG. THE SUGARBEET GROWERS OF THIS COUNTRY STRONGLY URGE THIS COMMITTEE TO REJECT THIS PROPOSAL.

THANK YOU ONCE AGAIN, MR. CHAIRMAN, FOR THIS OPPORTUNITY TO APPEAR BEFORE YOU AND THE SUBCOMMITTEE TODAY.

S U M M A R Y

- THE INTENTION OF THE SPONSORS OF THIS PROPOSAL IS TO DESTROY THE UNITED STATES SUGAR POLICY AND DISMANTLE THE INDUSTRY.
- THE U.S. SUGAR PROGRAM IS A SUCCESS AND IS OPERATING AS CONGRESS INTENDED, WITHOUT ADDING TO THE FEDERAL DEFICIT.
- ALL MAJOR WORLD SUGAR PRODUCERS HAVE SOME FORM OF SUPPORT AND/OR PROTECTION FOR THEIR INDUSTRIES.
- THE WORLD MARKET CONTINUES TO BE A DUMP MARKET FOR SUBSIDIZED EXPORTS, PARTICULARLY FROM THE EEC, AND PRICES REMAIN BELOW PRODUCTION COSTS.
- U.S. PRODUCERS COULD AND WOULD COMPETE WELL IN A TOTALLY FREE MARKET, BUT NONE EXISTS.
- ANY REDUCTION IN THE LOAN RATE IS OPPOSED AND TOTALLY UNACCEPTABLE.
- IT IS PROPER FOR THE AGRICULTURE COMMITTEE TO REVIEW THE LOAN RATE IN THE 1990 FARM BILL.
- SUGARBEET GROWERS OPPOSE:
  - TRANSFERING THE CONGRESSIONAL ROLE OF POLICY-MAKER TO THE SECRETARY OF AGRICULTURE;
  - TRANSFERING THE ROLE OF ADMINISTRATOR OF QUOTAS TO THE CONGRESS;
  - MANDATING SPECIFIC QUOTAS WHEN QUOTAS MAY BE SUSPENDED IN THE FUTURE AND REPLACED BY DUTIES AND FEES; AND
  - FORCING U.S. PRODUCERS TO PAY FOR A FOREIGN AID PACKAGE THAT BENEFITS ALL AMERICANS.
- THIS PROPOSAL TOTALLY DISREGARDS THE IMPORTANCE OF THE U.S. SUGAR INDUSTRY TO THE ECONOMIES OF SEVERAL PRODUCING STATES.
- THIS PROPOSAL IS TOTALLY INAPPROPRIATE AND SHOULD BE REJECTED BY THE SUBCOMMITTEE.

EXHIBIT 1

Type of Government Intervention for Sugar
Landell Mills
January 1988

	Subsidized Domestic Sale	Import Control	Production Quota	Land Quota	Direct Aid	Export Loss Absorption	Domestic Price Control	Minimum Price to Farmers	Consumption Control	Processing & Distr. by Govt.	Export Control	Regional Subsidies & Taxes	HFCS Quotas	Export Subsidy	Indirect Aid	Remarks	(1) 1986 Production 000 tonnes raw	Beet (B) or Cane (C)
Cane																		
Argentina		X	X					X	X				X			Quota applies Beet & HFCS	1,045	C
Australia		X	X	X	X		X		X	X						Producers do not face marginal returns	3,471	C
Brazil C/S) N/NE)		X	X			X	X		X		X	X				Insulated from world price	9,417	C C
China, P.R.							X	X								State regulated business	5,728	C B
Colombia	X	X														Subsidize sale to low income	1,324	C
Cuba							X									60% production to E. Bloc	7,050	C
D. Republic		X					X									Government control 12 of 15 mills & estates	852	C
France (2)		X	X				X	X			X		X	X		Insulated from world price	3,734	B
W. Germany (2)		X	X				X	X			X		X	X		Green rates cause higher support	3,464	B
India		X					X	X	X							Govt. owns mills	9,249	C
Indonesia		X	X				X									Govt. plays dominate role	2,267	C
Italy (2)		X	X		X		X	X			X		X	X		Direct aid to processors	1,836	B
Mexico		X					X	X			X					Govt. control 75% mill	4,119	C
Pakistan		X					X	X									1,390	C
Philippines		X	X														1,334	C
Poland		X			X		X	X			X			X		State control	1,892	B
S. Africa		X	X													Efficient	2,079	C
Spain (2)		X	X				X	X			X		X	X		Prices frozen until EEC catches up	1,079	B
Thailand		X	X				X									Minor govt. role	2,637	C
Turkey		X			X		X	X			X			X	X	Low-cost producer	1,470	B
U.K (2)		X	X				X	X			X		X	X			1,438	B
U.S.		X					X										6,060	C B
USSR			X					X		X						Complete govt. domination	8,650	B
All Other																	22,540	
World																	104,125	

(1) F.O. Licht World Sugar Balances 8/13/87
(2) Members EEC CAP

Revised 4/5/88

Statement by
James B. Hurlock

"Muddle Through" continues to be the official policy of the U.S. Government and U.S. commercial banks in the face of an increasingly precarious international debt crisis. While this policy has survived for more than six years, the known casualties are increasing and the substantial increment of debt imposed on the already over burdened economies of the developing countries threatens to add to the list. The apparent survival of some debtor country economies merely masks the inevitable sacrifice of others on the altar of keeping interest payments current at unsupportable market rates.

This sixth year of the crisis finds debtor countries far from a return to normal participation in the world credit markets. According to the World Bank the net outward transfer of resources from the seventeen most heavily indebted countries to their creditors since 1982 has exceeded $100 billion, as compared to a net inflow of $65 billion during the five preceding years. Yet, the World Bank reports that the principal amount of external debt of the same countries increased by over $30 billion in the last two years alone. The accrued (but not necessarily paid) interest due on the debt of these countries relative to their net export earnings - a fundamental indicator of a sustainable level of debt service - has recently averaged over 24 percent. For some important debtor countries the ratio has been markedly higher: Argentina, Bolivia, Mexico and Brazil all had interest to export ratios last year in excess of 30 percent.

During the past six years, the U.S. Government, through its Treasury Department, and U.S. commercial banks have adopted a strategy that as a matter of highest priority protected their reported earnings: bank consortia could gain the adherence of a majority of their members only for restructuring programs that provided so-called "new-money" (that is, increased credit) only to the extent necessary to ensure current payments of interest. Medium term credit necessary for national working capital and investment evaporated as many commercial banks understandably sought to limit their overall exposure. In several recent reschedulings, commercial banks have refused, and I believe correctly refused, to provide the additional credit necessary to allow the debtor country to close its "financing gap" and support interest payments.

The approach followed over the past six years has failed even though some debtor countries, particularly those with the larger economies, have survived. A number of developments within the last year, however, suggest that new approaches to the debt crisis are ripe for consideration. U.S. money center banks have now set aside reserves equal to between a quarter and a third of the value of their exposure to problem debtors, while some regional banks have actually written some sovereign loans off their books. We have witnessed negotiated experiments in debt principal reduction, such as the Mexican issuance of bonds backed by U.S. Treasury securities in exchange for a portion of its existing debt and the Bolivian repurchase of approximately half its outstanding commercial debt at a price of approximately 11 cents on the dollar, albeit with funds "donated" by other friendly governments. Officials at the World Bank and the IMF have indicated a willingness to participate in innovative plans to attract medium and long-term financing to debtor countries. In the last week both the United States and, to a greater degree, France have acknowledged that a concessionary approach must now be considered. In the case of the United States, the "poorest" debtors may expect some relief with respect to debt owed to, or guaranteed by, the U.S. Government. The merely "poor" do not yet qualify. In the case of France, broader options have been proposed. The proposed legislation under review today provides for interest rate reduction on official debt owed to the United States and establishes a mechanism to encourage debt exchanges. These and other developments indicate that the time is opportune to reexamine the respective roles of the official lenders, the multilateral agencies, the commercial banks and the sovereign borrowers in the process of debt renegotiation. During this necessary and timely reexamination, I would recommend that the following principles be borne in mind.

First, the present international debt crisis is structural and therefore requires long-term not short-term solutions. Six years of reschedulings reveal that concentrations of principal repayments or other temporary problems in liquidity are not the cause of the crisis. Rather it is now painfully clear that at current projections of economic growth and export earnings most debtor countries simply will not be able to repay the interest accruing on existing loans at current rates of interest. Truly workable restructurings in the future must therefore encompass substantially more than 12 or 18 months of principal maturities in order to permit long-term planning and readjustments by both the debtor countries and their creditors.

Second, debtor countries must be treated on an ad hoc individual basis. Because the crisis is structural, the basis for an eventual solution will vary from country to country. Differences in repayment schedules, interest rates and other restructuring terms should not be viewed as indications of relative worth or comparative national resolve, but should reflect a fair assessment of each country's economic condition and prospects. The specific solution for Country A should not be interpreted by the commercial lenders or by other debtors as a relevant precedent for Country B.

Third, the poorer debtor countries should not normally accept additional borrowing purely for the repayment of past-due interest. Such borrowings merely increase the principal basis for future interest payments and therefore increase the ultimate burden on the debtor country without providing long-term benefit.

Fourth, multilateral and bilateral sources should not support interest payments to commercial lenders. Instead, official funds should be devoted to their proper purpose of stimulating the economic development that is indispensable if the debtor country is to regain its fiscal balance. Commercial lenders will ultimately benefit from the application of this principle, because without internal development the currently severed link to international capital markets will not be reestablished.

Fifth, long-term restructurings must be based on realistic and supportable levels of debt service. For instance, repayment schedules could be contractually related to objective measures of economic growth, foreign exchange reserves or net exports. In this regard there is an essential role for a credible international referee to monitor country economic indicators and adjustment programs and to evaluate the sustainability of proposed levels of repayment. The IMF or the World Bank should have the economic leverage, international standing and independence to support its judgments in this important role.

interference in such role by one or another of the stronger member governments has been and will be a serious threat to the success of the effort.

I would like for a moment to focus on the most important (and not coincidentally most controversial) of these principles, that repayment schedules and in particular interest rates be contractually related to an objective measure of a country's ability to make debt repayments.

There are many formulas whereby the amount of interest that a debtor country would be required to pay in hard currency on a current basis could be limited to an amount which represents an acceptable proportion of its available foreign exchange. For instance, a restructuring agreement could provide that current cash payments will be indexed on a formulated basis to such key economic variables as foreign exchange reserves, net export earnings or annual growth in domestic product. As an alternative, interest rates could be contractually independent of economic indicators but nevertheless set at a level projected to be sustainable. Among the advantages of a formulated interest rate are the potential for returning a debtor country to market interest rates as soon as its economy can support such rates and the elimination of cross-conditionality between the existence of IMF and IBRD programs and long term reschedulings.

Until recently, official lenders have not given serious consideration to such proposals on the ground that bilateral loans would become confused with "aid", which has been anathema to the Paris Club. Yet the recent statements of both the United States and France indicate that official lenders have seen fit to moderate this position in certain cases. The legislation proposed by Senator Bradley also focuses on the need to establish realistic interest rates on official debt.

Commercial banks on the other hand have thus far rejected any proposal that they accept less than a market rate of interest on their loans to developing countries on the ostensible grounds that acceptance of below market rates of interest would force a write-down of loans under applicable regulations and, further, would discourage lenders from providing any additional loans.

These contentions ring hollow, since as previously noted the same lenders have in the last year taken substantial charges against earnings to reserve for third world debts and their overall exposure in developing countries has been declining even under the current regime of market rates of interest. As for the accounting and regulatory impact of accepting a less than market rate of interest, current accounting principles and bank regulations could be more explicit, but a careful analysis makes clear that <u>negotiated</u> interest relief will not necessitate a write-down of principal.

The key word is "negotiated." The generally accepted accounting principles applicable to so-called "troubled debt restructurings" under Financial Accounting Standard 15 ("FASB 15") of the Financial Accounting Standards Board specify that negotiated reductions (absolute or contingent) of stated interest rates and even accrued interest do not require a bank to either write-down or reserve against the underlying principal amount of its loan asset so long the minimum cash receipts specified by the new loan terms exceed the book value of the restructured loan. In other words, a negotiated reduction of interest rates to any level above zero in the context of a "troubled debt rescheduling" (without an accompanying reduction or forgiveness of principal) does not necessitate a write-down of principal. By contrast, unilateral reductions by a sovereign borrower in the payment of interest or prolonged interest arrearages force banks and their accountants to reevaluate and perhaps write-down the related principal amount. It has been argued that FASB has not been applied to sovereign rescheduling and should not be. There is no support for this position in logic or the language of FASB 15. To the contrary, where no bankruptcy procedure exists as in the case of sovereign debt, it is essential to find a method for consensual rescheduling. FASB 15 provides that method.

As for the regulatory environment in which U.S. banks operate, here too the claim that negotiated interest relief has draconian consequences for banks appears to be overstated. For instance, the "90-day rule" applicable to bank Call Reports requires banks to place on non-accrual status all loans for which interest is more than 90 days overdue according to its contractual terms. Regardless of the schedule of principal or interest payments obtaining before interest relief is negotiated, it appears that unless a debtor falls more than 90 days in arrears on the modified schedule of reduced interest payments, non-accrual status would not be involved.

In addition, there appears to be no basis to suppose that the Interagency Country Exposure Review Committee or "ICERC", which is responsible for evaluating the relative risk of U.S. banks' foreign loan portfolios, would downgrade the risk classification of a country that negotiated and then complied with restructured and below-market interest rates on its debt. Indeed, a strong argument can be made that ICERC reserves imposed with respect to a country experiencing payment difficulties should be removed if the country successfully negotiates an orderly rescheduling agreement and complies with the terms of such agreement.

The accounting and regulatory treatment of a negotiated interest rate reduction is far less drastic than the accounting and regulatory consequences of reserves established by many banks within the past year or the write downs required to be taken by banks participating in the Mexican or Bolivian transactions. Moreover, as noted above, banks that do not negotiate reduced rates but nonetheless receive partial interest payments as a result of unilateral actions by debtor countries may be subject to reserves that would not be imposed in the context of a negotiated agreement. As compared to two alternatives currently being followed with respect to many debtor countries, namely principal forgiveness through debt exchanges and doing nothing, a negotiated interest rate reduction therefore may offer advantages to banks rather than result in accounting or regulatory nightmares. Indeed, in light of the rules for orderly rescheduling included in FASB 15 that do not require write downs of principal and enhance long-term prospects for payment in full, banks that continue to increase their exposure to developing countries through hollow "new money" exercises or that pursue policies that result in substantial write downs or reserves may not be following prudent banking practices and may not be acting in the best interests of their shareholders.

The regulatory framework for a negotiated and equitable reduction of current debt service already exists. No new bank or international agency need be created and no new sources of financing need be developed to implement an interest rate relief scheme. What is needed now is for the first sovereign debtor and a significant group of its commercial banks creditors, perhaps under the auspices of an appropriate international referee, to take a leadership role in exploring this potential alternative to protracted crisis.

Testimony of Pedro-Pablo Kuczynski

For debt relief, possible courses of action include the cutting back of interest existing on U.S. AID loans, which constitute the bulk of bilateral debt (except for Nicaragua), and some form of partial U.S. AID guarantee on the conversion into long-term bonds of debt to banks, which is especially important in the cases of Costa Rica and Panama. While there are many possible objections - particularly precedent - to such actions, there is also no doubt about the drama of Central America and its importance to the United States. As part of a "fair bargain" for Central America, aid to countries would be phased in parallel with political and economic reform: the latter is especially critical in Costa Rica and Panama - the two biggest debtors - while political and social reform is important everywhere except Costa Rica.

The External Debt of Central America

The external debt of Central American countries plus Panama has grown rapidly in the 'eighties, from $11.4 billion outstanding at the end of 1980 to $22.8 billion in 1986 (Table I) and about $25 billion today, or a total approximately equivalent to Venezuela's. Of the growth of about $11 billion between 1980 and 1986, slightly over half was due to the accumulation of short-term and balance-of-payments type of debt: financing by commercial banks until 1982, the accumulation of trade and bank arrears thereafter, and increasing use of I.M.F. credit. Much of this growth has thus been involuntary and carries mostly onerous terms. The remainder has been official credit, primarily from U.S. AID (including a substantial grant component which is not debt) and the Interamerican Development Bank. Much of this official credit is at concessional terms, where there is limited room for improved terms. The World Bank has also contributed, albeit on a smaller scale.

The growth of the debt has been somewhat faster than the trend for the big debtors in Latin America, although the per capita total of about $1,000 is about the same. The difference, however, is that with feeble domestic savings and small internal markets, the Central American countries are much more dependent on external markets and have far less room to manoeuver. Export earnings of the six countries have fallen from $7.2 billion in 1980 to an average of $6.4 billion in 1986-87. With the growth of debt, its ratio to exports has deteriorated sharply from 160% in 1980 to 354% in 1986 and to about 390% at present. This trend is worse than for the average for Latin America (Table 2), except for Argentina. The poor performance of Central American exports is the combined result of weak commodity prices during most of the 'eighties and of erratic exchange policies in some countries (Costa Rica and especially Nicaragua) which have discouraged investment for exports and for production in general. Furthermore, a severe drought in the last two years has cut into exports and food supplies in general. At the same time, the sharp fall in oil import costs since the early 'eighties has been helpful to Central America, which imports virtually all its oil needs.

The case of Nicaragua is unique, not only because of the large proportion of bilateral credit from its political allies, but also because of the size of the known debt ($6.4 billion at the end of 1986) in comparison with its minuscule and declining export capacity (exports were only about $200 million in 1987). With minor exceptions, the debt is not being serviced by Nicaragua. Costa Rica also has a bloated debt ($4.5 billion to exports of $1.1 billion), a recurring problem in the last 25 years. In the case of Panama, the high debt burden is felt primarily by the government budget, where debt service probably accounted for one-third of central government outlays until the recent economic turmoil. Even for the other countries the debt is a burden, especially in the light of heavy defense and security outlays.

Outlook

For the Central American area as a whole, despite differences among countries, the economic and balance of payments outlook can only be described as bleak. Although much progress has been made on the political front in Guatemala and Honduras, an enduring democracy, Costa Rica, finds itself squeezed between a flood of refugees from Nicaragua and an uncertain regime in Panama. The isthmus, with its proximity to the United States and its political and economic turmoil, offers a natural magnet for the international drug trade, which is constantly seeking new routes into the United States. As is well known, that process has already begun and is likely to spread. The United

States thus not only has an altruistic and substantial security interest in Central America, but also very powerful domestic reasons to seek peace and prosperity in the area.

Some kind of "new bargain", combining domestic reform with new capital flows and debt relief, is therefore of the utmost urgency. As I already noted, the economic framework for such a bargain was already well spelled out in the Kissinger Commission report, but in the four years since the report its economic recommendations have not been fully implemented.

Economic Reform

Reform cannot flourish in an atmosphere of turmoil and economic pressure, especially when the Central American Common Market is split into two because of traffic obstacles in Nicaragua. It is therefore fundamental to support political mechanisms that will enable the market to reunify, at least in technical terms. Renewed regional aid coordination, as well as support for the common market secretariat and the Regional Bank for Economic Integration (RBEI) would be useful steps in this process. Much can also be done in the area of privatization - especially in Costa Rica and Panama among the market economies. Panama has several state companies that could be sold to domestic enterprise, including the airline, an oil refinery, a major hotel and so on. The same is true in Costa Rica - including a profitable cement plant - which made a start in privatization with the help of U.S. AID but has subsequently held back. Although exchange and trade distortion are traditionally moderate in comparison with those of larger debtors, there is still much to do. In some countries tax systems date back 20 years, when high (and generally uncollectible) income tax rates were in fashion. Together with a strong dose of additional help for the small entrepreneur and peasant farmer, a package of measures to fuel up and deregulate economies is urgently needed for most countries.

Capital Inflows

The Central American countries, as the rest of Latin America, are in urgent need of funds for physical reconstruction. The debt crisis has allowed physical infrastructure and basic social services to run down in most of Latin America; in Central America, despite a considerable volume of official aid, this deterioration has been compounded by duration and intensity of the political crisis in the area.

The basic difficulty facing such an undertaking is the importance of avoiding a further build-up of debt, especially since the import costs of infrastructure investment in Central America tend to be high, given the paucity of capital goods industries in the region. Financing on a grant or quasi-grant basis is thus essential, at least at the early stages of recovery: expansion of the special concessional fund of the Interamerican Development Bank, which has been mainly devoted to Central America and the Caribbean, is thus of high priority in addition to the increase in ordinary capital, now under discussion.

Debt Relief

While debt relief is properly a controversial subject, there is little doubt that some debt relief is appropriate in the case of the Central American countries and also Panama. This is so not only because of the parlous economic conditions of the area - partly due to high debt service - but also because the debt does not loom large internationally. The debt is large for Central America, but not for the world; significant benefits can thus be achieved at little overall financial cost.

Two possible avenues of relief deserve study, as part of an overall plan including domestic reform and additional capital inflows:

a. Reducing the interest burden on bilateral credits, mostly from U.S. AID, to their minimum. Since these rates are already low, the room for manoeuver is limited, but an overall contribution of perhaps $150 million annually (2.5 percent) might be possible. The arguments against such a step are that the saving is small but the precedent could be significant. However, the recent legislation, now being implemented, under which the United States guarantees 90% of refinancings by countries which have benefited from the Foreign Military Sales program, suggests that precedents can be established for high-priority cases.

b. A U.S. AID or Interamerican Development Bank role as agent in the conversion of bank debt at a discount into long-term bonds. If the agent can establish a credible role to (i) organize a partial guarantee system for part of the interest on the bonds, (ii) supervise accelerated amortization payments, once export growth recovers, for the difference between the original value of the loans and the discounted value of the bonds - thus giving bank lenders a share or upside in the recovery of the countries -, then a succesful conversion scheme might be organized which gives benefits to lenders (a share in recovery) and to borrowers (a significant discount and thus saving on the service of the existing bank debt).

****

I have not mentioned trade questions, which are especially important for Caribbean countries because of the relative weight of their sugar exports, which are relatively less in the case of Central America. In the case of Central America, the crucial point is that a relatively modest financial input can have a positive large effect upon an area of crucial importance to the United States, but which is at present for the most part in extremely serious political and economic turmoil.

TABLE 1

THE FIRST BOSTON CORPORATION

Table 1: External Debt Outstanding of Central American Countries
(US $ million, current prices and exchange rates)

	Regional Totals			Countries 1986					
	1980	1986	1987 (Est.)	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Total Debt	11,429	22,769	25,000	4,453	1,680	2,601	2,863	6,370	4,802
Long-Term	8,735	18,991	...	3,889	1,547	2,306	2,467	5,343	3,439
Banks	3,495	6,627		1,880	111	725	434	1,310	2,167
Multilateral Official	2,299	5,036		829	662	765	1,149	772	859
Bilateral Official	1,739	6,537		862	691	697	688	3,228	371
Other Long Term (1)	1,202	791		318	83	119	196	33	42
Short-Term + I.M.F.	2,693	3,778	...	564	133	295	396	1,027	1,363
Merchandise Exports, f.o.b.	7,163	6,435	6,474	1,084	757	1,044	901	247 (2)	2,402
Total Debt to Exports, %	160%	354%	386%	411%	222%	249%	318%	2,579%	200%

(1) Includes debt of the private sector and public sector debt to suppliers.
(2) $190 million estimated in 1987.

Source: World Bank, Debt Tables, 1987-88 Edition; Interamerican Development Bank.

Table 2 The Latin American Debt Story: 64 Numbers from the IMF

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*est. 1987*
Real per capita GDP (% change)	3.7	−1.9	−3.2	−5.0	1.3	1.4	2.2	1.6
Inflation (CPI % change)	54	59	68	106	128	149	87	118
Terms of trade (% change)	7.2	−4.1	−5.4	−2.7	3.5	−1.9	−12.2	−2.5
Exports (f.o.b., $ bn.)	94	100	90	92	102	96	80	89
Imports (f.o.b., $ bn.)	97	105	85	64	65	63	64	70
External debt outstanding ($ bn. year-end)	231	288	333	344	362	371	391	421
Debt as % of exports of goods & services	183	210	273	292	277	299	361	362
Debt service ratio as % of exports of goods & services	34	42	51	45	42	43	51	55

Source: IMF, *World Economic Outlook*, October 1987, statistical appendix tables. These data differ in amount, but not trend, from those in the earlier chapters of the book, largely because of different definitions.

STATEMENT BY
DAVID MALPASS
DEPUTY ASSISTANT SECRETARY
FOR DEVELOPING NATIONS
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
JUNE 10, 1988

Introduction

Mr. Chairman, I welcome the opportunity to discuss economic development in Central America. The bill before you, S. 2252, raises some timely questions.

In my testimony today, I would like to briefly describe an economic policy environment in which developing countries could prosper, relate that environment to the Central American democracies of Costa Rica, Guatemala, El Salvador, and Honduras, and provide some specific comments on S. 2252.

Toward strong economies

The primary economic development lesson of the 1980s is the importance of market-based economic systems. Some countries, such as the strong economies of southeast Asia, are well along in absorbing this approach, and are prospering. Others, such as China and perhaps the Soviet Union, have recognized this lesson and are testing its principles. In the developing world of Latin America, and, increasingly, of Africa, leaders are choosing market-based economic systems in order to successfully attract flight capital, external financing flows and foreign investment.

The political foundations for such systems are democracy, a respect for individual rights, and non-threatening neighbors. With these foundations, and the personal and national courage to undertake economic changes, we believe that the four democracies of Central America would have good prospects for sustained economic growth.

While I do not bring a blueprint for running sound economies, I believe that some politically difficult changes clearly need to be taken by the countries of Central America. This effort should obviously begin in Nicaragua, which is breaking all of the principles of sound economics and whose people are suffering as a result. But this hearing is on the democracies, so I would like to discuss two principles applicable to them.

An open economy is the starting point for economic progress. There are several key facets. First, the private sector must be allowed access to capital, including foreign exchange. Second, capital and goods must be allowed to flow easily into and out of the economy. Investment capital, and therefore jobs and growth, will shun an economy which places controls on it. Third, market-based prices must be the clearing mechanism for goods, foreign trade, the labor force and exchange rates. Fourth, an open economy requires a non-confiscatory tax system, one which leaves much of the profit with those who earned it.

Sound government macroeconomic policies are equally important. In addition to removing market restrictions which close the economy, governments must leave more resources and challenges to the non-government sector. Governments don't make profits, so it is crucial that spending by the governments and related parastatals be brought under control. Sound monetary policy has eluded Central America in recent years. Printing presses have been used to meet government payrolls, undermining currencies that were once stable. The resulting inflation has led to a severe misallocation of resources and of people's time and energy.

While these principles are generally accepted, perhaps even in the countries themselves, they are not being applied assiduously. I would like to review each of the economies, pointing to some of the key economic reforms which should be undertaken.

Costa Rica. In the early 1980's, Costa Rica was adversely affected by the rise in interest rates, deteriorating terms of trade, and collapse of regional markets. Although Costa Rica has introduced economic adjustment measures over the years, these efforts have surged and waned throughout the decade and have not had a lasting impact. Nonetheless, Costa Rica has made some commendable progress on economic reform on several fronts, leading to growth of over 4.5% in 1986 and 3% in 1987, respectively. The government has reduced the real value of the public sector wage bill and cut price supports for basic grains from the State's Agricultural Agency. Costa Rica also continues a flexible exchange rate policy with mini-devaluations of the colon and is making great strides towards becoming a member of the Generalized Agreement on Trade and Tariffs later this year.

The World Bank is working closely with the government of Costa Rica to support efforts to reform the financial sector. Costa Rica's National Development Corporation (CODESA) is working with the assistance of U.S.A.I.D. on a significant divestiture program. Although two major CODESA subsidiaries have been sold to the private sector in recent years, Costa Rica must make further progress on the nearly forty remaining CODESA enterprises.

Costa Rica's economy continues to be dependent on agricultural products such as coffee and bananas. Given its heavy debt burden and its vulnerability to agricultural export prices, Costa Rica needs to continue to develop and diversify its non-traditional exports. Some progress has already been made, but this must be supported by institutional reforms, such as simplifying the administrative procedures to enhance exports and to open the economy to foreign investment.

Internally, Costa Rica must concentrate on building confidence in its troubled financial sector so as to attract private deposits and support domestic investment. As a temporary measure, the Central Bank must tighten credit through ceilings on individual deposits to release resources for lending to troubled private commercial banks. Eventually, the government will have to place greater reliance on monetary instruments for such short-term adjustments. A deposit insurance scheme, recently announced by the Central Bank, should be implemented as soon as possible.

Guatemala. Vinicio Cerezo, the civilian president elected in 1986, inherited an economy characterized by uneven distribution of land and income, unemployment and underemployment affecting over 40% of the active population, stagnated foreign trade due to an unmanageable multiple exchange rate system, and depressed savings and investment. In his first year in office, Cerezo instituted a major economic stabilization program which reversed several years of economic decline. This set the stage for 2.5% real GDP growth in 1987 and possibly 3% in 1988.

The government is working on its diversification from agricultural products -- which account for 2/3 of its exports. Monetary reforms, including positive real interest rates and higher reserve requirements, have also been instituted. These policies lowered inflation from 40% in early 1986 to 10% in 1987. The government also simplified the exchange rate regime from more than thirty rates down to three.

However, several problems arose in 1987 which the government must now address. The country's principal focus must be fiscal discipline to allow room for increased private investment. The government could start by eliminating the foreign exchange subsidy to INDE, the power authority, either by unifying the three-tiered exchange rate which provides the subsidy or by bringing utility rates in line with the operating costs of the institution.

Honduras. During the 1984-86 period, the economy expanded at a moderate pace with low inflation. However, the fiscal and balance of payments situation continued to deteriorate. In 1987, Honduras initiated an economic program designed to assure continued growth and a strengthened balance of payments position, coupled with structural reforms. Real GDP grew by 4% and an inflation rate of 2.4% was the lowest in Latin America. But slippages in the program have caused a serious financial crisis. In 1987, the fiscal deficit came to more than 7% of GDP, the balance of payments current account deficit came to almost 8% of GDP, and external arrears increased, including arrears to the IMF, the World Bank, and the IDB -- Honduras' largest creditors.

Honduras is now working closely with the IMF and World Bank on a reform program. In February, the government took steps to curb the fiscal deficit by freezing government salaries and positions, limiting all current expenditures for goods and services to the 1987 level, and reducing transfer payments to parastatals and autonomous agencies. The first steps have already been taken to make the economy more competitive by reducing export taxes and expanding the scope of the parallel market.

Honduras must adopt a more market-oriented foreign exchange and trade system in order to diversify its export markets. The central government must strengthen its control over the hiring and pricing policies of state enterprises, and quicken the pace of divestment of these enterprises.

El Salvador. The economy has been burdened by a prolonged guerrilla war and the earthquake of October 1986.

The pace of economic recovery and reform has slipped. El Salvador has maintained negative real interest rates, high export taxes, an overvalued currency, extensive price controls, and low tariff rates on public utilities. These policies reinforced capital flight and discouraged exports. The 1988 Economic Plan will correct some of these distortions. Measures have been designed to improve fiscal performance, stimulate the growth of exports, and spur production. Price controls, import controls and subsidies have been significantly reduced. The freeze on public employment and wages has been continued. Some utility rates have already been raised. A tight monetary and credit policy will be used to keep the inflation rate below 20%.

Additional measures, however, are required. El Salvador needs positive real interest rates and a more flexible and unified foreign exchange system coupled with a reduction in export taxes. Strengthened management of state enterprises will also be imperative in order to reduce pressure on central government finances.

S.2252 and the Role of Securitization

I would now like to provide some comments on S. 2252 in the context of this economic overview. We profoundly share the purpose of the bill, promoting economic development in Central America. The bill proposes three steps to assist in this: securitization of debt, using U.S. government guaranteed bonds issued by these countries in exchange for their obligations to commercial banks; a reduction in the interest rates on U.S. government loans to those countries; and an increase in U.S. sugar quotas for the region, so as to boost their export earnings.

The current international debt strategy is built on a case-by-case, market-oriented approach based on sound economic reforms with external financial support. We cannot endorse either sweeping debt forgiveness or broad based guarantee proposals, and have been on the record many times with regard to this fundamental policy. Schemes which shift risk from commercial banks to the public sector run counter to the key tenets of the debt strategy, in that they would afford debtor countries little incentive to undertake needed reforms, and would likely choke off commercial bank flows for years to come. I would also note at this juncture that it is both unrealistic and unreasonable to ask the U.S. taxpayer to pick up the tab on an "exit" vehicle for foreign banks.

With regard to securitization of outstanding commercial bank claims, we are supportive of private, voluntary efforts to repackage sovereign loans, which can afford debtor nations debt relief and their commercial creditors better quality assets, as in the case of the recent Mexican debt-for-bond swap.

Such voluntary, market-driven securitization techniques may be attractive to both debtors and commercial banks, if appropriately designed. For example, the Mexican bond proposal, with collateralization of principal, attracted a wide range of bids from numerous banks. We expect to see more of these proposals in the period ahead. And the surest demarcation of a return to normal financial relations is access to international capital markets. We are beginning to see progress on this front -- Venezuela and Colombia have, within the past year, raised funds in the euromarkets, and Chile is planning to access the markets in the next few years, once the country begins to make principal repayments on its outstanding obligations.

As we interpret this legislation, all commercial banks, both foreign and domestic, could voluntarily tender their sovereign claims to the four countries at a discount, in exchange for a new security that is backed by the full faith and credit of the U.S. government. If the legislation were interpreted as mandatory and U.S. commercial banks were required by law to tender their claims, this would raise a host of additional concerns.

Again, as the legislation is drafted, the discount would be set by the secondary markets. While we strongly endorse letting the market value financial transactions -- as in the case of the two recent Brazil debt/equity auctions and the Mexican debt/bond offering -- this secondary market is not a valid proxy for the value of bank claims. The market is thin and supply outweighs demand. Thus, the process of ascertaining the fair value of these credits can be difficult and highly judgemental.

By way of background, well developed secondary markets have depth and breadth, and are usually supported by primary markets. In the usual sense of the term, the existence of a secondary market for any asset also implies that there is some homogeneity of obligors, terms, and legal underpinnings for the instruments traded. However, little of this infrastructure is found in the market for LDC debt. We believe that prices currently being quoted reflect the fact that it is still a very thin and imperfect market. Indicative prices published by Salomon Brothers, for example, have wide bid/offer spreads. A million-dollar deal can move the market. Thus, this secondary market is more like a bazaar, with individual buyers and sellers haggling over the terms of each transaction.

The proposal in S.2252 would politicize the debt work-out process in several ways. First, by offering a U.S. government guarantee of the newly-issued bonds, secondary market prices would rise in anticipation, increasing the contingent liability of the U.S. government. The U.S. would inevitably become enmeshed in the negotiation between the countries and their commercial banks in an effort to find a "fair" price for the transfer. Second, the bill itself makes a political value judgment, offering two countries the opportunity to transfer 100 percent of their debt, and the two others only a 40 percent opportunity. This is the type of dilemma the U.S. government would be in if this technique -- the selective offer of the full faith and credit of the United States -- were enacted. Furthermore, other countries may merit U.S. government support as much as these four, leading to a diplomatic nightmare and a lobbyist's dream.

In examining this proposal, we should keep in mind that U.S. government guarantees are not costless. The U.S already has a large national debt to finance, and, in this end, the provision of guarantees is likely to add to it.

The bill also suggests an initiative aimed at reducing the interest rates on claims owed to the Unites States government. If Congress legislated such an initiative, it would likewise have to appropriate funds to make up the interest rate differential, 4 percent in this case. Alternatively, the increased net outlay in the 150 account would have to be offset, which would reduce funds available for other debtor countries, including the poorest countries of Sub-Saharan Africa and the multilateral lending institutions. Reducing rates of interest on U.S. government loans to a select group of developing countries would also establish a precedent for similar treatment of other U.S. government assets. Thus, the proposal would provide a relatively small savings to Central America at a large cost to the U.S. government.

I would like to conclude this section by returning to what I believe is a common objective between us -- securing strong economies in the region. I do not believe that the blanket debt guarantee proposed in this bill will lead to better economic systems in the region. Instead, it appears that it would perpetuate dependency on the U.S. and broaden it to a new area.

Sugar Import Quotas

U.S. quotas in general cause a tremendous loss of income to developing nations and to U.S. consumers. With respect to sugar quotas, the only permanent solution is the elimination of the disparity between domestic and world prices, by opening the U.S. market to domestic and foreign producers on a more competitive basis. We recognize that this goal would have to be achieved over several years and that the reform should be based on a multilateral agreement among sugar trading nations. The Administration currently supports pending legislation in the Congress (S.1948) with certain modifications, including authorization to lower the existing high price supports.

Conclusion

To conclude, I believe that the purpose of the bill is meritorious. Economic development in Central America is important to all of us and should be pursued.

However, the proposals in the bill would have consequences and costs far beyond Central America, and must be evaluated in that context. I look forward to a discussion here today on these issues.

Thank you, Mr. Chairman.

Francis S. Morgan

Mr. Chairman, my name is Francis S. Morgan. I am the owner and operator of Hamakua Sugar Company and also Chairman of the Hawaiian Sugar Planters' Association (HSPA). As you know, HSPA is an association of all Hawaii's sugar producers, organized more than a century ago to conduct research and other activities of mutual benefit to Hawaii's sugar producers. The members of HSPA also own and operate California & Hawaiian Sugar Company - better known as C&H Sugar - which is our cooperative marketing arm, refining almost 600,000 tons of the million tons we produce and marketing the remaining raw sugar to Gulf and East coast refineries.

Sugar has been produced in Hawaii for 153 years. It is, by far, our most important crop, occupying some 185,000 acres, almost 3/4 of our crop land and the source of almost half of the state's total revenues from agriculture. As you know, Senator, on your home Island of Kauai, some 95% of the crop land is in sugar. We have 7,000 direct employees while some 25,000 jobs in our state are dependent on the sugar industry. Our sugar workers earn an average of $8.48 an hour and they are employed the year around.

We, therefore, understand how important this crop can be to the livelihood of the people of an area. Despite efforts to diversify, sugar remains our number one crop and the third largest source of income to the people of Hawaii. Moreover, our sugar industry provides 10% of the total public electricity needs of the islands from the energy produced from burning surplus sugarcane residue as a boiler fuel.

Hawaii produces approximately 1 million tons of sugar annually. This is down almost 20% from the mid-1960's, but as a result of increasing yields, production has been quite constant at about the million ton level despite reductions in our acreage over the past decade and despite the closing of some plantations and mills.

U.S. sugar production totalled just over 7 million tons this past year and we imported another 750,000 tons, so Hawaii is responsible for some 14% of U.S. production and 12% of U.S. consumption. By way of contrast, the 4 countries of Central America produce some 1.2 to 1.5 million tons yearly and consume some 55% of that amount, while exporting the remainder.

According to a recent study by the Department of Commerce, sugar exports from the Central American countries, provided only 2.2% to 4.4% of the total merchandise export earnings of these countries in 1985. I can assure you that it is a far bigger contributor to the economy of Hawaii, ranking behind tourism and Federal expenditures as a source of income. Sugar also provides an important contribution to the economies of the other 16 states in our nation in which sugarcane or sugarbeets is grown. Sugar production and processing is absolutely vital to the economies of the many rural communities in which it is a major crop.

Why do we produce sugar in the United States? Sugar is produced around the world in both temperate and tropical climates, and most countries produce sugar. Moreover, we are efficient producers of sugar by world standards. A 1985 study, published by the Congressional Research Service and prepared by Landell Mills Commodities Studies out of London with an office in New York, placed U.S. production costs some 5% above the world average for the years 1980 to 1983. That study placed Hawaii costs somewhat lower, at about the world average. By comparison, costs for the Central American producers included in this bill were as follows:

Costa Rica	109%
El Salvador	81%
Guatamala	86%
Honduras	79%
Nicaragua	92%

Source: World Sugar Trade and U.S. Sugar Policy
CRS Report No. 85-144, July 1985

These countries production costs average 90% of the world average and they are not radically lower than those of most U.S. producers.

Senators, we are not without concern for the problems confronting sugar producers in other parts of the world, particularly those in the developing countries. We provide them with technical assistance and make results of our research broadly available. We are currently assisting them via a project to convert sugar cane trash to electricity in cooperation with AID. We supported efforts to import an additional 400,000 tons from

CBI countries and the Philippines, with reexport of a simii .r amount, which Congress passed last December and which the Administration has thus far refused to implement.

The earnings for these countries sugar exports have dropped from the 1980-81 period primarily because of the drop in the orice of sugar on the world market. The average price on the world market fell from 29¢ per pound in 1980 and 16.93¢ in 1981 to 4.04¢ in 1985. The higher U.S. quota price delayed and reduced the impact of this unprecedented price decline on major historic exporters to the U.S. market.

The reduction in U.S. imports under the current quota program has been the result of two factors. First, sugar was replaced by the lower cost high fructose corn sweetener (HFCS) in the soft drink industry. Takeover of that market commenced in the 1970's spurred by the high sugar prices of 1974 and 1975. This trend accelerated in the early 1980's, with the sugar price run up in 1980 giving further impetus to the HFCS industry. Given the price of corn in the United States and U.S subsidies to corn producers, HFCS is the world's lowest cost caloric sweetener. The more than 500 million bushels of corn used for corn sweetener purposes increases the price of corn by 25¢ per bushel while saving our taxpayers 500 to 700 million dollars annually in the costly corn program, according to a recent USDA estimate.

The loss of market to HFCS was not a painless one for our sugar industry. Foreign suppliers of the U.S. market, and their friends in Congress, seem to believe they should be assured their continuing market share despite the emergence of this lower cost substitute. While other countries have protected their sugar industries against inroads by HFCS, we sought to protect our sugar producers from the dumping of surplus foreign sugar in the face of plummeting world prices.

Those prices fell due primarily to EC dumping of surplus sugar on the world market with heavy subsidy. Historically a net importer of sugar, the European Community Common Agricultural Policy spurred increased sugar production so that the EC became the biggest exporter to the world market, exporting some 5 million tons annually. EC exports have been equal to 98% of the surplus on the world market and were the principal reason for the drop in prices on that market from a high of 42¢ in 1980 to a low of just over 2.5¢ in 1985. The price on the world market is now back up above 10¢ a pound and expected to go higher. In addition, the U.S. quota will increase this next year by a substantial amount. Most estimates place that quota increase in the 40% to 50% range. The situation is getting better.

The legislative remedy suggested in S.2252 will impose on the U.S. sugar producers great economic hardship and drive many of us out of business. If we are going to import an additional 500,000 tons of sugar from these countries, then the producers of 500,000 tons of U.S. sugar will have to go out of business. To force this development by means of this legislation, which mandates increased imports from selected countries, would cause even greater distress.

First, the measure is based on the faulty premise that by giving the Secretary of Agriculture the authority to reduce the loan rate, domestic production will be forced down enough to avoid any cost to the taxpayer as a result of forfeitures of sugar under loan. But it can't work that way. Why? Because the legislation mandates an immediate increase in imports while the sugar crop now in the ground will continue coming onto the market. In the case of Hawaii, some of this year's planting won't be harvested until 3 years from now and ratoon crops will still be harvested for 6 to 9 years. Ratoon crops are also the norm for mainland cane acreage. However, domestic production would not decline until growing crops are matured and harvested, which in the case of sugarcane, could take several years unless loan rates are reduced below the cost of harvesting and processing and I don't think anyone is suggesting that. During this period, the increased imports would create a surplus of sugar, causing prices to decline to uneconomic levels. This could result in the inability to finance the planting and cultivation of new crop sugarcane and beets after harvest, ultimately culminating in a massive reduction in domestic production far in excess of the initial increase in imports. If this were to occur, the resulting deficit would create a world shortage which would drive prices up to much higher levels than exist today. In all probability, much of our supply of sugar would then come from foreign producers whose costs are higher than those of former domestic producers.

Second, the mere knowledge that surplus sugar is coming on the market will bring prices below the loan level and cause major forfeitures of sugar now under loan. These loans do not become due either in time or in amounts so as to permit exact adjustment to the needs of the market. One cannot sharply reduce loan rates for the future without reducing the demand for sugar at today's price in anticipation of cheaper sugar tomorrow. A major expenditure of Federal funds will therefore occur but one of unpredictable magnitude.

Third, the proposal will require the continuation of quotas and thereby remove the flexibility the Administration now has to substitute fees and duties in lieu of quotas, which the Administration has stated it prefers for program Administration.

Fourth, in giving preference to these Central American countries, which have already received additions from the Nicaraguan quota, we would anger other historical suppliers no less deserving of our consideration and no less important to securing our foreign policy objectives, such as the Philippines and Caribbean Island countries.

Mr. Chairman, I strongly support the current sugar program and I oppose efforts to change it. However, the proposal contained in Section 2 of S.2252 is particularly inappropriate as a means of bringing change to that program. If adopted, this proposal would not only discriminate against other foreign producers, but do irreparable and disproportionate harm to the domestic sugar producers and to the entire economy of the many areas of this country which produce and process sugar.

It isn't just sugar farmers who would suffer, but also the suppliers to our industry, the small town banks, and farm lending institutions that have had a very difficult time in recent years. It's the fertilizer company and the implement dealer, as well as the sugar farmers and the sugar workers who would suffer.

And who are the big beneficiaries of the proposed sugar program changes recommended in S.2252? It is not the foreign producer, who will now get less for his sales to the U.S market, albeit a select few will get to sell more.

Neither is it the American consumer who now pays less for sugar than consumers are paying in most cities around the world from Buenos Aires to Tokyo, from Stockholm to Seoul. Not only is the American consumer now paying less than most of his counterparts, he is paying less than in the years immediately preceeding adoption of the current sugar program in the 1981 Farm Bill.

The chief beneficiaries of this proposal will be the large industrial users of sugar and other caloric sweeteners in the United States. It will be the soft drink companies, the big candy companies, the big cookie and biscuit companies who purchase 80% of our nation's sweeteners. They are the beneficiaries. Banded together in a gigantic Sweetener Users Association, amply funded with a large, well financed public relations compaign, they have perpetuated the myth that the current sugar program is a consumer rip-off.

They, and their media friends dependent on their advertizing revenues, are selling the American people the myth that they can safisfy their total sweetener needs at a fraction of the U.S. price and at a fraction of what it costs anyone in the world to produce sugar. The U.S. sugar program has assured consumers a reliable supply of sugar at stable prices below the average actually paid in most countries. Any reference to the "world" market, whose prices in recent years have been well below the cost of production of the lowest cost producers and account for only about 10% of world sales, is deliberately misleading.

They are spreading the myth that our program is responsible for the spread of communism in Central America, the Philippines, and the Caribbean. They apparently believe we have forgotten that Cuba went communist at a time we were buying nearly all of its sugar at premium prices.

They are even spreading the myth that the program, which assures our producers a price far lower than many others are assured, is responsible for the drug problem!

Their interest in reducing the current loan rate is understandably profit motivated. Every penny reduction in the U.S. sugar price means some 275 million dollars to their bottom line in the course of a single year.

I know they claim these savings will be passed on to the consumer, but their own annual reports belie that claim. The profits of their members are roughly double those of the average American industry.

The Mars family did not become the 4th richest family in America by passing all cost reductions on to the consumer. Neither did the soft drink industry aggressively lobby for, and secure, an exemption from the antitrust law for its exclusive franchises in order to assure a pass through of all cost savings to the consumer. While the cost of sweeteners is down from 1981, the prices of their products, and their profits, are up.

The other beneficiaries would be large banks with big investment portfolios in Central American countries. Are these more deserving of the concern of Congress than are the small banks that serve our rural communities? I think not.

The problems of Central America will not be resolved by a quick fix increase in access to the U.S. sugar market at a reduced price.

Our country has two overriding problems, one is the burgeoning national debt and the other is the tremendous trade deficit. The proposal before you would exascerbate both and certainly not benefit the needy. I urge you, therefore, to give it an early burial.

# # # #

ADDITIONAL QUESTIONS FROM SENATOR MATSUNAGA
TO FRANCIS MORGAN, PRESIDENT OF HAMAKUA SUGAR CO., INC.
AND CHAIRMAN, HAWAII SUGAR PLANTERS ASSOCIATION

1. Q. The provision contained in S. 2252 proposes to expand the sugar quota for four, and possibly five, countries in Central America by 600,000 to 700,000 tons per year. What effect would this increase have on the domestic sugar industry? What impact would this bill have on your sugar plantation?

   A. The increase in quota and decrease in the loan rate authorized by S. 2252 would destroy the safety net for U.S. sugar producers thereby causing the demise of much of the domestic producing industry. In Hawaii, sugarcane averages two years from planting to harvest, and while planted cane would be harvested, my farm operation would soon be forced into bankruptcy along with most U.S. sugar growers should the loan rate be lowered. Historically, most abandoned crop land in Hawaii remains idle or in pasture since there are few viable alternative crops. A study performed by the First Hawaiian Bank estimates that unemployment would double with the collapse of the sugar industry; and on the Island of Kauai, unemployment would climb to 29%, on Hawaii 21%, and on Maui 18%. The economy of the state would be devastated and the neighbor island economies would be most severely threatened.

2. Q. Mr. Morgan, you stated in your testimony that Americans pay less for sugar than does the consumer in most other countries. Do you have any survey to support that claim?

   A. U.S. consumers pay less for sugar than the average price paid in 16 world capitals, according to a May, 1988 USDA survey. The price in Washington, D.C. was 39 cents compared to the average of 42 cents. This survey compares the prices of a number of food basket items including sugar, which I am submitting for the record.

3. Q. Mr. Morgan, under the old Sugar Act, we had production controls on U.S. producers and bought a larger share of our sugar needs from abroad than is the case today. Is there support for assuring foreign producers a share of the U.S. market in the future?

   A. The domestic sweetener industry is concerned about foreign sugar producers and supported an initiative to give the CBI and Philippines an additional 400,000 tons of export to the U.S. per year under an import-reexport plan, which was passed by the Congress as part of the Continuing Resolution last year. Unfortunately, the Administration has refused to implement the program, but U.S. producers will continue to support efforts to achieve that goal.

4. Q. What relationship does the so-called world market price for sugar have to the average cost of production of sugar in sugar producing countries? How do U.S. production costs compare with those elsewhere in the world?

   A. The so-called "world price" is the price on the residual market where surplus world production is dumped and sold at firesale prices totally unrelated to any country's cost of production. This dumped price impacts a mere 15% of total world production; the rest is either consumed in the producing country at very different prices or traded at preferential prices under special agreements or long term negotiated contracts. According to a 1985 Congressional Research Service Report, the U.S. is a world average cost sugar producer.

5. Q. Mr. Morgan, I understand that previous reductions in our sugar imports are projected to reverse next year. Do you have any estimation on what level of import quota might be allocated in 1989?

A. The 1989 quota is expected to increase due to a continued increase in U.S. consumption and a decrease in domestic beet production from last year's extraordinarily good crop. There will be further reductions in U.S. beet sugar production due to the 1988 drought. Some industry and government analysts speculate that the quota could increase by more than 500,000 tons as current stocks are tight and the drought in the nonirrigated sugar beet production area continues.

6. Q. In your analysis, did a higher level of imports of sugar into the United States prior to the imposition of import quotas result in a lower cost of sugar to American consumers? How does the price of sugar in the U.S. compare with that in other major sugar consuming countries around the world?

A. The price of sugar has remained stable under the 1981 and 1985 Farm Acts sugar programs. In 1980 and 1981, years without a program, the retail price of sugar was higher than it has been under the 1981 and 1985 sugar programs. In fact, the consumer price of sugar in the U.S. is not only less than it was in the period preceding adoption of the current program, but also less than the average price paid in 16 other countries surveyed by USDA in their World Food Price Comparisons (May, 1988).

7. Q. How much cost does sugar comprise in the cost of a manufactured food product?

A. The cost of sugar is a very small part of the retail price of sugar-containing products, although sugar price increases have been a convenient excuse for increasing the price of these products on occasion. There is less than 1 cent of sugar in a 40 cents Hershey bar and about 1.5 cent in an average can of soda pop, for example. According to USDA, since the 1981 the consumer prices dropped by more than 8% during the first five years of the program, while the prices of sweetener containing products such as soft drinks and candy increased more than 27%. If the price of sugar is an important influence, the price of these products should have been reduced.

###

SURVEY FOR QUESTION #2

World Retail Sugar Prices

Tokyo	89¢
Stockholm	55¢
Paris	53¢
Bonn	52¢
Madrid	50¢
Rome	49¢
Buenos Aires	49¢
London	45¢
Bern	44¢
Washington, DC	39¢
Seoul	37¢
Canberra	30¢
Pretoria	25¢
Brasalia	21¢
Ottawa	17¢
Mexico City	16¢
Average	42¢

Source: USDA/FAS "World Production and Trade," June 9, 1988.

WORLD FOOD PRICE COMPARISONS
MAY 1988
CURRENT PRICES IN U.S. DOLLARS 1/

FOOD BASKET	BERN	BONN	BRASILIA	BUENOS AIRES	CAN-BERRA	LONDON	MADRID	MEXICO CITY
Steak, sirloin, boneless	34.82	11.73	1.83	2.44	6.46	14.42	12.03	5.76
Roast, pork, boneless	13.26	5.36	2.85	3.04	3.53	5.49	7.79	4.34
Broilers, whole	4.47	2.49	1.01	0.94	2.39	3.22	3.15	1.68
Eggs, large, dozen	4.59	1.07	0.52	0.82	1.60	2.34	1.48	0.67
Butter	13.10	4.74	1.87	2.82	2.97	3.89	8.94	2.67
Cheese, Cheddar/Emmenthaler	13.28	8.48	3.53	7.61	4.18	5.28	11.18	7.87
Milk, whole, liter	1.26	0.64	0.30	0.24	0.59	0.76	0.68	0.31
Oil, cooking, liter	3.49	0.89	0.61	1.83	1.79	1.45	1.63	0.96
Potatoes	0.91	0.36	0.43	0.18	0.76	0.73	0.55	0.31
Apples	2.08	1.61	1.49	0.73	0.95	1.43	1.40	1.72
Oranges	1.55	1.43	0.27	0.61	1.03	3.42	1.07	0.39
Flour	1.43	0.55	0.56	0.52	0.82	0.65	0.67	0.34
Rice	2.20	2.21	0.54	1.51	0.79	1.66	1.69	0.42
Sugar	0.97	1.14	0.46	1.07	0.65	1.00	1.09	0.35
Coffee	10.65	10.42	2.65	7.46	11.17	10.36	5.77	3.38
TOTAL MAY 1988	**108**	**53**	**19**	**32**	**40**	**56**	**59**	**31**
% OF WEEKLY INCOME 2/	**19%**	**14%**	**30%**	**55%**	**14%**	**20%**	**38%**	**68%**

cont...

WORLD FOOD PRICE COMPARISONS – CONTINUED
MAY 1988
CURRENT PRICES IN U.S. DOLLARS 1/

FOOD BASKET	OTTAWA	PARIS	PRETORIA	ROME	SEOUL	STOCKHOLM	TOKYO	WASH., D.C.
Steak, sirloin, boneless	8.53	13.08	5.85	12.00	10.57	22.60	51.20	11.46
Roast, pork, boneless	6.24	7.44	2.69	7.68	4.20	23.34	15.20	5.86
Broilers, whole	2.66	5.76	1.76	4.51	2.25	6.69	6.40	2.27
Eggs, large, dozen	0.89	1.61	0.87	1.50	1.22	2.87	1.29	0.85
Butter	5.11	4.97	2.08	6.26	6.59	6.51	11.34	5.05
Cheese, Cheddar/Emmenthaler	8.34	6.93	4.98	7.98	11.25	9.47	9.02	6.80
Milk, whole, liter	1.09	0.82	0.50	0.96	0.96	0.83	1.52	0.53
Oil, cooking, liter	1.70	1.81	1.12	0.82	1.61	7.82	2.27	2.40
Potatoes	0.57	1.08	0.77	0.64	1.29	0.79	2.64	0.86
Apples	1.71	1.73	0.58	2.00	3.30	1.60	3.51	1.96
Oranges	1.77	1.73	0.54	2.00	2.17	1.51	2.74	1.63
Flour	1.01	1.02	.63	0.59	0.35	1.17	1.45	0.62
Rice	1.89	2.43	0.85	1.72	1.56	2.81	3.02	1.52
Sugar	0.37	1.16	0.56	1.08	0.81	1.22	1.96	0.86
Coffee	6.87	7.37	9.45	7.74	9.89	8.88	25.82	7.08
TOTAL MAY 1988	**49**	**59**	**33**	**57**	**58**	**98**	**139**	**50**
% OF WEEKLY INCOME 2/	**14%**	**18%**	**71%**	**24%**	**88%**	**23%**	**31%**	**13%**

1/ Units are measured in kg's or as designated, exchange rates used are current as issued with the capital city surveys.
2/ Weekly income is based on WEFA projections using nominal yearly GDP in current prices divided by population divided by 52 and converted to U.S. dollars.
NOTE: One kilogram = 2.2046 pounds; one liter = 1.0567 quarts.
SOURCE: Foreign Agricultural Service
Trade and Economic Information Division.

William F. Mullan, M.M.

My name is William Mullan. I am a missionary priest of Maryknoll, the Catholic Foreign Mission Society of America. I worked in Central America for 24 years, returning here to the United States in September 1986. I visited there again in October last year. For eighteen years I worked as a pastor-missionary among three different language groups of native Guatemalans in the department of Huehuetenango, Guatemala. From 1980 to 1986 I was the Regional Superior of the Maryknoll Fathers and Brothers in all of Central America. During those six years, I visited our Maryknoll parishes and works in Guatemala, Honduras, Nicaragua and El Salvador every three months.

I have been asked in this paper to describe the situation of the poor of Central America from my point of view as a missionary.

While submitting this paper I am conscious of the proposed bill for a type of debt relief and a proposed increase of sugar quotas for the countries of Central America. I will start by describing the situation of people whom I knew in 1977 and their situation ten years later.

In mid 1977, John, an agent of the Peace Corp and I went up to several of the villages in Guatemala where I was the catholic pastor. We were beginning several projects to bring drinking water to those villages. The Indian leaders of the villages were hopeful that with the sale of corn they could purchase the plastic pipe necessary, and they promised to do the manual labor free. They were asking for the technical assistance of the peace corp. We were accompanied that day by Jose, a young Indian student, whom I was helping through teachers' school. He was going to be the first Indian teacher of that particular language group. We returned late in the afternoon to the rectory in the main village. The young woman who made the supper, Isabel, had recently returned from a week long workshop of native women in the city. She was learning about cooperatives and was beginning to help organize the native women so that they could make better quality native materials and get them to tourist markets in the city. A peace corp woman was coming up to help the women with all of this.

The men of the villages were organizing themselves. They had a good harvest of corn thanks to the use of fertilizer and local natives who owned their first truck in cooperative form. The women were beginning to take advantage of the cheap bus fares to the city and buying the woolen threads in bulk.

A little more than a year ago all the people mentioned in the above story were and still are suffering from social and economic disasters.

By October, 1986 both Peace Corp Agents had left Guatemala before seeing their projects become anywhere close to being effective. They had to flee dangers due to civil war and brutal repression. Nobody in the whole area was buying fertilizer because the cost had risen way beyond their capacity. The cooperatives had all failed and the cost of transportation to the city had increased beyond the normal financial means of the poor. Travelling was no longer safe as in the seventies.

Jose and Isabel had married. Like all Guatemalans they had passed through a period of suffering and terror due to the attempt of armed revolution and repressive counter-insurgency. After receiving his teachers' title Jose worked in a rural village school until many people began to disappear in the area and he left out of fear. He became another of the many unemployed school teachers. Jose and Isabel went out to a farm cooperative in the jungles that had been abandoned by its original owners due to violence in 1981. They worked land given to them by the government but they feared that the original owners would come back from refugee camps in Mexico. They came down to Guatemala City and found me. Isabel and one of their two babies were very sick from parasites: most likely because of contaminated water.

Isabel was very pale, dirty and her cheeks were swollen - she showed signs of malnutrition. They had traveled three days by bus and truck after walking many hours out of the jungle. All their money was gone. They had stopped to seek help from two doctors employed in government rural clinics. The doctors had no medicine available and they could not purchase the medicine at the one private pharmacy on the way because of the high cost. Jose was very frightened because his little plastic bag containing his identification booklet was stolen. He was stopped and questioned by the army at a check point and they threatened to arrest him, but seeing Isabel and the children they let him go.

I took Isabel to a doctor working at a Catholic clinic because the doctors and nurses of the government hospital were threatening to go on strike; they were claiming that their salaries were not equal to the increase in the cost of living; the local currency was devaluated. I promised to purchase the medicines and make sure that Isabel got the medical tests required. Jose had to return to his jungle farm and take his turn on civil patrol duty to avoid suspicion and punishment. Before he left he found an Indian family, living in a wooden one room shack, who provided a roof for Isabel and the children while they recuperated. I paid for her food. Jose promised someday to pay me back.

Having worked as a missionary priest in more than 30 areas throughout most of Central America for 24 years, I claim that what has happened to Isabel and Jose is typical of what has happened to many of the poor of Central America.

I believe that the unpayable debts were incurred by small segments of the population who maintained power and control, and the vast majority of the poor had no say about the debt yet the paying of the debt is pushing them out of poverty into misery because of increase of prices and decrease of government health, education and welfare programs. I believe that the governments of Central America are overly burden with defense expenditures and debt payments that cannot but increase the suffering of the poor. The U.S. Catholic Bishops in 1986 wrote a pastoral letter called, <u>Economic Justice for All: Catholic Social Teaching and the U.S. Economy</u>. One part of that letter applies to this discussion: "The quality of the national discussion about our economic future will affect the poor most of all, in this country and throughout the world...Decisions must be judged in light of what they do for the poor, what they do to the poor and what they enable the poor to do for themselves. The fundamental moral criterion for all economic decisions, policies and institutions is this: They must be at the service of all people, especially the poor".

The Guatemalan Bishops in a recent statement (The Cry For Land, February, 1988) say, "Like the Latin American Bishops at Puebla, we too feel and observe that the most devastating and humiliating scourge in Guatemala is the situation of dehumanizing poverty suffered by the campesinos who painfully bring forth from Guatemalan soil a daily sustenance for themselves and their families...The pitiable conditions lead us to question a system that produces inequities between those who enjoy possession of the goods of the earth even unto excess, and those who possess nothing or almost nothing. This breach between classes continues to widen". Therefore, from the point of view of the poor, the majority of the people of Central America, debt relief and an increase of importation of Central American agro-products, will be a value only if it causes the local governments to bring misery relief to their lives. Any plan of debt relief will be noticed by the poor only if it allows them to live in better health, to eat a basically human diet and to receive the education necessary to be able to improve their lives if they choose to. Any debt relief or increase of importation that does not give the governments the will to invest first in the poor majority, is not truly relief for the majority.

This is a partial list of facts facing the poor today in Central America:

Increase of the cost of basic foods, fertilizers and transportation:

Lack of land for the poor to subsist on:

Overcrowding of the poor in the cities:

Inhuman city dwellings for the poor:

Unemployment and underemployment:

Fear to meet and organize:

Fear to form cooperatives:

Threat of strikes by hospitals and teachers:

Unemployed doctors and teachers:

Lack of schools and clinics:

Scarcity and expense of medicines:

Crime, alcoholism, drugs:

Armed revolution and brutal counter insurgency:

Forced draft and civil patrols:

Plantation workers being under-paid and mistreated:

I have heard many bishops, priests, religious and lay leaders of the Catholic church throughout all of Central America speak of an increase of the suffering of the poor people whom they serve. They mention most, if not all, of the above list of facts hurting their people. There does not seem to be much hope that the lot of the poor will get better.

However, I think we should take seriously what the Guatemalan bishops warn in their February 1988 letter, "If this sleeping giant (the poor majority) is not invited and prepared to participate in the building up of a better Guatemala (and this can apply to all Central American Countries), it will awaken embittered by contempt heaped upon it over many centuries and may become a source of even more painful and violent conflict".

Debt relief must be done in such a way that the poor are relieved of the burden of paying a debt that they are not responsible for.

THE CRY FOR LAND

Joint Pastoral Letter
by
The Guatemalan Bishops' Conference

February 1988
Nueva Guatemala de la Asunción

0.0 INTRODUCTION

0.1 THE CRY FOR LAND is undoubtedly the strongest, most dramatic and most desperate cry heard in Guatemala. It bursts forth from millions of Guatemalan hearts yearning not only to possess the land, but to be possessed by it. It is a cry from the "People of Corn" who, on the one hand identify with furrows, sowing and harvest, and who, on the other hand find themselves expelled from the land by an unjust and punitive system. They are like strangers in the land which belonged to them for thousands of years; they are considered second-class citizens in the nation forged by their extraordinary ancestors.

0.2 Perhaps there is no subject which awakens more fierce passion and gives rise to more radical and irreconcilable positions than does the subject of land ownership. But it is a subject which must be dealt with in an attempt to begin to solve the great problems troubling us.

0.3 Through this Pastoral Letter, we wish to invite all Guatemalans, especially those who profess to be Catholics, to reflect sincerely and in depth on this most difficult problem, letting ourselves be enlightened by the Word of God and establishing solid foundations on which we can build a better homeland.

0.4 Our letter is made up of three large sections:

- The Agrarian Problem in Guatemala
- Theological Insights
- Pastoral Conclusions

1.0 THE AGRARIAN PROBLEM IN GUATEMALA

1.1 In fulfillment of our pastoral mission, we want to point out once again the critical situation of the majority of Guatemalans in rural areas. Like the Latin American Bishops at Puebla, we too feel and observe that "the most devastating and humiliating scourge" (No. 29) in Guatemala is the situation of dehumanizing poverty suffered by the campesinos (Guatemalan peasants) who painfully bring forth from Guatemalan soil a daily sustenance for themselves and their families. Rightfully called dehumanizing, this poverty is expressed by a high rate of illiteracy, by the mortality rate, by the lack of housing adequate to the dignity of the family, by unemployment and underemployment, by malnutrition and by other ills which we have carried with us for years.

1.1.1 The pitiable conditions lead us to question a system that produces inequities between those who enjoy possession of the goods of the earth even unto excess, and those who possess nothing or almost nothing. This breach between classes continues to widen, even amidst a people who profess to be Christian.

1.1.2 This is not the first time that we Guatemalan Bishops have denounced this injustice and labelled it as contrary to the Salvific Plan of God, our Father. Nor is this the first time that we have declared this the great challenge of our time in h story, and that this margination endured by so many human beings is an appeal to us as people and as Christians. In our pastoral letters, we have already pointed out in the light of the Gospel that such an abysmal situation is not an accidental stage but rather the product of a sinful situation which is preventing a viable solution to the problem.

1.1.3 GRAVITY OF THE AGRICULTURAL PROBLEM

1.1.3.1 We seriously want to invite faithful Christians and people of good will to reflect upon the critical nature of the poverty and misery endured by campesinos, because we are convinced that no situation is so painful and calls more urgently for resolution. There are many problems afflicting our brothers and sisters in the rural areas in their long calvary of suffering. However, their dispossession of the land should be considered the nucleus of the social problem in Guatemala.

1.1.3.2 It is a fact that the majority of arable land is in the hands of a privileged few, while the majority of campesinos own no plot of land on which to sow their crops.
This situation, far from pointing toward a solution, becomes day by day more harsh and painful. Certainly the critical problem of land ownership is at the very heart of the propagation of injustice.

1.2 POLITICAL SYSTEM OF LAND OWNERSHIP FROM COLONIAL TIMES TO PRESENT

1.2.1 To attempt to get to the bottom of the social problem and its roots, we must recognize that the present situation has its origins in the system of land ownership imposed in colonial times. This is preserved with many of its flaws, vices and structures of unequal and unjust distribution, even to our own times.

1.2.2 During the colonial period, the policy of land ownership was determined by a two-pronged principle. On the one hand, giving over of large land extensions to a group of colonizers favored by the Spanish crown with "encomiendas" and "royal possessions" and on the other hand by exploiting the unpaid Indian labor force for the sake of production, the people could cultivate land for themselves.

1.2.3 The period of Independence accentuated by its arbitrary laws, the concentration of land in the hands of the privileged few.

1.2.4 The situation was aggravated by the liberal reform of 1871 which, in order to promote coffee production discouraged communal lands and the distributing of vast land extensions among a middle class, giving origin to a powerful class of agricultural exporters.

1.2.5 During what has been called the second revolutionary government, (1950 to 1954), a careful agrarian reform process was begun which, although flawed, has been the only serious attempt to modify an unjust structure. We all know the reaction which this produced among its detractors and how it was abruptly ended.

1.3 UNEQUAL DISTRIBUTION OF THE LAND

1.3.1 No one can deny the excessive inequality present today in regard to land ownership. The agrarian problem in Guatemala at the present time can be measured by merely considering the large landed estates and the small farms on the margin of which the great majority of campesinos who own no plot of land are situated.

1.3.2 Statistics drawn from the 1979 Agricultural Census, demonstrate a dangerous concentration of land in a few hands with the majority of the population devoted to agriculture who are without adequate portions of land for tilling. The number of small landholders who own one block or less grew from 85,053 in 1964 to 247,090 in 1979. On the other hand, ever more land is concentrated in ever fewer hands, since the number of large landholders owning 855,800 acres (200 "caballerias") or more decreased from 9 to 4 between 1964 and 1979. (1)
According to data from the Third National Agricultural Census of 1979, the distribution by number and area of farms in Guatemala is as presented in the following chart:

NUMBER AND SIZE OF FARMS IN GUATEMALA - 1979

TYPE OF FARM	NUMBER	PERCENT	AREA (# of blocks)	PERCENT
Mini-farms*	240,132	39.69	81.316	1.38
Sub-family farms	301,736	49.87	890.229	15.15
Family farms	79.509	8.19	1,115,739	18.98
Medium multifamily farms	13,179	2.18	2,596,551	44.18
Large multifamily farms	478	0.07	1,193,611	20.31
TOTAL	605,031	100.00	5,877,446	100.00

*Includes farms smaller than a plot of 625 square yards.

This chart shows that 39% of the mini-farms constitute but 1.38% of the total land area in farms.
The situation is even more striking if it is taken into account that 89.56% of the farms (mini-farms and sub-family farms) constitute but 16.53% of the land area, while 2.25% of the farms (multi-family farms and large farms) constitute 64.51% of the area.

1.3.3 Such unequal land distribution results inevitably in grave socio-economic consequences and, above all, in a situation of violence among Guatemalan farmers.

1.4 SOCIO-ECONOMIC CONSEQUENCES OF INEQUITY IN LAND OWNERSHIP AND DISTRIBUTION

1.4.1 Breach Between Rich and Poor, Between Large Landowners and Small Landowners, Between Agricultural Exporters and Campesinos

1.4.1.1 The agricultural export sector, owning huge and fertile land areas, holds the best arable lands and the means of agricultural production. This elite in Guatemala produces and sells the goods which then receive the highest prices in the international market. These include coffee, cardamon, cotton, bananas, cattle and other traditional exports. This sector's economic solvency permits it to mechanize its cultivation process and to encounter bank credits with great facility. It must be recognized that it is the agricultural export sector which contributes most to obtaining the foreign exchange so urgently needed by Guatemala and which creates large numbers of jobs.

1.4.1.2 In contrast, there are very few campesino landowners, since the majority own no land those who do are devoted to subsistence farming on mini-plots where they sow only corn and beans. Large numbers find themselves obliged to rent land and are the victims of unfair speculation or are compelled to go down to the coast in unacceptable conditions. The difficulty of obtaining bank credits and the lack of adequate technical preparation leads them to exploit the land according to archaic systems, some of which are very damaging to the ecology. The majority do not benefit from any insurance system, nor do they have any possibilities of saving, so that a drought or a bad winter brings them to the brink of starvation and death.

1.4.2 Margination of the Campesino

1.4.2.1 It is no secret that the Guatemalan campesino is caught in a situation of desperate margination. The goods and services which the State is obliged to provide to all Guatemalans never reach the majority: neither do elementary school nor informal education; neither sanitary assistence nor any social security; nor any housing that has a modicum of hygiene and dignity.

1.4.2.2 Campesinos have extreme difficulty in trying to move beyond their marginalization because of scant opportunities, lack of preparation, and due to the very structure of Guatemalan society which is organized for the benefit of a minority and with no regard for the vast majority of Guatemalans. It has come to seem natural for us to see the campesino or Indian dressed in rags, sick, dirty and despised. We call the damp, unliveable and unsanitary shacks "folklore" and tourist attractions. We are not shocked to see tiny children trudging off with their machete or hoe early in the morning beside the men, to carry out a hard and poorly-paid day's work. We fail to react before the shameful spectacle of thousands of Indian peasants transported to the coastal plantations in trucks without security now even minimal comfort. This attitude on the part of those of us who are not campesinos toward our Guatemalan brothers and sister is but a reflection of our Nation's social and economic structure. The constitutional precept which establishes the equality of all citizens is not honored. Public funds are principally aimed for the benefit of those of us who use the highways, airports, electric lights, universities and hospitals. There are several million Guatemalans who don't benefit from these services, although they have contributed their share of taxes, have been obliged to do military service and to lose millions of work-hours in the Civil Defense Patrols. A huge social debt weighs upon the entire Nation.

1.4.3 Exploitation of Campesinos

In our society the campesino is frequently exploited in a ruthless and inhumane way. The campesino continues to be the cheapest and most cruelly exploited labor force. It is obvious that the legal minimum wage of Q4.50 ($1.50) is insufficient nowadays, given the high cost of living. And although there are some employers who pay more than the minimum legal wage and organize a system of loans and benefits, many still resist paying even the minimum wage. Then there are those who find a way to get around it, taking advantage of the extreme need in which the campesinos find themselves. To argue these cases for the law of supply and demand is, from every point of view, unjust and inhumane. Human work is not a marketable item!

1.4.3.2 Some people's attitudes toward campesinos are so harsh that in order to increase their profits, they go as far as erradicating the "mozo colono" tradition, (one's right to work a given piece of land on a plantation or farm because one's family has served the plantation/farm for generations.) This pre-capitalist, anachronistic and paternalistic relationship provides the campesino, who has lived for generation on a particular plantation, a certain statute guaranteeing hima kind of stability and right to work on that property and to continue cultivating certain strips of land for his own use. Certainly this represents a burden to the employer or owner, because it carries with it some minimal social responsibilities and honors certain rights. Even this, miserable and imperfect as it is, they seek to wipe out. Many landowners exert pressures and resort to clever tricks, not excluding armed violence, to discourage the "mozos colonos" and to force these campesinos to leave the farm in which they and their parents and grandparents were born and where they have established their home. It just so happens that it is easier and less complicated to bring in work crews each year at harvest time in a system which adds to the impoverishment of campesinos.

1.4.3.3 Over the course of many decades, a grave problem has been generated in Guatemala by those who work as intermediaries and/or negotiators of legal-administrative matters before government institutions, as by middle-men in agricultural commerce, those who hire or bring in laborers. These, too, participate in the exploitation of campesinos and in their impoverishment. It can be said that this is an institutionalized problem, since it is commonly accepted by the society. It is sad to see that even liberal professionals, unscrupulous businessmen and landowners participate in these schemes which deepen the wounds of their own people.

1.4.4 Dirth of Legal Help for Defending the Campesino's Rights to Land

1.4.4.1 We should not be surprised that this unjust social situation is one of the reasons why campesinos flee from their places of origin and migrate to the city, seeing it as a refuge from their misery and as a possible solution to their extreme poverty. The campesino thus arrives in town or city, swelling the ranks of the unemployed, multiplying the slum areas, and many times falling into the webs and vice or delinquency. It is not unusual that campesinos also lose the only possession they have left, their Catholic faith. In this way millions of campesino families have been violently forced to flee their lands to seek refuge beyond their own homeland.

1.4.4.2 The grave problems which municipalities face in providing indispensible public services will continue to increase daily as campesinos abandon their "trabajaderos" (workplaces). Simultaneously hospital health service, educational service in government schools and all public services generally will become more inadequate and insufficient.

1.4.5 Growing Violence in the Countryside

1.4.5.1 Violence in the rural area is common. The very situation of desperation is a source of many tensions that are a shout of protest and a cry of desperation from hundreds of thousands of people. Nothing is solved if we merely try to place blame on agitators or leaders, since the root of the evil is in the social situation itself. All of us inhabitants of our country must open our eyes to the gravity of the problem.

1.4.5.2 We observe joyfully that the campesinos are daily reaching a greater awareness of their rights and of their own dignity. This is an irreversible move forward and, despite the continuing and brutal repression to which they have been subjected, theirs is a legitimate cry and action in defense of the land.

But we fear that without proper accomodation for these hopes and if mechanisms are not established for responding quickly and effectively to their request, an outburst of violence may result with unforeseen consequences. We have in mind the painful case of Panzos in Alta Verapaz. It is a tragedy and a crime which we still remember and condemn, since we know well that just ten years ago more than a hundred Kek'chi Indians were massacred over land problems. This could happen again in any place and at any moment. The multitudinous demonstrations held in many parts of Guatemala are an indication of the troublesome situation in the rural area. Because of it, we repeat again with Pope John Paul II: "To forestall any extremism and to consolidate an authentic peace, there is no better way than to return their dignity to those who suffer injustice, contempt and misery." (John Paul II, Homily at Campo de Marte, Mar. 7, 1983, 6)

In the light of God's Word and the Church Magisterium, we want to offer to the faithful and to all people of good will a word of guidance regarding the Christian meaning of land ownership.

2.0 THEOLOGICAL INSIGHTS

2.1 SACRED SCRIPTURE

2.1.1 The Earth, a Gift of God

In the Bible the subject of land is important, because from the dawn of creation to the Apocalypse the human person develops in a particular land, God's gift and the habitation of God with people.

Scripture describes for us the origin of humanity, saying that it was created in the image of God (Gen. 1:26). This is the theological basis for human dignity. God also blessed that humanity created as man and woman (Gen. 1:27) that it might multiply, filling and submitting the earth. The fruits of the earth were given them as food (Gen. 1:27). The earth is, then, according to God's plan, humanity's world.

Man and woman belong to the earth (Gen. 2:7) and it belongs to them because right after creating them God charges them with tilling and caring for the earth (Gen. 2:15). Thus farmwork appears as the essential task defining and situating the human person in the world and before God.

2.1.2 Shared Joy

Many Scripture texts express humanity's joy at the fruit of their labors on the earth and their gratitude to God for the divine blessing. When the earth gives its harvest, men and women know that God is blessing them (Ps. 67:7; 85:13).

The joy with which people gather up the first fruits and conclude the harvest was in the ancient people of God an occasion for the family to make a pilgrimage to the sanctuary of the Lord and to celebrate there a fiesta in God's honor (Deut. 16:1-15).

These agricultural feasts, continued now in the completely new light of our Christian Easter and Pentecost feasts, teach us to rejoice before the Lord for the goods of the earth, and show us that we should share with those who have less the abundance with which God has blessed us.

2.1.3 The Earth a Sign of Covenant Between God and Humanity

The Lord promises his oppressed people in Egypt that God will guide them to a good and spacious land yielding milk and honey (Ex. 3:8). Thus the promise made to Abraham is gathered up again (Gen. 12:1).

When the Israelite offered the first fruits of the earth, he remembered that the earth and those fruits were a gift from God (Deut. 26: 9-10). When the people came into possession of the earth, each tribe was assigned its territory according to its inhabitants: "You shall increase the legacy of the numerous and reduce that of the meager." (Numbers 26: 54) In this way no individual nor tribe will come into possession of the land by depriving others of their livelihood.

The earth does not belong to men but to the Lord, and what each one calls his property is in reality the portion to which he is entitled in order to make a living. The earth is the Lord's and the bounty thereof, the world and those who inhabit therein (Ps. 24:1).

2.1.4 A Prophetic Denouncing of Sin

The voice of the prophets was raised to denounce those who hoarded the earth with greed to the detriment of the poor and destitute: "Woe unto you who gather house upon house and field upon field, annexing until you occupy the whole place and are the sole inhabitants of the country! Thus has the Lord of hosts sworn to my ears: "Many great and beautiful homes shall be left abandoned, without inhabitants." (Is. 5:8-9). "Woe unto those who meditate upon evil. They covet fields and steal them, homes and usurp them; they do violence to a man and to his house, to an individual and his inheritance. Behold I am preparing an hour of misfortune against you who do this from which you shall never escape." (Mi. 2:1-2).

The prophet's voice was also raised against those who did not pay or who gave unjust wages to their workers "Woe unto the one who builds his house without justice and his foundations without righteousness! He takes advantage of his neighbor and does not pay the neighbor for his work." (Jer. 22:13). These are those who, resting upon marble beds, lounging upon their couches, drink wine from large cups, annoint themselves with the best of perfumes, but care nothing for the ruin of my people." (Amos 6:4-6).

This denunciation of avarice and of the excessive wealth attained by the hoarding of land and by the paying of unjust wages is also repeated in the New Testament writings. "You rich, weep and cry out over the disgraces which are about to fall upon you! Look, the salary you have not paid to the workers who harvested your fields is shouting: and the cries of the harvesters have reached the ears of the Lord of hosts. You have lived in luxury upon the earth and given yourselves over to pleasures." (James 5:1, 4-5).

2.1.5 Jesus the Poor Points Out to the Wealthy their Responsibility

Jesus, the Son of God, Lord of heaven and earth, has nowhere to lay his head. (Luke 9:58). He being rich, became poor for our sake. This poverty freed him to carry out his mission: "To evangelize the poor." (Luke 4:18).

Jesus does not present himself as a judge or arbiter in the distribution of legacies. On one occasion he rejects such a request in order to make evident that earthly goods do not guarantee one's existence.

Then he tells the parable of the man whose fields gave forth such an abundant harvest that he had to put up new, much larger grain bins in order to store it. The thought that with this he would have enough to live for many years, but that night he died. (Luke 12:13-21). This is why Jesus also calls down woe upon the rich and upon those who are full (Luke 6:24-25). And he describes money as "unjust" (Luke 16:9) when there is at the origin of great wealth the exploitation of the weak. That is why Jesus commands the rich who want to follow him to place their wealth at the service of the needy: "Sell what you have and give alms" (Luke 12:33).

The concept of "alms" so frequent in the New Testament, should be correctly understood. It was an ancient practice by which the most powerful members of a population took charge of the neediest in the community - the orphans, widows, strangers - providing for thema means of subsistence. The concept, then, expresses the moral responsibility of one who has more toward those without possessions. (Deut. 15:7-8; 10,11).

2.1.6 The Paschal Mystery of Christ Transforms Creation

The New Testament affirms that the world was created by the One who is the Word of God and that without Him nothing of what exists was created. (John 1:3). This Word of God became flesh, truly a human being in Jesus (John 1,14). In such a way that Jesus can be called the "first-born of all creation." It is not that he was the first of creatures, but that all that exists finds its meaning in Him, "because in Him were created all things and everything was created by Him and for Him." (Col.1,15,16).

Because of this, Christ's redeeming work affects not only the group of believers of humanity alone; but rather by his death and resurrection, Christ reconciled all things with God, "pacifying, by the blood of His cross, everything on earth and in the heavens" (Col.1:20). Christ's Paschal Mystery has transformed human beings from sinners to the just who live for God (Rom. 6:11). But creation has been redeemed, too, together with people, and groans in "the hope of being freed from its servitude to corruption in order to participate in the glorious freedom of the children of God." (Rom.8:20-21). This liberation begins for creation when the goods of the earth cease to be instruments of human rivalry and exploitation in order to become a means of friendship and communion.

2.1.7 The Earth and Wealth at the Service of Friendship

The effect of the transformation brought about by Christ's Paschal Mystery is palpable in the first Christian community called together by the Risen Lord in the power of the Spirit. It is true that in this community there is deceit and sin, as in the case of Ananias and Safira (Acts 5:1-11); however, the testimony of friendship prevails, a friendship which unites all the believers: "the multitude of believers had but one heart and a single soul. No one called their belongings their own, but rather everything was held in common among them.....there was in their midst no one in need, because all those who had fields or homes sold them, brought in the money from the sale and set it at the feet of the apostles, and they distributed it to each one according to their need." (Acts 4:32-35).

Faith in the Risen Lord and the friendship which thus results lead to a new earth in which justice is at home (II Peter 3:13). "At that time there will be a new heaven and a new earth where there shall be no death nor tears, nor cries nor fatigue, because the old world shall have passed away." (Apoc.21:1-4).

That hope should encourage our awareness today so that in the meantime we may make of this earth a place of togetherness in justice and equity.

2.2 FATHERS OF THE CHURCH AND THE MAGISTERIUM

2.2.1 The Social Purpose of Property

The biblical teaching concerning land ownership has been studied and reflected upon in depth since the Church began. The Holy Fathers have left us an impressive wealth of thought and examples of action on topics such as the meaning of property, the role of earthly goods and the demands of social justice.

The Church has always recognized the right of all people to own property sufficient for themselves and for their family. (PP:22). However, this right to property "constitutes for no one an unconditional and absolute right. There is no reason to reserve for one's own exclusive use what goes beyond our need while others are lacking essentials." (PP:23).

This is the teaching which, like a river of pure water, flows through the history of the Church and which, in the recent period of Vatican Council II and under recent Popes in their social encyclicals has been repeated tirelessly. "God has destined the earth and everything she contains for the use of all human beings and all people." (GS:69).

There is special vigor in the thought expressed by John Paul II during his inaugural address at the Third General Conference of Latin American Bishops: "Upon all private property there is a grave social responsibility." (Literally, a social mortgage), (III,4).

Because of this, the right to private property is not an absolute right, but rather a conditional one, limited by a broader and more universal principle: God has created all things for the use and benefit of all human beings, with no distinction whatsoever.

2.2.1 Land for All

The Holy Fathers have also referred directly to land distribution. Thus, for example, St. Ambrose declares: "It is not part of your (own) goods that you give to the poor, but rather what belongs to them. Because you have appropiated to yourself what was given for the use of everyone. The earth has been given for the whole world and not merely for the wealthy." (From Nabuthe, ch.12,no.53:Pl 14, 747, cit.PP,23). St. John Chrisostum is even more explicit: "God never made some rich and others poor. God gave the earth to everyone. The whole earth belongs to the Lord, and the fruits of the earth should be available (lit."common") to all." The 'mine' and 'thine' are motive and cause for discord. Community of goods is therefore a form of existence more adequate to our nature than is private property itself.

During his apostolic trips to Latin America, Pope John Paul II has been able to see and touch our reality and; since having this direct experience, he has strengthened Church doctrine on the subject of land. When he experienced personally that a timid application of doctrinal principles resulted in conflictive social situations in which a large number of people had no access to the goods necessary for their human fulfillment, he expressed to the campesinos in Cuilapan, Mexico, the need for profound reforms: "As for you who are responsible for (whole) peoples, you powerful classes who sometimes hold uncultivated the land that hides a daily bread needed by so many: the human conscience, the conscience of nations, the cry of the destitute, and above all the Voice of God, the voice of the Church repeat with me: It is not just, nor is it human, nor Christian to continue on with certain situations which are clearly unjust." (No.9).

In Recife, Brazil, John Paul II said to the farmers: "The earth is a gift from God, a gift God makes to every human being, men and women, whom God wants gathered together in a single family and related to one another with a spirit of friendship. It is not right, therefore, because it is not in harmony with God's plan, to use this gift in such a way that the earth's benefits favor just a few, leaving others, the immense majority, excluded." (Homily at the Mass celebrated for farmers. No.4).

Today Guatemalan campesinos have an ever clearer awareness that they live in what Leo XIII and Paul VI called undeserved misery (pa.9 & 67). Because of this, they are raising their voices from all over the country, urging those responsible for the nation to "put into effect daring and profoundly innovative transformations...to bring about, without further delay, urgent reforms." (John Paul II to the campesinos in Cuilapan,No.6) so that the goods created by God may reach everyone with equity, according to the rule of justice, inseparable from charity.

3.1 PASTORAL CONCLUSIONS

3.1.1 Throughout these reflections we have reviewed the injustices the unequal land ownership in Guatemala engenders. We also have tried to sketch in the light of scriptural reflection and Church teaching, the divine plan for God's children. As shepherds of the Church in Guatemala, we have the grave obligation given us by our ministry, to denounce the situation which is at the root of our dehumanizing poverty. We Christians should not only concern ourselves with the problems of our nation, but above all "involve ourselves" in them. The first step will be to become aware of the situation suffered by our campesino brothers and sisters.

3.1.2 Repetition of a Pastoral Denunciation

As we pointed out in 1984: "An evil distribution of property, immense extensions of uncultivated or insufficiently cultivated land make of our people a hungry, sickly people with a high mortality rate." (Message of the Guatemalan Espiscopate, May 9, 1984).

3.1.3 In Pope John Paul II's Encyclical "Laboren Exercens", we read a description/denunciation which finds in Guatemala a desperate case in point: "In some developing countries, millions of people find themselves obliged to cultivate others' land and are exploited by large landowners, with no hope of managing to own some day even a tiny plot of land of their own. Long working days of heavy physical labor are paid miserably. Cultivated lands are abandoned by their owners, legal titles for possession of a small plot, cultivated over many years are not taken into account or are without defense in the face of the 'hunger for land' of more powerful individuals and groups." (L.E.21).

3.1.4 Futile Cry of the Campesino

All these situations naturally provoke the outcry of the campesinos for their rights; but we know (because we have such recent experience that we cannot forget it) that the campesino's cry has been stifled by the power of arms. Thousands of campesinos have been killed in Guatemala merely for having attempted a change of structure. Since then, as a result of this terrible repression suffered by Guatemalans, campesino organizations of whatever type are viewed with suspicion and there are no lack of coercive measures to suppress them. At this level there should be mentioned the role - forced (compliance) in practice - of the Civil Defense Patrols which enormously limit the campesinos' right of association. It is not unusual to learn that campesinos have been hunted down or "disappeared". This list has become by now one of the most shameful and tragic in our history.

3.1.5 Dearth of Legal Backing

Unfortunately, as we pointed out above, there is a painful lack of legislation when it comes to defending the campesino and his rights or to really promoting them effectively. On the contrary, Guatemalan legislation seems designed to maintain a system of land ownership which benefits the large landowner and those who control economic and military power to the detriment of the campesinos and Indians. This legislation forms the basis and the legal framework for the unjust situation experienced in Guatemala, as we already stated several years ago in our Pastoral Letter, "United in Hope."

4.0 EPISCOPAL GUIDELINES

4.1 This entire list of negative circumstances cannot cause us as Christians to remain passive out of disappointment or discouragement. Our response must be a positive one. Evil and all its consequences have been overcome by Christ, who triumphed over sin and death. It is up to us to take this redemption to the sinful structures of our national situation.

4.2 Invitation to Solidarity

But this is a task that can only be carried out effectively if all of us do our part generously. Because of this, the first requirement is SOLIDARITY. Only insofar as we feel ourselves brothers and sisters in solidarity with one another can such a critical problem as the ownership and exploitation of land in Guatemala find channels for solution. Solidarity is the opposite of egotistical individualism, since it makes us think of others at the same time as we think of our own needs. It makes us seek a solution to the problems of our neighbors. It has its basis in the Christian meaning of friendship, since solidarity is based precisely on a fundamental truth of Christianity: we are all brothers and sisters because we are children of the same God, we are gifted with the same dignity, we enjoy the same rights and we are called to the same glorification with God.

4.2.2 At times of crisis, such as the one we are living in Guatemala, there is a tendency to forget everyone else and just try to save ourselves ("salvese quien pueda") which kills all sense of solidarity and throws people into a frenetic search for egotistical satisfactions leading to extremes of consumerism. We must react against such an orientation in our life and action, appealing to the great principles of our faith.

4.3 Integral Development

4.3.1 Another important aspect in the search for genuine and adequate solutions to the grave problems of land ownership is the effort to reach a high degree of development. But this will be no merely an economic development. Rather, it should be an authentic integral human and social development as expressed by Pope Paul VI in his Encyclical "The Progress of Peoples", No. 35.

We should struggle so that this development may reach everyone, not just a privileged group. Development should reach the entire people.

4.3.2 If any sector should be privileged, let it be the campesino or Indian people, not simply because it is the majority of the Guatemalan population, but also because of a basic sense of justice, in order to compensate in some way for the centuries of abandonment they have endured, as if they were citizens of a second or inferior class. Guatemala will not progress as it should as long as, with inconceivable myopia, it tries to keep marginated the campesino and worker sectors, "the dynamizing force in the building up of a more participative society." (Puebla, 1245).

In effect, this has been one of the causes of Guatemala's greatest tragedy; preventing, out of egotism and irrational fear, the full use of the campesino potential to make the land produce abundantly.

If this sleeping giant is not invited and prepared to participate in the building up of a better Guatemala, it will awaken embittered by the contempt heaped upon it over many centuries and may become a source of even more painful and violent conflict.

4.4 JUSTICE, CHANGE OF SOCIAL STRUCTURE

4.4.1 The Need and Urgency of Social Change

Nothing we have spoken of can come about unless we accept the idea that a change of sinful and obsolete social structures is necessary and urgent in Guatemala. We want to make our own the strong words of John Paul II in his historic message at Oaxaca, Mexico in 1979: "Real, efficacious measures must be put in practice at the local, national and international levels along the broad lines set out in the Encyclical MATER ET MAGISTRA."

4.4.2 The Pope invites us to follow the broad guidelines set out by John XXIII's Encyclical MATER ET MAGISTRA which has been called the campesinos' "Magna Carta". This Encyclical, in effect, highlights the emphasis that should be given to the agricultural sector when it says: "Now in order to attain a proportionate development among the different sectors of the economy, it is also absolutely essential (that there be) an economic policy in regard to farming, followed by public, political and economic authorities, who must deal with the following areas: fiscal responsibility (taxation), credits, social security, prices, publicity and complementary industries and, finally, the perfecting of the farming enterprise structure." (M.M.131).

4.4.3 In harmony with Church doctrine and with the needs of Guatemala, the following measures, urgently needed to improve the situation, may be highlighted:

1. To legislate in view of an equitable land distribution, beginning with the vast government properties and "properties insufficiently cultivated, in favor of those able to make them fruitful." (G.S.71).

2. To facilitate the presenting of additional titles for lands which the campesinos have been cultivating for years.

3. To guarantee legally the defense of campesinos and refugees so that they will not be stripped of their lands.

4. To defend the campesinos against speculation in the renting of lands to be cultivated.

5. To assure that campesinos receive a just and equitable price, protecting them from voracious and unscrupulous middlemen.

6. To give an adequate farming education to the greatest possible number of campesinos, so that they may improve their methods of cultivating and may be able to diversify their crops.

7. To grant the greatest possible facilities for bank credits and for acquiring seeds, fertilizers, and other materials and farming tools needed.

8. To increase the salary of the campesinos in accord with human dignity and their family responsibilities.

9. To open up channels and to create mechanisms so that the campesino can participate actively and directly in the local, regional, national and even international marketplace.

10. To diminish the indirect taxes on the purchasing of products for farmwork.

11. To create direct taxes for large land extensions proportionate to the size of the lands.

12. To organize some kind of protective measures for campesinos against poor harvests and work accidents.

13. To stimulate and protect campesino organizations in defense of their rights and to increase their farm production.

4.5 CHRISTIAN CHARACTERISTICS IN THE CHANGE OF STRUCTURES

4.5.1 Nonviolence

We cannot resort to violence because it is neither evangelical nor Christian, but rather generates further violence in an endless spiral. As Christians, we have more confidence in the power of those who are nonviolent than in the brute force of those who place all their trust in armed homicides.

4.5.2 Legal Framework

A second characteristic is that the change of structures should be brought about legally. We advocate an adequate legislation which takes as its goal the common welfare and defense of the campesino who, as we have pointed out repeatedly, is in practice the weakest, poorest and most defenseless sector in our society. We are convinced that measures which are in fact outside the law aggravate the problem, (like invading land - far from solving the agrarian problem, increase it) and lead to explosions which are impossible to control.

4.5.3 The Urgency of Change

We Christians are peaceful and builders of peace. We trust in the foundation of the law, in the value of what is reasonable, and above all, in the transforming power of love. And based upon this conviction, we demand that the changes which are indispensible for seeking adequate solutions to such an enormous problem, be carried out urgently though without the haste which might diminish the reasonableness, efficacy and credibility of the measures. We are aware that something which has been structured over the course of many centuries cannot be changed overnight. However, it is essential to delay no longer than necessary, as delay might aggravate the agrarian problem even further.

5.0 CONCLUSIONS

5.1 We have tried to promote a reflection which is deep, serene, sincere and constructive on one of the most serious and complex problems in our Guatemalan panorama. In our judgment, this is the fundamental problem in the social structure of Guatemala. To solve it will mean having achieved, through a difficult but patriotic process, a basic change in Guatemalan history.

5.2 We have thus shed light on this reality with the Word of God and the teaching of the Church, demonstrating that it is not something foreign to our pastoral mission, but rather something that falls within the lines of our work as shepherds of the Church. Neither the sufferings nor the errors of the people entrusted to us can be beyond our concern.

For all these reasons, we have the hope that our faithful will read this Pastoral Letter attentively and will study it, trying to discover the very positive perspective that it offers for the future of our Guatemala. We also have the hope that everyone will commit themselves with a fraternal spirit to carrying out the tremendous task implied in finding an adequate and peaceful solution to such a grave problem. Our pastoral invitation is sent with great hope to the Government, to political parties, to Guatemala's productive forces, to the means of social communication and to the private sector; also to Catholic lay movements and to the Indians and campesinos, inviting them to join forces fraternally and peacefully in an effort which calls for the commitment of every Guatemalan.

5.3 We recognize that in the final analysis the most difficult thing is personal conversion. Conversion means a "turning around", a radical change. As long as one's only goal is profit, to grow rich, ambition for money or power, it is impossible to understand these truths which we have desired to bring to mind, and to see with Christian eyes the reality which must be transformed.

5.4 We have presented the human and moral aspects of the problem rather than delving more deeply into the technical and practical aspects which go beyond our mission. Our pastoral service is limited to a posing of the problem in the light of human dignity, the common good and Christian love.

5.5 In concluding this Letter, we ask God, through the intercession of the Virgin Mary, Mother of all people, who moves our hearts and illumines our understanding, that setting aside every violent, revengeful and biased attitude, we may give a worthy, courageous and Christian response to the tremendous "CRY FOR LAND".

Guatemala de la Asunción, Feb. 29, 1988

(Followed by the signatures of **Próspero Penados del Barrio**, Archbishop of Guatemala, **Rodolfo Quezada Toruño**, President of the Guatemalan Episcopal Conference, and the Bishops of Guatemala.)

CURRENT ECONOMIC SITUATION IN CENTRAL AMERICA

Executive Secretariat for
Economic and Social Affairs

ORGANIZATION OF AMERICAN STATES

June, 1988

Central America enjoyed during the two preceding decades uninterrupted economic growth, and improvement of social conditions. That favorable trend has been dramatically interrupted in the 1980s. Disruption has been deeper in Central America than in other Latin American countries subject to a similar economic crisis. The acuteness of the Central American crisis has flown from the vulnerability of the economies of the region to external circumstances, as well as from the conflictive situation facing the region in the recent past.

1. Sources of Growth

The decade of the 1960s was the period of fastest growth on record for Central America. Real GDP increased at an average rate of 6.2 per cent per year, higher than Latin American growth rates (See Table 1). Economic expansion was generalized in every country of the Isthmus, and despite rapid population growth per capita GDP increased by 3.0 per cent per year (See Table 2).

Central American economies have traditionally been open, exports plus imports amounting to sizeable proportions of GDP. Favorable conditions prevailing in the world economy during the 1960s had a positive impact on Central America. Growth of agricultural exports, coffee, bananas, cotton, sugar, and later, beef, to the world market provided resources to finance growing levels of imports that contributed to making possible a dynamic process of capital accumulation.

The crucial factor sustaining growth, however, was the economic integration process, through the successful functioning of the Central American Common Market. Central American integration in the 1960s has been the most accomplished attempt at economic integration in the Western Hemisphere. The Common Market provided the framework for industrialization, and it thus contributed to economic modernization.

There were some hidden structural weaknesses in the growth pattern followed by Central America, however. Manufacturing, and export agriculture experienced modernization, while traditional agriculture and the informal sector remained untouched by progress. Differential growth rates in productivity and salaries between different sectors, and countries, aggravated social tension already existing in the region. There was a bias in favor of imports, not only of capital goods, but also of raw materials and intermediate inputs for manufacturing, which accentuated vulnerability to changes in the external sector. Finally, economic progress was not enough to overcome long standing problems of unequal income and wealth distribution, underemployment, and unsatisfied basic needs.

2. Diminishing growth in the 1970s

Economic growth continued during the 1970s, however, it proceeded at a much slower pace than in the preceding decade. Rates of GDP expansion were very uneven among different Central American countries during this period. In one of them, Nicaragua, there was a very significant decrease in per capita GDP between 1970 and 1980, and per capita income in El Salvador stagnated during that period. On the other hand, per capita GDP grew at annual rates of between 2.0 and 3.0 per cent in other Central American nations (See Tables 1 and 2).

The following were main factors explaining sluggish economic growth:

a) The 1969 war between El Salvador and Honduras was a serious blow to the regional integration process, from which the Central American Common Market has not been able to fully recover. Severe lack of foreign exchange also limited the positive effects of efforts made during the 1970s to reactivate the operations of the Common Market;

b) A long period of global economic prosperity came to an end in 1973/1974. Due to the openness of Central American economies, the region faced extreme difficulties in overcoming the impact of changed conditions in the international economic, trade, and financial systems -- floating rates for the US dollar, world inflation, oil shocks, and, by the end of the decade, recession in the industrial countries;

c) Some costly natural disasters -- earthquakes in Guatemala and Nicaragua. and the Fifi hurricane in Honduras, resulted in losses of lives, and serious damage to economic and social infrastruture; and,

d) Domestic upheaval in several countries disrupted economic activity, and contributed to negative expectations,affecting savings and investment.

Central American governments expanded their public investment and socially oriented expenditures, in an effort to compensate for the loss of dynamism in the external sector. General weakness of the tax systems, vis a vis larger public expenditures, contributed to intensify financial and fiscal imbalances.

Constraints in the external and fiscal sectors were met through increased utilization of external credit. Official development assistance had already been an important source of development resources during the 1960s, particularly during the implementation of the Alliance for Progress. Increased liquidity in international capital markets in the 1970s afforded developing countries the possibility of having access to a non-traditional source of development financing, credit from the international banking system. Unlike other developing countries, Central America continued receiving during the 1970s relatively large amounts of credit from external official sources. At the same time, Central America borrowed from international banks, although in relatively lesser amounts than other Latin American countries.

3. Some social conditions by 1980

The economic history of Central America during the twenty years from 1960 to 1980 is one more proof that economic growth is not in itself enough to improve social conditions, and can not therefore be the only objetive for development.

Unemployment has been a traditional problem in Central America. In some cities, such as Guatemala City and Tegucigalpa, the underemployment rate is estimated to affect over 40 per cent of the labor force. Open unemployment has not been as prevalent, however, it has gradually become a serious problem. Even in Costa Rica, where social conditions are better than in the rest of the region, unemployment grew from 3.5 per cent in 1970 to almost 6.0 per cent in 1978.

At the beginning of the current decade, illiteracy affected over 30 per cent of the adult population in El Salvador and Honduras, and almost 50 per cent in Guatemala. In some Central American countries, illiteracy is particularly high among the rural population, many of them of Indian ancestry, who have not yet been incorporated to the national society.

Poverty, defined as extreme poverty when total family income is not sufficient to satisfy minimum nutritional requirements, even if wholly spent on food, is perhaps the most accurate indicator of overall social conditions. Available estimates indicate that by 1980, 40 per cent of the region's population live under the line of absolute poverty. The situation varies from country to country: 13 per cent of the population of Costa Rica is in conditions of absolute poverty, while over 50 per cent of the people in Honduras and El Salvador live under those conditions.

4. The 1980s: a Time of Crisis and of Conflict

From a purely economic view point, the Central American crisis of the 1980s has been the response to two factors: a) the negative effect that recession in the industrial economies at the beginning of the decade, and uneven recovery therefrom have had on the demand for exports from developing countries, and b) the external and internal disequilibria built-up during the period 1960-1980, in the face of unfavorable global conditions.

Exports had been a very dynamic contributor to Central American economic growth in the past. Total exports from the region grew at an annual rate of 10 per cent during the 1960s, slightly higher than the 9.0 per cent expansion rate per year for world trade during the same decade. In spite of negative developments during the 1970s, Central American exports increased by 17 per cent per year in the course of that decade. In the 1980s, on the contrary, trends in export values have been a constraint to growth: from 1982 to 1986, for instance, merchandise exports grew by only 2.8 per cent.(See Table 5)

Export sluggishness, coupled with the need of servicing a very sizeable external debt, have imposed a limit to import expansion. Merchandise imports in 1986 were only 2.2 per cent above the 1982 level. In 1983, when the brunt of the adjustment to the new international situation was felt, imports decreased by nearly 10 per cent. (See Tables 5 and 6).

Some imports during the period of relatively rapid growth and export expansion, were luxury items not needed for sustaining the development process. Restrictions in imports, however, have affected not only those unnecesary expenditures, but also the acquisition of capital goods and of inputs to maintain the proper functioning of manufacturing and agriculture.

Unlike other Latin American countries, the nations of Central American have been able to maintain during the crisis continuous negative trade balances. This has been possible because Central American external debt is relatively lower than Latin American debt as a whole, and also because Central American countries have continued to receive external financing, mainly from official sources, and in favorable terms. Net resource transfers to Central America have remained positive during the crisis, unlike the situation in the rest of developing countries of the Hemisphere.

This is not to deny the importance of the external debt servicing problem for Central America. External debt continously grew during the 1960s and the 1970s, to a large extent due to inappropriate exhange and fiscal policies. Unrealistic exchange rates hindered export expansion, and stimulated imports, leading to large trade and current account deficits in the balance of payments. Excessive public expenditures, and unwillingness or inability to strengthen tax revenues, created additional pressures on internal and external demand.

The burden of servicing the external debt in Central America is relatively lower than in other debtor developing countries (See Tables 8 and 10). However, debt service is high by historical standards in the region, and it demands the expenditure of an increasing proportion of stagnant exports, resulting in the need to undertake painful adjustment processes. These adjustments have been partly facilitated by the flow of additional debt during the current decade (See Table 7).

Deteriorating economic conditions have coincided in the 1980s with an intensified confrontational situation in Central America, both within some countries of the region, and among some of them. Beyond its tragic human cost, this conflictive environment has had serious economic and social implications. One consequence has been pessimistic perceptions of future economic prospects, leading to capital, and brain flights. Together with lower global demand, negative expectations have resulted in a dramatic drop in investment. In two Central American countries gross domestic investment in 1986 was equal in real terms to levels already registered in the 1960s, and in the other three countries, to levels of the 1970s. Investment is the basic source of growth, and its recuperation would be essential for any sustained expansion of the region's economies. (See Table 4)

After a period of economic decline in 1981-1983, there has been a weak recovery starting in 1984. However, lower internal and external demand, and the effects of the situation of upheaval in the area, have resulted in substantial decrease in per capita GDP. In one country, this indicator has reached levels corresponding to the 1950s, and even in the one country where per capita GDP decline has been smallest, the level achieved in 1987 had already been registered in 1974. At least a decade and a half of development and growth has been wasted in Central America. (See Tables 1 and 3).

Social indicators for the 1980-1987 period are incomplete. However, it can be stated that as a result of economic stagnation, and social and political unrest, conditions have probably deteriorated. True, economic growth is not sufficient to provoke social progress. Lack of growth, on the other hand, makes it impossible to stimulate social improvement. The few indicators available (See Table 9) show serious deficiencies in the field of public health. Displaced people and refugees, totaling over 800,000 people, pose a new, massive challenge.

5. Conclusions

The depressed economic situation in Central America should not be a cause for undue dismay. In assessing future prospects for the region, past experience has to be taken into account. The post-war experience, and particularly, the experience of the decade of the 1960s gives testimony that Central America, with adequate support from the international community, has the resources required to resume, and maintain, a process of sustained economic growth that should offer the basis for development.

Development is basically an endogenous exercise. It is up to the Central American people to lead Central American development. Among things that seem to have high priority, realistic exchange and fiscal policies would be essential for economic growth to be possible. It would also be necessary to stimulate savings and investment, granting private initiative the incentives needed for its contribution to social wellbeing.

Social progress should be a paramount goal in any Central American development program. Social participation is of the essence of democracy, and incorporation of marginal groups into the mainstream of social activities is required, not only on humanistic grounds, but also as a tool for growth.

Revival of the Central American Common Market, which was the leading source of modernization and growth in the 1960s, should be assigned the highest priority. Integration is far from being an obstacle to symmetrical insertion in the global economy. An integrated Central America should be in a better position to fully participate in the international economic system.

Peace is undoubtedly a necessary condition for sustained growth and social progress. It is important to keep in mind that satisfaction of basic needs is a condition for maintaining peace. It is also necessary to realize that the onset of peace will pose new pressures, in absorbing back in productive activities those who have been forced or induced to leave them.

Table 1

CENTRAL AMERICAN ISTHMUS: GROSS DOMESTIC PRODUCT 1960-1987

(In millions of US$ at 1986 prices)

	1960	1970	1980	1981	1982	1983	1984	1985	1986	1987*	Average annual growth rate (%) 1960-70	1970-80	1980	1981	1982	1983	1984	1985	1986	1987*
CENTRAL AMERICAN ISTHMUS	11282.7	20515.5	32289.7	32270.8	31444.4	31451.2	31973.8	32222.8	32739.5	33535.1	6.2	4.6	2.6	-0.1	-2.6	0.0	1.7	0.8	1.6	2.4
Costa Rica	1545.5	2752.2	4764.1	4656.3	4317.1	4440.7	4797.0	4843.1	5046.3	5152.8	5.9	5.6	0.8	-2.3	-7.3	2.9	8.0	1.0	4.2	2.1
El Salvador	1885.2	3436.6	4722.6	4331.3	4088.5	4121.1	4214.7	4298.0	4325.2	4439.7	6.2	3.2	-8.7	-8.3	-5.6	0.8	2.3	2.0	0.6	2.6
Guatemala	4044.9	6911.3	11977.8	12057.6	11629.7	11332.8	11386.4	11276.9	11321.3	11603.8	5.5	5.7	3.7	0.7	-3.5	-2.6	0.5	-1.0	0.4	2.5
Honduras	1112.4	1905.4	3263.1	3293.1	3228.8	3220.9	3310.5	3416.0	3509.5	3656.9	5.5	5.5	2.7	1.5	-2.0	-0.2	2.8	3.2	2.7	4.2
Nicaragua	1398.1	2726.0	2822.7	2976.1	2949.8	3085.9	3037.5	2913.5	2901.1	2961.3	6.9	0.3	4.6	5.4	-0.8	4.6	-1.6	-4.1	-0.4	2.1
Panama	1296.6	2784.0	4759.4	4958.4	5230.5	5249.8	5227.7	5475.3	5636.1	5720.6	7.9	5.5	15.1	4.2	5.5	0.4	-0.4	4.7	2.9	1.5
LATIN AMERICA AND THE CARIBBEAN	263020.6	460945.4	835387.4	847821.6	840606.2	816893.2	847655.7	877504.1	905571.4	927792.9	5.8	6.1	6.4	1.5	-0.9	-2.8	3.8	3.5	3.2	2.5

* Preliminary estimates.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 2

CENTRAL AMERICAN ISTHMUS: POPULATION AND PER CAPITA DOMESTIC PRODUCT 1960-1987

	Population		Per capita gross domestic product (in US$ at 1986 prices)										Average annual growth rate (%)									
	1986 (millions)	Growth rate 1970-1980 (%)	1960	1970	1980	1981	1982	1983	1984	1985	1986	1987*	1960-70	1970-80	1980	1981	1982	1983	1984	1985	1986	1987*
CENTRAL AMERICAN ISTHMUS	26.6	3.0	931.2	1245.9	1461.3	1420.1	1347.3	1312.8	1300.6	1275.6	1264.1	1258.2	3.0	1.6	-0.6	-2.8	-5.1	-2.6	-0.9	-1.9	-0.9	-0.5
Costa Rica	2.7	2.5	1250.4	1593.6	2085.9	1988.2	1794.3	1797.9	1892.3	1833.1	1858.0	1846.2	2.5	2.7	-1.7	-4.7	-9.8	0.2	5.3	-3.1	1.4	-0.6
El Salvador	4.9	2.5	768.2	972.4	1047.6	944.3	877.0	872.4	881.7	891.7	892.5	899.8	2.4	0.7	-10.1	-9.9	-7.1	-0.5	1.1	1.1	0.1	0.8
Guatemala	8.4	2.9	1095.0	1317.4	1731.6	1695.1	1589.8	1506.2	1471.1	1416.2	1381.5	1375.8	1.9	2.8	0.8	-2.1	-6.2	-5.3	-2.3	-3.7	-2.4	-0.4
Honduras	4.7	3.2	572.5	722.0	885.6	861.8	816.4	787.1	782.4	779.4	774.6	781.6	2.3	2.1	-0.5	-2.7	-5.3	-3.6	-0.6	-0.4	-0.4	0.9
Nicaragua	3.5	3.5	988.8	1487.2	1018.7	1039.5	997.6	1009.1	960.3	890.4	857.3	845.8	4.2	-3.7	1.1	2.0	-4.0	1.2	-4.8	-7.3	-3.7	-1.3
Panama	2.2	2.4	1173.4	1872.2	2433.2	2479.2	2559.0	2513.1	2449.7	2511.6	2530.8	2515.7	4.8	2.7	12.4	1.9	3.2	-1.8	-2.5	2.5	0.8	-0.6
LATIN AMERICA AND THE CARIBBEAN	405.8	2.9	1305.5	1731.2	2420.8	2399.7	2325.7	2208.8	2261.3	2263.4	2285.5	2287.7	2.9	3.4	3.1	-0.9	-3.1	-5.0	1.5	1.0	1.0	0.1

* Preliminary estimates.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 3

CENTRAL AMERICAN ISTHMUS:
PER CAPITA GROSS DOMESTIC PRODUCT IN 1987
(in 1986 dollars)

Countries ranked according to the year in which the 1987 level was achieved for the first time.

Countries whose 1987 per capita product fell to levels prevailing in the 1950s		
Nicaragua	798.4	(1953)*
Countries whose 1987 per capita product fell to levels prevailing in the 1960s		
El Salvador	759.8	(1964)*
Countries whose 1987 per capita product fell to levels prevailing in the 1970s		
Guatemala	1186.4	(1971)*
Honduras	715.1	(1972)*
Costa Rica	1693.4	(1974)*
Countries whose 1987 per capita product remained at levels reached in this decade		
Panamá	2225.7	(1981)*
LATIN AMERICA AND THE CARIBBEAN	1765.0	(1977)*

* Indicates the year in which such level was achieved for the first time.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 4

CENTRAL AMERICAN ISTHMUS:
GROSS DOMESTIC INVESTMENT IN 1986
(in millions of 1986 dollars)

Countries ranked according to the year in which the 1986 level was achieved for the first time.

Countries where gross domestic investment in 1986 dropped to levels already achieved in the 1960's.

El Salvador	552.2	(1966)*
Guatemala	897.5	(1968)*

Countries where gross domestic investment in 1986 dropped to levels already achieved in the 1970's.

Panama	993.4	(1971)*
Nicaragua	686.5	(1973)*
Costa Rica	1144.9	(1977)*
Honduras	639.9	(1977)*
LATIN AMERICA AND THE CARIBBEAN	132678.3	(1973)*

* Indicates the year in which such level was achieved for the first time.

Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

	1975	1980	1981	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	25.7	47.7	56.5	64.2	70.9	71.9	80.4	85.6
Nicaragua	38.8	103.8	111.0	137.3	169.9	187.8	216.2	236.3
Costa Rica	34.2	58.2	130.9	154.2	144.1	119.5	121.8	114.1
Panama	42.3	88.6	89.4	96.9	101.9	96.4	98.0	92.5
Honduras	33.0	62.2	65.9	65.5	69.4	73.6	81.4	81.1
El Salvador	22.2	25.8	32.2	38.5	43.9	40.9	44.8	42.6
Guatemala	6.8	14.9	13.6	16.7	18.6	24.1	38.7	34.8
LATIN AMERICA AND THE CARIBBEAN	20.2	35.5	37.9	47.9	59.3	59.1	60.0	58.8

	1975	1980	1981	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	74.6	83.3	84.9	105.5	147.0	166.1	191.5	190.7
Nicaragua	129.5	412.7	438.0	684.9	852.4	1066.2	1435.2	2576.9
Costa Rica	188.1	219.8	260.0	295.5	345.8	295.0	336.2	288.2
Honduras	102.6	150.1	181.9	216.4	237.8	253.2	276.0	268.6
Guatemala	30.5	63.6	76.0	109.3	137.8	176.7	206.1	209.8
El Salvador	65.2	71.4	112.0	148.7	172.1	168.2	173.4	162.2
Panama	63.0	38.1	33.0	48.8	57.8	63.4	70.7	72.2
LATIN AMERICA AND THE CARIBBEAN	145.1	189.4	154.4	265.0	295.6	277.0	290.8	351.6

INTEREST PAID AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

	1975	1980	1981	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	1.4	2.7	3.1	3.4	4.6	3.2	4.0	3.5
Panama	2.3	7.6	7.7	8.5	7.1	7.1	6.7	6.7
Costa Rica	1.9	3.7	5.7	5.0	18.8	7.5	9.8	5.8
Guatemala	0.3	0.8	0.7	0.9	1.0	1.0	1.8	2.1
El Salvador	1.1	1.0	1.2	1.3	2.2	1.9	2.1	1.9
Honduras	6.0	3.6	3.1	2.9	2.6	2.3	2.1	1.9
Nicaragua	2.3	1.8	3.9	4.8	1.6	1.3	0.8	0.8
LATIN AMERICA AND THE CARIBBEAN	1.5	2.5	2.9	4.0	4.3	4.6	4.6	4.1

DEBT SERVICE AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES c/

	1975	1980	1981	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	11.0	9.3	9.1	10.4	14.9	14.3	14.6	14.8
Costa Rica	23.2	27.4	26.1	28.1	56.8	29.1	30.1	28.9
Guatemala	4.4	7.5	8.4	10.3	14.7	20.5	22.4	26.3
Honduras	12.8	17.7	21.5	26.2	22.0	20.2	20.2	22.0
El Salvador	16.4	5.6	7.9	11.3	20.4	21.4	22.5	20.8
Nicaragua	11.9	16.0	27.6	35.8	17.6	14.1	10.6	13.0
Panama	5.9	6.0	5.0	6.6	6.6	8.3	6.6	7.6
LATIN AMERICA AND THE CARIBBEAN	27.0	30.2	23.5	39.1	34.3	32.5	32.8	38.4

a/ Ranked according to the 1986 value.
b/ Disbursed Public and Private External Debt with Government Guarantee and Private without Government Guarantee. Includes short term debt.
c/ Interest plus amortizations of total external debt.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table V

CENTRAL AMERICAN ISTHMUS: SELECTED SOCIAL INDICATORS OF THE MOST VULNERABLE GROUPS

	POPULATION UNDER 5 YRS (millions) 1986	UNDER 5 MORTALITY RATE (per 1.000 live births) 1960	1986	INFANT MORTALITY RATE UNDER 1 (per 1.000 live births) 1960	1975	1980	1984	1986	% OF INFANTS WITH LOW BIRTH WEIGHT 1982-85	% OF CHILDREN UNDER 5 SUFFERING MILD-MOD/SEVERE MALNUTR. 1980-86	PREVALENCE ACUTE MALNUTR. 12-13 MONTHS % age group 80-86	PERCENTAGE FULLY IMMUNIZED 1981/1985-86 ONE-YEAR-OLD CHILDREN TB	DPT	POLIO	MEASLES	MATERNAL MORTALITY RATE 1980-84	% PREGNANT WOMEN IMMUNIZED AGAINST TETANUS 1985-86	% GRADE 1 ENROLL. COMPLT. PRIMARY SCHOOL 1980-86	% OF CENTRAL GOV'T EXP.ALOC. HEALT/EDUC/DEF. 1985
COSTA RICA	0.4	121	23	84	38	20	18	18	9	45/..	-	81/92	83/90	85/90	71/95	26	90	75	22.5/19.4/3.0
EL SALVADOR	1.0	206	88	142	58	42	44	61	13	52/6	-	47/50	62/70	38/70	44/24	74	19	68	5.9/14.5/28.3
GUATEMALA	1.5	230	105	125	81	66	-	61	18	-	-	29/30	42/31	42/32	8/42	105	2	38	../../..
HONDURAS	0.8	232	112	144	111	95	82	71	9	29/2	-	46/57	38/62	37/62	38/55	82	18	27	../../..
NICARAGUA	0.6	210	100	140	109	97	85	64	15	-	-	65/95	23/45	52/80	20/51	65	25	27	../../..
PANAMA	0.3	105	34	69	44	36	26	23	8	48/3	8	77/96	49/73	50/71	53/83	90	29	73	../../..
UNITED STATES	18.8	30	13	26	16	12	11	10	7	-	-	-	../37	../24	96/82	9	–	-	11.3/1.8/24.9
JAPAN	7.7	40	9	31	10	8	7	6	5	-	-	85/85	../98	../98	../73	15	–	100	../../..
SWEDEN	0.5	27	27	16	9	7	7	6	4	-	-	../14	99/99	99/98	56/92	4	–	98	1.2/8.4/6.4

Table 5

CENTRAL AMERICAN ISTHMUS: BALANCE OF PAYMENTS 1982-1986*
(in millions of US$)

	Merchandise Exports (FOB)					Merchandise Imports (FOB)					Trade Balance				
	1982	1983	1984	1985	1986*	1982	1983	1984	1985	1986*	1982	1983	1984	1985	1986*
CENTRAL AMERICAN ISTHMUS	6237.0	5483.1	5664.0	5739.5	6410.2	7364.3	6640.1	7240.8	7405.4	7532.6	-1127.3	-1157.0	-1576.8	-1665.9	-1122.4
Costa Rica	869.0	852.5	997.5	939.1	1083.5	804.9	897.8	996.7	1004.9	1042.8	64.1	-45.3	0.8	-65.8	40.7
El Salvador	704.1	735.4	725.9	679.0	727.0	825.9	830.9	914.5	895.0	939.0	-121.8	-95.5	-188.6	-216.0	-212.0
Guatemala	1170.4	1091.7	1132.2	1059.7	1043.8	1284.3	1056.0	1182.2	1076.7	857.7	-113.9	35.7	-50.0	-17.0	186.1
Honduras	676.5	698.7	737.0	805.1	900.9	680.7	756.3	844.8	879.2	902.1	-4.2	-57.6	-107.8	-74.1	-1.2
Nicaragua	406.0	428.8	385.4	297.6	243.0	723.5	778.1	799.6	837.6	836.0	-317.5	-349.3	-414.2	-540.0	-593.0
Panama	2411.0	1676.0	1686.0	1959.0	2412.0	3045.0	2321.0	2503.0	2712.0	2955.0	-634.0	-645.0	-817.0	-753.0	-543.0
LATIN AMERICA AND THE CARIBBEAN	91492.4	91238.7	101687.7	95515.0	80186.5	84235.9	61584.8	63302.2	62713.9	63278.1	7256.5	29653.9	38385.5	32801.1	16908.4

(Cont. Table 5)

	Balance of Services and transfers					Current Account Balance				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	-489.1	214.7	48.1	413.4	371.2	-1616.4	-942.3	-1568.7	-1253.5	-769.0
Costa Rica	-335.8	-270.8	-255.7	-228.8	-220.0	-271.7	-316.1	-254.9	-294.6	-180.1
El Salvador	-30.6	58.5	135.1	187.3	39.0	-152.4	-37.0	-53.5	-28.7	-173.0
Guatemala	-285.2	-259.6	-327.4	-229.3	-185.7	-399.1	-223.9	-377.4	-246.3	-17.6
Honduras	-224.1	-161.6	-168.7	-136.5	-154.1	-228.3	-219.2	-316.5	-210.6	-155.3
Nicaragua	-196.4	-212.8	-251.2	-205.3	-92.0	-513.9	-562.1	-665.4	-745.3	-685.0
Panama	583.0	1061.0	916.0	1036.0	984.0	-51.0	416.0	99.0	272.0	442.0
LATIN AMERICA AND THE CARIBBEAN	-45140.7	-37690.0	-38422.1	-35109.4	-31665.2	-37884.0	-8037.0	-67.6	-2309.4	-14773.8

	Net Capital Movements					Changes in Reserves (- = increase)				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
CENTRAL AMERICAN ISTHMUS	1708.5	1046.5	1852.1	1262.0	821.1	-92.1	-104.2	-283.4	-8.5	-52.1
Costa Rica	408.8	377.1	312.2	345.3	258.5	-137.1	-61.0	-57.3	-50.7	-78.4
El Salvador	125.4	75.9	71.9	59.0	158.0	27.0	-38.9	-18.4	-30.3	15.0
Guatemala	366.1	280.3	398.3	343.3	-186.2	33.0	-56.4	-20.9	-97.0	203.8
Honduras	175.5	179.8	343.3	192.0	197.8	52.8	39.4	-26.8	18.6	-42.5
Nicaragua	590.7	552.4	894.4	752.4	805.0	-76.8	9.7	-229.0	-7.1	-120.0
Panama	42.0	-419.0	-168.0	-430.0	-412.0	9.0	3.0	69.0	158.0	-30.0
LATIN AMERICA AND THE CARIBBEAN	17027.9	2942.5	8657.6	2068.5	5844.5	20856.1	5094.5	-8600.0	240.9	8929.3

* Preliminary figures.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 6

CENTRAL AMERICAN ISTHMUS: BALANCE OF PAYMENTS 1982-1986

(In millions of US$)

	1982	1983	1984	1985	1986
Exports of goods (FOB)	6237.0	5483.1	5664.0	5739.5	6410.2
Imports of goods (FOB)	7364.3	6640.1	7240.8	7405.4	7532.6
Trade Balance	-1127.3	-1157.0	-1576.8	-1665.9	-1122.4
Balance of services and transfers	-489.1	214.7	48.1	413.4	371.2
Current Account Balance	-1616.4	-942.3	-1568.7	-1253.5	-769.0
Capital movements (Net) a/	1708.5	1046.5	1852.1	1262.0	821.1
Changes in Reserves (- = increase)	-92.1	-104.2	-283.4	-8.5	-52.1

a. Includes errors and omissions, counterpart items, and exceptional financing.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 7

CENTRAL AMERICAN ISTHMUS: TOTAL EXTERNAL DEBT 1/ 1980-1986

(millions of US$)

	1980	1981	1982	1983	1984	1985	1986
Costa Rica	2678.6	3117.8	3356.4	4054.4	3874.9	4245.2	4280.6
Public and Private with State Guarantee	1691.7	2210.3	2428.2	3226.2	3289.3	3579.6	3582.2
Private without State Guarantee	411.9	371.5	381.2	348.2	316.6	301.6	306.4
Short Term Debt	575.0	536.0	547.0	480.0	269.0	364.0	392.0
El Salvador	907.6	1086.7	1297.3	1563.7	1605.0	1651.5	1636.7
Public and Private with State Guarantee	527.1	727.3	957.5	1348.1	1388.8	1465.3	1463.3
Private without State Guarantee	160.5	147.4	133.8	121.6	114.2	104.2	83.4
Short Term Debt	220.0	212.0	206.0	94.0	102.0	82.0	90.0
Guatemala	1165.9	1153.0	1431.7	1659.3	2228.6	2463.2	2530.9
Public and Private with State Guarantee	548.9	806.6	1144.0	1386.1	1982.8	2131.4	2186.9
Private without State Guarantee	282.0	210.0	168.0	154.0	105.0	106.0	119.0
Short Term Debt	335.0	136.4	119.7	119.2	140.8	225.8	225.0
Honduras	1452.4	1643.2	1695.1	1938.1	2185.3	2577.6	2764.6
Public and Private with State Guarantee	989.3	1231.5	1388.4	1612.3	1854.1	2177.2	2341.7
Private without State Guarantee	191.1	171.7	158.7	194.8	162.2	141.4	124.9
Short Term Debt	272.0	240.0	148.0	131.0	169.0	259.0	298.0
Nicaragua	2121.5	2547.3	3119.5	4002.0	4866.2	5746.5	6370.1
Public and Private with State Guarantee	1661.5	2076.3	2487.5	3383.0	4010.2	4769.5	5343.1
Short Term Debt	460.0	471.0	632.0	619.0	856.0	977.0	1027.0
Panama	2950.9	3272.5	3839.2	4204.3	4135.2	4443.8	4448.7
Public and Private with State Guarantee	2270.9	2429.5	2917.2	3154.3	322[illegible].2	3320.8	3438.7
Short Term Debt	680.0	843.0	922.0	1050.0	912.0	1123.0	1010.0
CENTRAL AMERICAN ISTHMUS	11276.9	12820.5	14739.2	17421.8	18895.2	21127.8	22031.6

1/ Disbursed Public and Private with Government Guarantee and Private without Government Guarantee.
Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

Table 8

CENTRAL AMERICAN ISTHMUS: DEBT SERVICE 1/ 1980-1986

(millions of US$)

	1980	1981	1982	1983	1984	1985	1986
Costa Rica	333.7	313.2	279.8	666.2	382.0	483.4	416.6
Public and Private with State Guarantee	204.7	199.5	133.5	605.1	329.3	448.5	377.9
Interest	129.6	115.8	78.0	500.8	222.2	322.1	195.6
Amortization	75.1	83.7	55.5	104.3	107.1	126.4	182.3
Private without State Guarantee	129.0	113.7	96.3	61.1	52.7	34.9	36.7
Interest	41.0	19.3	31.0	28.1	21.1	19.7	21.5
Amortization	88.0	94.4	65.3	33.0	31.6	15.2	15.2
El Salvador	70.6	76.7	98.5	185.0	204.1	214.0	209.9
Public and Private with State Guarantee	41.7	47.5	68.1	163.6	194.1	196.0	181.8
Interest	24.5	29.9	35.8	70.5	71.9	67.6	67.3
Amortization	17.2	17.6	32.3	93.1	122.2	128.4	114.5
Private without State Guarantee	28.9	29.2	30.4	21.4	10.0	18.0	28.1
Interest	11.0	9.2	8.1	7.0	2.5	8.0	7.3
Amortization	17.9	20.0	22.3	14.4	7.5	10.0	20.8
Guatemala	137.1	128.1	135.4	177.4	257.9	269.6	292.8
Public and Private with State Guarantee	44.7	60.2	102.4	145.8	194.4	257.3	281.1
Interest	29.5	37.7	58.7	75.2	84.1	106.8	147.3
Amortization	15.2	22.5	43.7	70.6	110.3	150.5	133.8
Private without State Guarantee	92.4	67.9	33.0	31.6	63.5	12.3	11.7
Interest	30.0	25.8	18.1	13.7	11.2	9.2	8.5
Amortization	62.4	42.1	14.9	17.9	52.3	3.1	3.2
Honduras	171.0	194.0	204.9	179.0	174.1	188.9	226.1
Public and Private with State Guarantee	98.1	116.6	148.5	120.6	127.8	165.7	190.7
Interest	58.9	78.7	97.1	83.4	80.0	96.8	110.5
Amortization	39.2	37.9	51.4	37.2	47.8	68.9	80.2
Private without State Guarantee	72.9	77.4	56.4	58.4	46.3	23.2	35.4
Interest	24.6	17.5	15.4	14.6	10.2	7.9	6.6
Amortization	48.3	59.9	41.0	43.8	36.1	15.3	28.8
Nicaragua	82.2	160.7	162.9	82.4	64.5	42.3	32.1
Public and Private with State Guarantee	82.2	160.7	162.9	82.4	64.5	42.3	32.1
Interest	37.8	90.6	109.1	37.4	34.3	20.2	21.5
Amortization	44.4	70.1	53.8	45.0	30.2	22.1	10.6
Panama	466.4	494.2	618.5	480.2	538.4	411.6	466.4
Public and Private with State Guarantee	466.4	494.2	618.5	480.2	538.4	411.6	466.4
Interest	251.8	280.9	337.6	291.6	304.3	302.6	321.6
Amortization	214.6	213.3	280.9	188.6	234.1	109.0	144.8
CENTRAL AMERICAN ISTHMUS	794.6	872.7	831.5	1290.0	1082.6	1198.2	1175.5

1/ Interest plus amortization of total external debt.

Source: Organization of American States, Department of Economic Affairs, Economic and Social Data Bank.

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(703) 765-2472

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Committee on Finance subcommittee on international trade in a hearing on S.2252, a bill to encourage economic development in Central America. (July 5, 1988)

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

Suspending judgment at this time on the specifics of S.2252 concerning (a) restructuring the foreign debt of Central American countries and (b) liberalizing U.S. import quotas on Central American sugar, I applaud in general the bill's concern with the need to enhance the region's economic development by alleviating its international debt burden and increasing its export earning power. I wish, however, that the bill's attention to Central American economic development were not so limited -- confined to only two segments (significant as the debt and sugar issues are) of the coherent, comprehensive, economic-development strategy so urgently needed.

Such a strategy is necessary, not only to raise the abysmally low standards of living in these countries, but also to secure the levels of justice indispensable to peace and democracy in the region. Economic development effectively addressing the problems and aspirations of the peoples of Central America is no less vital to peace and democracy (the predominant preoccupation of U.S. and regional initiatives to date) than the attainment of peace and democracy is vital to an effective development effort. In fact, a carefully crafted U.S. initiative to accelerate Central American economic development could well be an effective catalyst in the political chemistry for peace and democracy. If peace and democracy in the region are vital to our national interest including our national security (as they are), a coherent, in fact dramatic, economic-development strategy in Central America deserves, indeed demands, our best efforts.

Although the term "Marshall Plan" is most often used inappropriately to grace proposals for large-scale U.S. assistance to Third World countries, a Marshall Plan initiative in Central America may suitably describe the U.S. endeavor I am suggesting. What is adaptable to Central America is, not the Marshall Plan that was so successful in Europe, but the Marshall speech that sparked the European recovery program.

The initiative suitable for Central America would be, not a program crafted in the U.S.A., but (as in the case of Europe) a process -- a U.S. invitation to the countries of Central America (all of them) to formulate a soundly based economic-development strategy in accord with standards concerning human rights, democratic government, agricultural reform, regional cooperation, and other guidelines essential both to success in Central America and political support in the United States. As with Secretary of State Marshall's historic speech in 1947, the U.S. initiative should not be directed "against any country or doctrine, but against hunger, poverty, desperation and chaos." Among other justifications for such assistance, there is no more-rational and responsible way to combat the danger of communism in Central America than to attack whatever fertility there may be for extreme revolutionary ideologies in the widespread poverty and injustice that afflict the peoples of these countries. Attacking these roots of subversion internally should be supplemented by a clear U.S. commitment (under the Rio pact of 1947) to protect these countries externally against a military threat from any quarter.

The other industrialized countries (private as well as public sectors) should be invited to participate, as needed, both in the formulation and implementation of the development program, as should international institutions and those of the inter-American system. Progressively freer access to the markets of the industrialized countries, and creation of a Central American common market, should be among the trade components of the multilateral strategy.

Central American countries unwilling to accept the standards considered vital to a sound, equitable and productive development strategy would be excluded until such time as political reform (which the international and inter-American communities should encourage) produces the kind of outlook to which the participating Central American countries have subscribed. The new initiative should be coordinated with current diplomatic efforts to secure peace and democracy in the region. It could well intensify such efforts, even ensure their success.

The next president of the United States should proceed forthrightly with this kind of statesmanship, reflecting the most enlightened use of American power in the best traditions of American diplomacy. Can America afford to launch a Marshall Plan initiative for Central American development at this critical time for our country's finances? Can we afford not to?

○