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WORK PROGRAMME AND PRIORITIES

PROGRESS REPORT BY THE EXECUTIVE SECRETARY
TO THE FOURTH SESSION OF THE ECONOMIC
COMMISSION FOR LATIN AMERICA

Attached is the speech made by the Executive Secretary at the thirty-sixth plenary meeting of the Economic Commission for Latin America, held on 29 May 1951, being his progress report on the work programme and priorities of the Commission.

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SPEECH MADE BY MR. RAUL PREBISCH TO THE FOURTH SESSION OF
THE ECONOMIC COMMISSION FOR LATIN AMERICA,
AT MEXICO CITY, ON 29 MAY 1951

This is the first time I have had the honour of addressing the representatives as the official who is directly responsible for the carrying out of the work programme for which the Economic Commission for Latin America has made its executive organization responsible.

A broad task has been assigned to us and an excessive amount of work has been accomplished, but, despite this, the implementation of all the resolutions pending from the past three sessions has been impossible. Undoubtedly our activities cover a wide field. While this gives us certain advantages, we are in danger of spreading ourselves over too wide an area, to the detriment of the quality of our work. Had we been able to confine ourselves to a smaller field, and had we had more time at our disposal, our work would have been more precise and its results the better condensed. For this reason I consider that a judicious limitation of our tasks to a specified, fixed number of basic objectives, will lead to more effective work by the organization.

1. The Objective of Economic Development in the Work of ECLA

One of these primary objectives is the examination of the problems of the economic development of Latin America. The importance that is rightly attached to these problems is such that at its meeting at Montevideo the Commission, in voting to continue previous studies, recommended that special attention should be

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given to the problems of economic development.

I would like therefore to start my report by telling you how we have implemented this recommendation.

I should mention how we have tried to comply with the mandate of the Commission in all the documents we have submitted. Our principal documents might be grouped under two main headings: those which, like "The Economic Survey" and "The Report on Effects of the United States' Defence Programme on Trade with Latin America", deal with recent events and trends, and those of wider range which in one way or another embrace the various problems of economic development.

We have submitted to this session an economic study which differs from the preceding one in that it deals exclusively with an analysis of recent events and trends in the economies of Latin American countries. And although it is true that in every case the significance of economic development of each country has been extracted, the problems which that development brings with it are considered in separate studies, for reasons of arrangement and clarity. I hope that the Commission will agree that this practice should be continued in the future.

Among the reports concerning economic development are those individual studies of countries which earned the Commission's approval at previous sessions. In them, an attempt is made to establish clearly the problems of the economic structure of each country; how these problems present themselves; their significance and the specific conditions and tendencies of economic development
/of the countries

of the countries under consideration; as well as the rhythm of development.

Furthermore, we have continued the interpretative studies with regard to economic development which were first submitted to the second session and earned the Commission's approval. Of these the outstanding study is that dealing with some theoretical and practical problems of economic growth. Among the theoretical and practical problems, we have this year given considerable prominence to that of productivity, a problem which has not been given sufficient attention in Latin America, although it has been amply studied in books and other works in relation to the highly industrialized countries. For this reason I crave indulgence for some of the considerations we have advanced in this connexion, the intention of which is rather to give some form to not only any ideas this Commission may express but also to any contributed by the group of Latin American economists which is eagerly following our work. In this study we give special emphasis to the problem of productivity, without, of course, neglecting other problems which have arisen.

The Secretariat has devoted considerable time and energy to an investigation of the productivity of the textile industry in Latin America, and these investigations have continued with enthusiasm for almost two years. I consider that this work, with all its defects, is the first serious study of a most important problem.

You will see in how many of its aspects this question is of outstanding importance in Latin America, and how productivity in

/these countries

these countries is not only a problem of capital investment but of improved administration and organization; to the point that in some countries greater productivity achieved through better organization of work would exceed that obtainable by the investment of capital.

The report on economic growth which I have mentioned is not yet complete. Lack of time has prevented us from finishing a series of chapters in which we hope to consider a problem of the greatest possible importance to our countries: that of inflation and economic development. To one of these chapters will be added a theoretical interpretation of the process of investment and of savings in our countries which, we hope, will rid us to some extent of concepts that in the theoretical field have prevented the clear interpretation of domestic occurrences. Finally, the study of economic growth ends with an examination in very general terms of the prerequisites for development programmes. We start from this elementary premise: the regular and orderly growth of our economies requires the preparation of a programme embracing all investments and taking into account effects on the whole economy. After all, we should view this as preliminary discussion of a problem that every day engages the attention of Latin American governments and has been given the closest attention by the International Bank for Reconstruction and Development. In this connexion I should report that the International Bank will today make a public statement, announcing the inauguration of a seminar, to be held in the Bank's building in Washington under the sponsorship of the Bank and the

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Secretariat of this Commission. The seminar will be held after this session to analyze the contents of a programme for economic development and to exchange ideas between people who have been gathering ideas in order to present as effectively as possible the conclusions reached. I am glad to be able to make this announcement because, apart from its intrinsic value, such work clearly demonstrates the spirit of co-operation that is developing between our own Secretariat and other agencies of the United Nations.

2. Problems resulting from the Accumulation of Foreign Exchange

Turning now to reports which refer to economic happenings in Latin America, I should mention that in addition to the general study, there is submitted a report in which the effects of the United States defence programme on trade with Latin America are examined. It is thought that export of capital goods from the United States will decrease appreciably in the course of this year, and by at least twenty per cent next year as compared with export levels before the outbreak of hostilities in Korea.

But this trend would be temporary, so far as can be foreseen. If present production trends in the United States continue, and if there is no basic modification of the defence programme, exports of capital goods in 1953 might regain the volume of the pre-Korea period.

This conclusion is most heartening, but in the meantime the unsatisfied demand for capital goods will continue to accumulate and the holdings of Latin American currencies will increase.

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I should like to advance a few ideas on the problems which this phenomenon brings in its train. In the first place, we cannot say to what extent exchange will be useful for the future purchase of capital and production goods as well as essential consumer goods, because we do not know how high prices will rise in the big export markets. In the second place, the accumulation of foreign exchange will lead to intensification of the inflationary pressure that is common to most of the Latin American countries. Here is an instance in which the co-operation of the officers of the International Monetary Fund with the Secretariat of this Commission could have very valuable results, in suggesting to the countries concerned the best means of checking inflation.

In the third case, as is known, the export difficulties of the more advanced countries do not affect all goods equally, and thus there are consumer goods whose export in large volume can be continued. If no policy is planned in advance, there is a risk that foreign exchange might be used in immoderate amounts to acquire consumer goods, to the detriment of future purchases of capital equipment when the present shortage is relieved. It would also be necessary to study the best methods of avoiding happenings of this kind, for they are prejudicial to Latin American capital formation.

This phenomenon of the accumulation of foreign exchange is as discernible in Latin American dealings with the United States as with Europe. But in the latter case, the problem could have certain characteristics that should be prevented from developing. The studies

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we have made in collaboration with the Economic Commission for Europe and the FAO and have presented to this Commission show us that, given European export and import trends in relation to Latin America, our countries are faced with a situation similar to that which obtained at the end of the Second World War. There will probably be some favourable trade balances, but there the resemblance to the immediate post-war period ends, for while European reconstruction made increasing quantities of capital goods available, in present circumstances the situation will be reversed. Latin American countries will not be able to use a part of the foreign exchange they are acquiring in their trade with Europe. Further, these funds are not easily convertible and force of circumstances will require the conclusion of bilateral compensation agreements.

These agreements, which have been so widely used in the post-war period, were studied by the Secretariat in accordance with previous recommendations of the Commission. In this connexion we have observed with great interest the creation of the European Payments Union and its repercussions on Latin America. As is known, the Payments Union has put an end to bilateral agreements between the countries which compose it although those countries are increasingly developing their relations with Latin America on a bilateral basis. Events in Korea have created problems urgently requiring solution, whilst the opportunities which the European Payments Union could offer to Latin America have had momentarily to take second place. Among those urgent problems the accumulation
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of European foreign exchange by Latin American countries is among the most important. Accumulation of foreign exchange means the concession of credits to Europe. And we do not know the form and extent to which such credits can be liquidated in the future by the acquisition of capital goods and other essential articles. This problem has been considered in the report on trade with Europe in which it is suggested that it might be desirable to conclude agreements to establish a stable relationship between the prices at which Latin America is selling its products to Europe and the prices of capital goods that may be obtained in the future with the balances of these non-convertible funds.

A solution of this kind also could facilitate possible measures to absorb in Latin America redundant money resulting from the accumulation of foreign exchange. During the previous war some Latin American countries experimented with issues to absorb surplus money, but there was not sufficient public response appreciably to relieve inflationary pressure. There can be no doubt that if such issues could carry the right to acquire capital goods at stable prices in the future, it would be much easier to place them and they would become an effective weapon in the struggle against inflation.

3. Foreign Trade and Economic Development

I should emphasize that the report on trade with Europe is a clear demonstration of the type of relationship established by the Economic Commission for Latin America with the Economic Commission

/for Europe

for Europe and the FAO, as with the International Monetary Fund, all of which collaborated most effectively in the preparation of the document. The factors which in the past have influenced trade between Latin America and Europe and those influencing it now are studied in the report and future trends assessed; it should be of some interest. European economy has developed intensively since the war and may very possibly maintain a rapid rate of growth, in contrast to the stagnation of the '30s. This promises well for trade with Latin America, as to the conclusions that are reached in another report on the United States capacity to absorb Latin American products, which we have also presented to this Conference in compliance with a resolution of the third session.

From another point of view, these reports confirm the conclusions reached in previous studies with regard to the place of foreign trade in the economic development of Latin America. Even from the most optimistic standpoint, it is evident that the economic growth of Latin America must result primarily from internal stimuli, even if they can operate with much greater effect with the growth of exports and the consequent opportunity to import capital goods.

Economic growth entails the unavoidable necessity to change the composition of imports. Thus we returned in this year's reports to further consideration of our findings in previous studies. There are distinct phases in these changes in the nature of imports. It might be said that the process is one of economic law. Countries such as Mexico, Brazil and Argentina already have passed through the initial /stage and have

stage and have almost completely replaced their imports of, for instance, textiles, as a result of the development of domestic production. On the other hand the process has only recently begun in some countries. Thus Cuba has just concluded a trade agreement with the United States, by which its tariffs on imports of textiles are raised in order to give considerable impulse to domestic production, contributing in this way to the employment of factors of production that could not be used for export. It is not too much to suppose that the reduction in textile imports thus obtained will be compensated by larger imports of other goods and that this increase might well be greater than the total decrease, as has been the experience of other countries in the course of their development.

It is clear that the inevitable reduction of imports of capital goods into Latin America will cause the rate of growth to slacken for some time to come. Meanwhile it might be advisable to give serious attention to the preparation of development programmes which, if they are not put into practice at this moment, will assume their real importance when it becomes possible to increase the import of capital goods. This interval might be used to advantage to study a series of problems which are intimately connected with economic development and thus to prepare the ground for the future execution of programmes. Among these problems that of monetary and fiscal policy is of undeniable importance.

4. Monetary and Fiscal Policy and Economic Development

The bases of a healthy monetary policy adopted to the
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requirements of economic development have not yet been laid in Latin America. Of course, there is a series of recommendations as to what should not be done in the matter of currency and credit; what we might call a prohibitory policy. But it does not meet those requirements and it is frequently incompatible with the purposes of economic development.

When the development of our countries was in great part due to external factors, in that past period of expansion outwards, the prevalence of this prohibitory policy is intelligible. Development was stimulated from outside and monetary policy, through limitation and restriction, was to contribute to the better adjustment of domestic to international economy.

But now, when development depends primarily on internal factors operating within each economy, the need to change this prohibitory policy into a positive one becomes unavoidable; monetary stability must be related to the necessity to reduce cyclical fluctuations and to speed economic development.

I shall not adopt the common attitude of condemning inflation, despite the fact I am convinced of its enormous evils, and I shall not do so because I believe that here again we find ourselves involved in inhibitory policy, negative policy. It is not enough to tell a country that it should reduce its investments to restore monetary stability. An anti-inflationary policy, if it is to merit the support of and awake conviction in the men who have to apply it in Latin American countries, must be bolstered by recommendations

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which permit acceleration of the rate of investment and will not stand in the way of certain opportunities for development.

Economists of the International Monetary Fund who have acquired such great experience in Latin America would make a most valuable contribution to these countries if they were thus able to lay the foundations of a monetary policy inspired by the requirements of economic development.

Taxation policy is closely related to this matter and a study of taxation systems in Latin American countries from the point of view of economic development is also lacking. I will not repeat here the remarks which in this connexion are set forth in one of the reports before the Commission. I need only add that if it is recommended that this study should be made, it will be advisable to wait until the Fiscal Division of the Department of Economic Affairs of the United Nations which so painstakingly collaborates with us, can share actively in the work.

5. Adaptation of the technology of industrialized countries

These considerations, along with others which I omit in order not to make this statement unduly long, prove the need for a stringent revision of ideas and principles in order to formulate an effective development policy. In the last analysis, economic development means the teaching of modern production techniques to some thirty million economically active persons in Latin America who are using rudimentary methods of work and whose productivity is low, and at the same time raising the productivity of the remaining

twenty-three million of active population. There is a great gap between the vast capital required for this and the possibility of its formation. This is why in our study on economic growth we squarely put the question whether a mere transplantation of the techniques of the developed countries to the less developed countries, without previous adaptation, was justified. In the more developed countries, particularly in the United States, a large part of investment in capital equipment is devoted to labour-saving devices. It may be that in such countries as those of Latin America, which are relatively rich in manpower and poor in capital, it would be advisable to install equipment which requires a smaller share of investment and to use a larger proportion of investment to raise productivity per unit of capital.

This technological problem is yet another of those basic problems which must be viewed in conjunction with our present stage of economic development. Moreover, it is a problem on which very little research has been done in Latin America, perhaps for the same reason for which systematic analysis is only now beginning to be applied to the problem of development.

I therefore venture to suggest that a small group of experts should be appointed to analyze the means of adapting the various production techniques to the characteristics and **structure** of our countries. These experts would have to judge how far it would be possible to make use of the vast body of scientific and technical knowledge accumulated in the industrial centres in order to

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evolve new techniques suitable for our countries.

These experts might also advise the Commission on the best way of organizing technical research in Latin America, with regard to industry and agriculture as well as to other sectors of national economy; this would at the same time provide training for experts who would co-operate in the evolution and practical application of new production techniques. In comparison with the actual needs, very little has as yet been done in this field in Latin America, so that it is of the greatest importance to the Commission's primary objective that adequate solutions should be found.

Certainly it is a field in which we economists must proceed with great caution, contenting ourselves with merely stating a problem which we must leave for others to solve. There is, however, another field with which we may more properly concern ourselves, and I should like to make a few remarks on that subject.

6. Training of economists for the preparation of development programmes

Reference has already been made to economic development programmes. The need to draw up such programmes has been receiving increasing recognition in Latin American countries; unfortunately, there are very few economists capable of preparing them and putting them into effect, and they are usually fully occupied by urgent work. There are also few foreign economists who have the necessary experience in Latin American affairs and have a clear understanding of the region's economy. Furthermore, while young Latin Americans who graduate from foreign universities return with a respectable

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fund of scientific knowledge; that knowledge is adapted to conditions in large countries and is not always adequate to interpret conditions in our own. Thus, any attempt to apply here Keynes' methods of analysis or to interpret economic development on the basis of the Schumpeter theory would lead to theoretical errors which might have serious repercussions on local economy. Here, too, careful adjustment is called for.

I am speaking, however, not of basic training in economics, but of the training of a select group of economists capable of dealing with problems of development and particularly of assisting in the preparation and implementation of development programmes. I have made a few suggestions to that effect in the study I have referred to, and I hope that the representatives will give them their attention.

If this idea is approved, one of the main tasks laid by the Commission on its executive organ would be clearly delimited: the analysis and interpretation of problems of development, study of the programmes and assistance in their preparation if governments should so request, and aid in training economists in this aspect of economic activity.

In order to carry out these basic aims, the Commission's executive organ needs larger funds than those it now has. To fill this need, I have proposed a budget for next year which approximates to that of the Economic Commission for Asia and the Far East. I hope that, once this budget has been approved, the Secretariat will be able to carry out its work programme more fully and effectively.

7. Proposal to set up a branch office of ECLA in Mexico

I should like to say a few words on another aspect of the same question. I feel that the choice of Santiago, Chile, as the Commission's seat was very fortunate, both because its peaceful atmosphere is well suited to work of this kind, and because the Chilean Government has given us constant support. We have learned, however, that it is extremely difficult to encompass the whole vast territory which is our field of study from any one Latin American capital and have therefore come to the conclusion that it would be wise to do part of our work in Mexico by establishing a branch office of the Commission there to deal with Mexico, the Central American countries and the Caribbean area. I must admit that, much to our regret, we have had to neglect these countries in the past, owing to their distance and to lack of funds. If a branch office is established in Mexico and if the budget I have submitted is approved, we shall be able to deal adequately with this problem, although I feel obliged to point out that the proposed increase in expenditure will be needed in either case, whether the branch office is established or whether all the work continues to be done in Santiago. I am pleased to be able to say that the Secretary-General of the United Nations is entirely in sympathy with this plan and is preparing to put it into effect, once the necessary administrative consultations have been completed.

The establishment of a branch office in Mexico would enable us to initiate at once a number of studies on Central American economy;

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for example, it would be of considerable interest to explore the possibility of creating reciprocal industries which, situated in one country, would service a number of others, thus removing one obstacle to industrial expansion, which is that each Central American country taken alone represents too small a market. We should also like to make a study soon of the problem of commercial traffic on **the Pan-American Highway**, a problem which has so far been dealt with in a number of isolated and unintegrated national measures and is still waiting for a joint agreement which would permit the maximum use of all the facilities for commercial traffic which the highway is providing in Central American countries and will surely provide to the rest of Latin America as soon as it is completed.

8. Combination of circumstances favouring ECLA

The Commission has been in existence three years and the time has come to review its terms of reference and to decide on its future. Confidence that we would accomplish our task has always been placed in us and I am very grateful that we have been given the necessary tools to do so. The experience I have gained during many years in which I have had to alternate between practical work and studies and enquiries, enables me to state that our organization combines all the necessary elements for attaining the results expected of it.

Now that the Commission must examine the work it has done and decide on its future, I think I should point out these favourable circumstances.

/First, our work

First, our work has covered a field which, if not altogether unexplored, has not in the past been subjected to a systematic analysis and interpretation. Our work has not therefore been superimposed on other work, but has filled inexistent gaps and has complemented the work of others; in this way, the results we have attained and our general approach have met a need which has been felt for a long time past in Latin American countries.

Secondly, as Executive Secretary of this organization, I have been able to choose a staff of economists with great care and without the outside pressure and influence which so often upset the working of similar organs. Mexican, Cuban, Central American, Brazilian, Argentine, Chilean, Bolivian, Paraguayan, Uruguayan, Peruvian and Colombian economists - I have not yet been able to recruit personnel from other countries - collaborate enthusiastically in a joint task with a small group of United States and European economists. We have been successful in attaining an objective which is not easy to reach - to give this joint task harmony and coherence and to bring about a fundamental unity of purpose. We should not have been able to do this if we had not all been inspired by the same aims. Young men of great promise, after having studied in their own countries and at great foreign universities, have found in our organization an outlet for their efforts. Although perplexed at first by the difference between the theory they had learned and the actual situation in Latin America, they now understand that our conditions also lend themselves to scientific interpretation,

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Although as a special case within general economic theory. They also understand that our problems if met with an open mind and without preconceived ideas can also be solved rationally in accordance with the actual situation in Latin America. I am confident that as time passes this group of enthusiastic workers will provide leading economists for our countries.

Thirdly, the constructive manner in which the directors of the United Nations Department of Economic Affairs have treated this Latin American experiment has greatly influenced our daily work. As a man who in his theoretical and practical work has often had to oppose openly certain plans which economists belonging to large countries sought to impose dogmatically on the actual situation in Latin America, I was convinced when I met those directors that I had no need to worry on that account. Far from wishing to impose a certain type of thinking by mere virtue of their prestige and authority, they encouraged in us a feeling that we should interpret the economic phenomena particular to Latin America, convinced that only with the development of independent ways of thinking and of action could Latin American countries accomplish their task in the field of economic development and international co-operation. I am glad to acknowledge this and to emphasize the importance to us of the understanding attitude and timely advice of very experienced people, in addition to the considerable amount of information placed at our disposal by the Department of Economic Affairs.

We have also had the co-operation of the United Nations

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specialized agencies and that is the fourth factor which has helped our organization. I have already mentioned the International Monetary Fund and the International Bank for Reconstruction and Development which supplied us with valuable information and whose officials have always been willing to discuss common problems. I can say the same of the FAO, which, in order to co-operate more fully with us, is shortly sending a first-class economist to Santiago to head our Agricultural Section. The International Labour Organization, together with the FAO and other international organs, has also co-operated with us and is a member of the Committee on Immigration.

Lastly, I must mention an important factor. ECLA is part of the Secretariat of the United Nations and as such its work must be strictly objective and impartial - if that were not so it would cease to be truly Latin American in character.

The Executive Secretary of the Commission is the regional representative of the Secretary-General and as such is covered by the wide provisions of the Charter and therefore no government may infringe upon the independence with which we must carry out our task by attempting to impose its own views on us.

9. Prospects for satisfactory co-ordination between ECLA and the Inter-American Economic and Social Council

Such have been the factors which have combined to favour the effective working of our organization. Three years have gone by and its terms of reference have to be reviewed. An obvious anomaly is causing some misgivings in this connexion - the simultaneous

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xistence of two inter-governmental bodies with similar, though not identical, functions, the Commission and the Inter-American Economic and Social Council. I am sure that a satisfactory method of removing that anomaly will be found. That does not concern me personally, as a member of the Secretariat. What does concern me is the efficiency of the organization for which I am directly responsible.

It has often been said that our organization means duplication with the executive organization of the Inter-American Economic and Social Council. It is curious to note that such duplication exists only in theory, since it has not occurred in practice in a single instance. I am glad to say that my eminent colleague, Dr. Taylor, with whom we maintain very close and cordial relations, also acknowledges that no duplication of our work has occurred. Nevertheless, the argument is sometimes advanced that if the Inter-American Economic and Social Council were ever to increase the very small staff which has hitherto dealt with economic studies, such duplication would inevitably occur. That, in my opinion, is yet another error, because the fact that the Secretariat of ECLA has worked intensively on the problems of economic development - to such an extent, as I have already said, that this has become one of its prime objectives - does not mean that another organization does not have a vast field for its activities. Indeed, a brief listing of the problems which ECLA has not yet been able to consider, not only for lack of resources but owing to the impossibility of undertaking /so many tasks

so many tasks at once, would suffice to show the very extensive field in which not merely two, but a number of research institutions could operate. Where are the reports on inter-American trade, a subject of the utmost interest? Where is accurate and efficient information to be found concerning transport in Latin America and the many and various problems connected with it? What body has considered the population problem, particularly that of the economically active population and the population movements resulting from technical progress? Where have systematic studies been made of the very important problems raised by the concentration of industry in Latin America, with all its serious economic and social repercussions? Does anyone here think that the problems of cheap housing, of the cost of living and of the structure of consumption in Latin America have been studied thoroughly enough? Or that the Latin American countries have made all the requisite studies with regard to national income and that nothing remains to be done in the improvement of statistics? This brief list is sufficient to show that the field of activities is a very broad one. It is inconceivable, in fact, that we should be talking about duplication in Latin America, where there is so much still to be done, when what is really needed is to concentrate far more efforts than have been made in the past for the investigation of these problems and the search for their solution.

Hence I believe that if there is a real desire that this organization should serve the economy of Latin America in the manner expected of it, care should be taken to strengthen it, not to weaken it, to ensure its independence, not to abridge its powers. Occupying
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the position I do, I might perhaps have entered into contact with Latin American countries and have tried to influence high officials in a certain direction, but I have deliberately refrained from doing so. This was not because of indifference to this organization's future, with which I am deeply concerned, but because what I have to say to representatives I wish to say openly, as I have just done, being convinced that they will be able, calmly and in **concert** to reach the right solution. I have one last remark to make. I have long worked in my own country and in other countries of Latin America; I have seen many things built up with great optimism and on occasion have seen them destroyed, at times through inadvertence and at others through well-meant efforts to improve and perfect them. More than once I have had to watch the cloth laboriously woven during the day being undone at night. It is therefore understandable that, having shared the devotion and enthusiasm of my colleagues in pursuing a great and generous task, I should feel some apprehension lest other hands should, with the best of intentions, inadvertently break the threads we have so painstakingly woven together, I hope that such a mishap will not occur and that an organization, which might become of considerable importance to the economic development of Latin America, will be preserved.