



ECONOMIC COMMISSION FOR LATIN AMERICA
Seventh session
La Paz, Bolivia
15 May 1957

COMMITTEE II

(Economic Development, Industry and Energy)

SUMMARY RECORD OF THE FIRST MEETING

Held at La Paz on Monday, 20 May, 1957 at 3.00 p.m.

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countries and remedial measures

Disequilibrium between agricultural and indus-
trial development and its implications for
Government policy

Problems arising from the growth of the labour
force in relation to changes in the economic
structure.

PRESENT:

<u>Chairman:</u>	Mr. TORRES GAITAN	Mexico
<u>Rapporteur:</u>	Mr. MONDRAGON	Honduras
<u>Members:</u>	Mr. MELERO	Argentina
	Mr. FOSSATI	Bolivia
	Mr. OLIVEIRA CAMPOS	Brazil
	Mr. MELNICK	Chile
	Mr. GAMBOA	Cuba
	Mr. GUAROA	Dominican Republic
	Mr. CIFUENTES	Ecuador
	Mr. PIERRE	France
	Mr. MELGAR LARRIEU	Guatemala
	Mr. ZAMORA and Mr. BRAVO	Mexico
	Mr. CLEMENT	Panama
	Mr. GONZALES MAYA	Paraguay
	Mr. BARRETO	Peru
	Mr. BARNES	United Kingdom
	Mr. BEKKER	United States of America
	Mr. DEMARCO	Uruguay
	Mr. PINO	Venezuela

/ALSO PRESENT:

Observers from
Member States:

Mr. VESELY	Czechoslovakia
Mr. MANCINI	Italy
Mr. IZAWA	Japan
Mr. ALBU	Rumania
Mr. MIKHAILOV	Union of Soviet Socialist Republics

Observer from a
non-Member State:

Mr. ENGELS	Federal Republic of Germany
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Representatives of
specialized
agencies:

Mr. del CANTO	International Monetary Fund
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Observers from inter-governmental organizations:

Mr. BERMUDEZ	Inter-American Economic and Social Council
Mr. ROYER	General Agreement on Tariffs and Trade

Representatives of non-governmental organizations:

Category B and Register:

Miss ESPINOSA	International Federation of Women Lawyers
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Secretariat:

Mr. PREBISCH	Executive Secretary
Mr. URQUIDI	Director, Economic Commission for Latin America, Mexico Office
Mr. MAYOBRE	Secretary of the Committee
Mr. FURTADO	Assistant Secretary of the Committee

ELECTION OF RAPPORTEUR

The CHAIRMAN called for nominations for the post of Rapporteur.

Mr. MELGAR LARRIEU (Guatemala), supported by Mr. MELNICK (Chile), Mr. CIFUENTES (Ecuador) and Mr. MELERO (Argentina), nominated Mr. Mondragon (Honduras) for the post of Rapporteur.

Mr. Mondragon (Honduras) was unanimously elected to the post of Rapporteur.

The CHAIRMAN drew attention to the heavy agenda before the Committee, and said that in order to enable the Committee to dispose of its work by the end of the week all draft resolutions should be submitted in writing not later than 6 p.m. on Wednesday 22 May 1957.

EXTERNAL VULNERABILITY OF THE LATIN AMERICAN COUNTRIES AND
REMEDIAL MEASURES (Conference Room Paper N° 4)

At the request of the CHAIRMAN, Mr. FURTADO (Assistant Secretary of the Committee) read a note prepared by the Secretariat on the integration of a short-term compensatory policy into the programming of economic development (Conference Room Paper N°4).

Mr. CIFUENTES (Ecuador) said that his country had been able to maintain a steady economic growth and to increase its productive capacity by following a policy of flexibility and adapting itself to the changing conditions of the world market. He noted that there was a trend to transfer resources to sectors of the economy that were less vulnerable to fluctuations in

/world prices.

world prices. The financing of Ecuador's economic development, however, was still too dependent on exports. There was a need for currency control through the control of exports and imports; and in that connection he would be glad if the Secretariat could formulate a methodology for the substitution of imports.

Mr. MELERO (Argentina) said that his country's economic development was still handicapped by a shortage of foreign currency due to its unfavourable balance of trade. The Government had taken a series of measures to change the economic structure of the country, in order to eliminate its vulnerability to external influences and to achieve a balanced development of all the sectors of the nation's economy. Agricultural production, and hence exports, would be increased by means of mechanization. Special attention was being paid to the question of land tenure, and all agricultural production problems were being investigated by a newly set up and independent Agricultural Technical Institute. Under-utilized and surplus manpower, resulting from the gradual mechanization of agriculture, was being absorbed into new industries which would diversify the country's economy and thus reduce its external vulnerability. As for heavy industry, the main problem was to develop domestic power resources, so as to make it independent of foreign imports. In that connection he was glad to announce that a new network of high-voltage lines would soon be built in Argentina, and that petroleum prospecting had yielded extremely promising results in the north of the country. Agreements would soon be

/negotiated with

negotiated with national and foreign firms. The difficulties to be overcome by Argentina in its industrial development were similar to those facing most other Latin American countries, namely, bad distribution of manpower and shortage of the necessary equipment. The latter was now being imported from abroad on credit, and it was gratifying to see that foreign investors were demonstrating confidence in the measures taken by the Argentine Government. The ultimate aim of those measures was to substitute domestic savings for foreign currencies and to increase the tempo of economic development. He urged ECLA to continue its studies on foreign investments in Latin America and said he was sure that both those studies and Mr. Prebisch's report would increase the confidence of foreign investors.

In conclusion, he expressed his delegation's support for the Chilean representative's suggestion that ECLA should co-operate with the Latin American countries in the preparation of projects.

Mr. ZAMORA (Mexico) said that the efforts made by underdeveloped countries to promote their economic development often led to a dead end, because when a certain level had been reached, higher national income resulted in increased imports and consequently greater vulnerability. It was essential for Latin American countries to increase their exports, and in studying world market conditions ECLA should take into consideration the impact on Latin America of the various regional economic blocs now taking shape in the world. Another necessity

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for Latin American countries was to promote domestic capital formation; and with that end in view a careful survey should be made of their domestic resources. As for the possibility of replacing foreign investment by domestic financing, it would be very useful if ECLA could study means of fostering the formation and better utilization of domestic savings and thereby bringing about a reduction in imports of goods and funds. Referring to monetary policy, he said that it was essential to focus analysis on means of achieving domestic and external stability, without overlooking such complementary matters as fiscal policies. The main problem, however, was economic planning, and in that connexion short-term policies should always be subordinated to the over-all economic programme.

Mr. MELNICK (Chile) emphasized the danger of over- or under-estimating short-term needs in long-term programming. He suggested that the Secretariat should study the effects of short-term factors on long-term programming on a regional basis, because vulnerability assumed different forms in different countries, so that reactions were not always identical. There should be great flexibility in long-range programmes, because investment schedules were always likely to be affected by fluctuations. Flexibility was also necessary in the determination of priorities for investment projects, which should be adapted to short-term economic programmes. Turning to the need to speed up studies on the relationship between exports and imports, he said that such studies would make it easier to

/estimate the

estimate the effect of various measures on the over-all balance of payments. In conclusion, he stressed the importance of the administrative factor in short-term programming. Flexibility in administrative structure would make it possible for economic programmes to be adapted to economic changes as they took place.

Mr. MELGAR LARRIEU (Guatemala) said that his country had been able to implement its economic development programme thanks to the foreign currencies earned by its exports of coffee, which had commanded high prices on the world market, and thanks also to some assistance from the United States and the World Bank. It had tried to end its dependence on coffee by increasing its exports of cotton and timber; but those commodities too were subject to price fluctuations. As a logical consequence of a higher national income, there had been an increase in Guatemala's imports. The Government was endeavouring to check that increase by raising agricultural production through land reform and the provision of agricultural credit on easy terms; it had also received assistance for that purpose from the United States. Government investment had been directed to road-building designed to promote exports by reducing high transportation costs, to rural education, designed to bring the population into active participation in the agricultural development plan, and to public health. In conclusion, he pointed out that his Government had granted tax exemptions for the import of industrial equipment; it had also granted similar privileges to some business firms.

/ Mr. GAMBOA

MR. GAMBOA (Cuba) said that his country was trying to expand all exports that could raise the national income and improve its import capacity. His Government recognized the need for guarantees for foreign investors; moreover, it granted tax ~~exemptions~~ to new concerns setting up industries in Cuba. In his opinion, it was most important to eliminate double taxation, which in the past had been the main obstacle to foreign investment.

Mr. BEKKER (United States of America) stated that he had been impressed by the similarities between Latin American countries and other countries outside that region which depended heavily on exports and imports. In all of those countries economic policy had to provide for ways of dealing with short-term balance of payments problems of which export fluctuations were only one. The fostering of economic industries would almost necessarily promote exports and save imports, while inflationary ~~counter-measures~~ would almost certainly lead to an uneconomic allocation of resources. In conclusion he emphasized that domestic fiscal and monetary policies were the key to all the remedial measures that had been mentioned.

Mr. MAYOBRE (Secretary of the Comiittee) said that the purpose of the note prepared by the secretariat had been to draw attention to certain problems affecting economic development programmes, and to stimulate an exchange of information and experience that would be valuable both to delegations and to ECLA itself. The secretariat would certainly bear in mind all the suggestions made in the course of the debate.

DISEQUILIBRIUM BETWEEN AGRICULTURAL AND INDUSTRIAL DEVELOPMENT AND ITS IMPLICATIONS FOR GOVERNMENT POLICY (Conference Room Paper N°7)

At the request of the Chairman, Mr. FURTADO, (Assistant Secretary of the Committee) read a note prepared by the Secretariat on the disequilibrium between agricultural and industrial development and its implications for Government policy.

Mr. OLIVEIRA CAMPOS (Brazil) said that the relationship between industry and agriculture was a matter of prime concern to the Brazilian Government. The two sectors of the economy were not in opposition to each other; they should be considered not by agricultural or industrial experts but by economists specializing in economic development. In Brazil several factors had been found to account for the relative inferiority of agricultural production. Foreign investors preferred to place their money in industry rather than agriculture; and that, together with the fact that Governments were naturally more inclined to apply price control measures to agricultural than to industrial products, had had the unfortunate effect of bringing about a transfer of income from agriculture to industry. The root cause of agricultural backwardness was, however, the inadequate rate of savings.

Mr. ZAMORA (Mexico) said that the importance of agriculture in comparison with industry must not be judged solely on the basis of costs and prices, but also in relation to the market structure of each sector, which could have the effect of impeding the transfer of income from the one to the other. It was a

/subject to

subject to which further study could usefully be devoted.

A second important point was the need to overcome inelasticity of demand in both industry and agriculture. That was a problem which involved the structure of the entire economy.

Two further questions deserving of study were the administrative structure of industry and agriculture and the amount of concealed unemployment in each.

Mr. MELNICK (Chile) associated himself with the Brazilian representative's remarks. If, in the economic programme that had been undertaken in Chile, industry and agriculture had been properly integrated, the results would have been much more satisfactory. He agreed also with the Mexican representative as to the importance of market structures.

Illustrating his remarks by reference to Chile, he emphasized the importance of savings and investment in industry and agriculture. Agricultural savings were sometimes dissipated in marginal ventures; and another problem was the outflow of both industrial and agricultural savings outside the country.

The effect of price increases as a stimulus to agricultural production was still not clear. Chile's experience in that respect showed results that differed in some cases from the general view and he thought that the subject should be a matter for study.

PROBLEMS ARISING FROM THE GROWTH OF THE LABOUR FORCE IN RELATION TO
CHANGES IN THE ECONOMIC STRUCTURE

Mr. MAYOBRE (Secretary of the Committee) said that in response to a request made to the Secretariat at Bogota in 1955, two preliminary studies had been made on problems relating to the Latin American labour force. They could be found in the Economic Bulletin for Latin America (Vol. II, N° 1) and in the Survey of Manpower for Latin America (Conference Room Paper N° 2).

The Latin American rate of population growth was the fastest of any region of the world; a fact which raised problems not only of a demographic nature but in relation to the labour force. Those problems in turn had their effect on economic development policies.

Latin America was among the regions of the world having the smallest proportion of their population in the working age-group. That disadvantage was in part counterbalanced by the possibility of making its labour force more mobile and more adaptable and adjusting it to future economic needs.

Another aspect of the demographic structure of Latin America was its rapid rate of urbanization, a factor which was undoubtedly due to the discrepancy between agricultural and industrial income.

A noteworthy feature of the urban structure of Latin America was the large proportion of the urban population concentrated in towns of over 100,000 inhabitants. The relative

stagnation of the medium-sized towns was due to the poverty of the countryside and the consequent lack of demand for urban services. Further contributory causes were the absence, outside the large towns, of public utilities, transportation services etc., and the general attraction exercised by city life.

In spite of the movement to the towns, however, the rural population had increased, as a result of a higher rate of natural growth. The agricultural labour force had expanded at almost the same rate as the rural population in general.

Mr. Mayobre then turned to the question of the employment pattern. The first characteristic feature in that connection was the predominance of primary production and the second, the fact that a higher proportion of the labour force was employed in services than in industry. The latter feature was not, as in Europe, a sign of advanced economic development; on the contrary, it reflected certain weaknesses of economic structure.

He went on to refer to the problem of the education of workers as one of the greatest obstacles in the way of the economic development of Latin America. The lack of technicians and skilled workers affected all the countries of the region and although many of them had for some years attached importance to the problem it would be worth while considering whether all that was necessary was being done in the way of technical and vocational training and whether the educational structure and principles were in keeping with the needs of economic development.

It would also be useful if the different countries could exchange their experiences in the matter during the discussion of the item.

Mr. MELGAR LARRIEU (Guatemala) said that a large part of the labour force in the underdeveloped countries was gainfully employed for only part of each year. It was to be hoped that that concealed unemployment would to some extent disappear as industrialization increased.

He drew attention to the steps that had been taken in Guatemala to improve the skills of the country's labour force. A vocational training school had been set up, and foremen had been brought from Europe to train local textile workers. A course had also been established for the training of civil servants.

Mr. DE MARCO (Uruguay) said that one of the reasons for the migration from rural areas might be the system of land tenure. That problem had been dealt with by his Government through the National Institute for Settlement (Instituto Nacional de Colonización), which assigned land to agricultural settlers at very low rents. As a result there had been a sizeable return to the rural areas. In addition to that policy, a reform plan had been launched to subdivide the large holdings by expropriating them and assigning them to farmers on long-term purchase terms and by other tax measures, while, at the same time the right of ownership, guaranteed by the Constitution and the law, was fully respected.

In regard to agricultural and industrial training, he pointed out that primary and university education was provided in both branches at farm schools and at the Universidad del Trabajo.

Mr. BRAVO (Mexico) drew attention to the proportion of the labour force employed in the service trades as compared with that employed in agriculture and industry. In that connection he pointed out that in the United States the proportion in the service trades had increased concurrently with the country's
/general economic

general economic development. In Mexico too, it was in the more highly developed region of the country that the service trades predominated. The Mexican Government was devoting its attention to the problem of developing the other parts of the country, but it had no illusions as to the magnitude of the task.

There was a great need for trained workers in Mexico. A quarter of the school-age population was currently attending primary schools, but only some seven per cent went on to the secondary school stage.

Mr. CIFUENTES (Ecuador) referred to the efforts which were being made in his country to hasten migration from the mountains to the coast. However, progress in that respect was too slow to have any substantial effect on the economy of the highlands, and a programme of industrialization was badly needed. In that connection he emphasized the need for a study of the various possible means of utilizing capital investment, with due regard to the role of the labour force.

The meeting rose at 6 p.m.