

United Nations¹⁰⁷

Nations Unies

**ECONOMIC
AND
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**CONSEIL
ECONOMIQUE
ET SOCIAL**

UNRESTRICTED

E/CN.12/20*

9 June 1948

ENGLISH

ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA

STATEMENT BY THE CHAIRMAN OF THE PERUVIAN DELEGATION

MR. JUVENAL MONGE

Mr. Chairman:

The task of solving the problems inherent in the restoration of the economic stability of Latin America have been entrusted to the wisdom and judgment of the Economic Commission for Latin America set up by the Economic and Social Council at its sixth session, recently concluded at United Nations headquarters at Lake Success, after a year of strenuous work.

The countries of Latin America are faced by a profound maladjustment of their economies, although the maladjustment is not felt with equal intensity or gravity by each one of them. There is a group of strong economies, with lucrative exportable products and favourable balances of payments, which have maintained their external purchasing power over the last few years and have increased the foreign exchange reserves in their Central Banks. On the other hand there are roughly sixteen countries whose economies are made unstable by their inability to maintain even a reasonable balance of payments. There may be, between these two groups, in addition to the sixteen I have mentioned, some economies which occupy an intermediate position as regards balance of payments difficulties.

The general situation of the Latin-American countries in the least favoured group is marked by a sharp increase in their domestic means of payment and by a very limited capacity to pay in foreign currencies. This disequilibrium has a permanent inflationary effect which saps internal purchasing power and causes daily increases in the cost of living.

The Latin-American countries in this category had full employment during the late war; but the difficulties I mentioned have had the effect of undermining normal conditions, retarding the normal development of business and now are beginning to give rise to the problem of unemployment.

* This document is a revised translation of the original which was issued in Santiago, Chile.

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This is the situation which confronts the Economic Commission for Latin America; and in which Peru, owing to the permanent maladjustment of its balance of payments, finds itself in a very unfavourable position.

This year, with urgent requirements for an expenditure of \$200,000,000, we have available only \$120,000,000. This acute disequilibrium is at the root of the serious state of production, inflation and the constant rise in the cost of living while in various sectors the first signs of unemployment are being felt.

The delegation of Peru therefore divides its contribution to the Economic Commission for Latin America under the following heads:

1. Priorities for economic readjustment;
2. Immediate measures must be adopted;
3. Immigration to America will increase productive power;
4. An important aspect of the problem is the preparation of technical economic data;
5. New and effective methods of balancing international payments must be proposed.

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I. Economic Readjustment is Fundamentally a Problem of Priorities

During the examination of economic and social problems in the United Nations Economic and Social Council and in the Inter-American Economic and Social Council of the American regional organization, the following questions have arisen:

- (a) problems of European reconstruction;
- (b) problems of economic development; and
- (c) problems connected with the rehabilitation of Latin-American economies.

The delegation of Peru has stated its agreement with the principle established by the second General Assembly of the United Nations and by the Economic and Social Council that "the world prosperity is indivisible"; in other words that there can be no question of rehabilitating some economies at the expense of others. I remember too that at Bretton Woods Mr. Henry Morgenthau, Secretary of the Treasury, declared, with unanimous approval, that "permanent creditor economies do as much damage to the world as permanent debtor economies".

Acting on these premises, the delegation of Peru has done its best - although its arguments have not been fully appreciated - to show that the world problem and that part of the world problem which affects Latin America, has today an urgent aspect which can be expressed as a problem of

/priorities:

priorities: priorities based on the urgency of countries' requirements and priorities according to the type of assistance needed.

In our opinion the Commission of which we are members must make definite decisions in this field as a basis for its studies and recommendations for action.

We must in the first place plan the kind of assistance to be supplied and name the countries which are to have first call on it.

II. Measures to be Adopted

The Peruvian delegation considers that the problems to be solved should be examined on the basis of their urgency, with a view to two types of solution.

A. Short-Term Measures

Hard-pressed as it is today - in the situation I described in the earlier part of my speech - Latin America must seek immediate methods of restoring the balance of an efficient, co-ordinated economy, as it existed in some base year, let us say in 1938, for example. The objective to be attained may be expressed in a simple formula: "The immediate re-establishment of trade and production" at the level of the base year chosen, which should be the subject of investigation.

The economic weakness of many Latin-American countries is due, I believe, in the field of trade, to the difficulties in the way of carrying on normal business and, in the field of production, to the difficulty of obtaining equipment and machinery. It should be understood, however, that the goal of such countries is only (a) to replenish the commercial stocks of established firms which normally supply the wants of the purchasing public, and not of firms engaged in speculation; and (b) to be given adequate opportunities to buy equipment and machinery for existing agricultural, mining and manufacturing enterprises, without attempting to solve the problems of industrial development by these short-term measures in the industrial field.

The United Nations Charter, and the Trade and Employment Charter we have just signed at Havana, specifically mention problems of "full employment". The fact that if these short-term measures were put into effect, the demands of "full employment" could be amply satisfied is a significant one for the Economic Commission for Latin America.

B. Medium and Long-Term Measures

What Latin America needs is the planning of each national economy, with a view to the satisfaction of its future industrial requirements, immediate and remote.

/Some remarks

Some remarks on the problem of industrial development may be pertinent:

1. The industrial nations of the world have not a genuine interest in the development of Latin-American industry. They consider that industrial development would entail the loss of the source of wealth represented by the working up of raw materials and their resale to the producing countries.
2. Conversely, countries producing raw materials which seek to industrialize themselves run great risks if they aim at self-sufficiency, since in order to protect their infant industries they will have to resort to tariff barriers or other means of protecting their industrial products on the home market. Furthermore, abroad their products will have to be placed on competitive markets, in which they will not be taken up, as the costs of industrialized countries using scientific production techniques cannot be competed with.
3. At the Havana Conference discriminatory trade practices and the undue protection of domestic production were subjected to serious restrictions.
4. Industry, as the second phase in the economic advancement of Latin America, requires that the industrial potentialities of each Latin-American country should be studied with a view to the adoption of an Agreement. Industries should not be forced; the sole grounds for their establishment should be the satisfaction of the major national needs of the countries concerned. The establishment of industries should be promoted by the use of the actual natural resources of each country. The Agreements resulting from such a conference will recommend fair limitations on the establishment of new industries; and will call for their establishment by stages within a stated period of not less than five years.
5. It must be clearly recognized that Latin America should not fall into the error of chaotic industrialization, whether the result of the zeal of capitalists in the countries concerned or of foreign investors or, even more so - and this should be made clear - the result of the commercial and therefore interested advice of associations of foreign private companies which, hampered in their own countries by the operation of anti-trust laws, are directing their activities and enterprise towards uncontrolled industrial development in Latin America - with substantial sales of heavy machinery but a disquieting drain on currency reserves and a consequent threat to the new industries from coming world competition.

/In view

In view of these considerations we might draw up the following system of priorities:

- (a) Equipment and machinery for industrial development schemes now in process of execution;
- (b) Equipment and machinery for new industrial development schemes planned for the near future;
- (c) Equipment and machinery for future programmes of industrial development planned on a long-term basis.

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Since Latin America's major problem is the shortage of currency for its purchases abroad, there would seem to be very little possibility of implementing these short and long-term measures which, by restoring trade and balancing production, would permit the rapid rehabilitation of each country.

Certain preliminary considerations should be stated:

Rapid rehabilitation has nothing to do with the problem of markets or of new industrial development. It refers only to the urgent and inescapable need to restore the existing agricultural, mining and industrial structure to its pre-war efficiency.

The result would be a decrease in production costs through the restoration of equipment and machinery to a high degree of efficiency and the introduction of new machinery, with a consequent increase of marketable products. The restoration of commercial stocks to their 1939 levels, as an inevitable result of this, would help to release ample supplies of goods and products for the domestic markets and, without increasing monetary circulation or lowering wages in the countries concerned, would produce disinflation with a resultant fall in domestic prices and, indirectly, a rise in the standard of living of each country. The surplus production of each country would provide a stock of commodities at reasonable prices which would enter world trade, thereby contributing to the reconstruction of the devastated countries of Europe and Asia.

It follows that the immediate problem of Latin America is simply that of introducing into each country the goods needed to replenish commercial stocks and the equipment and machinery to replace plants worn out by the war.

It must be borne in mind that during the five years of war the Latin-American countries did not succeed in obtaining the high payments of foreign currencies to which they were entitled as there was a single buyer, the United States, and Latin-American products were bought under contracts

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controlled by that buyer with the result that wartime profits were very moderate, and never, except in a few countries, reached a level sufficient for the replenishment of commercial stocks and the reconversion of equipment and machinery. If we seek the immediate cause of the equally urgent problem of rehabilitating Latin America within the framework of an efficient purchasing system, we shall be led to conclude that it depends exclusively and primarily on devising a system which will provide each country with urgently needed goods, equipment and machinery as the basis for rapid and immediate recovery now.

It must be stressed that I have so far been dealing only with the problem of the rehabilitation, recovery and maintenance of each individual economy.

As the conclusion of the first part of my speech I may say that Latin America's problem is a financial one, but that nevertheless it is not loans that we need. What must be done is simply to stop for some time the movement of currency in intra-Latin-American trade and in trade with the United States.

In order to determine how this should be done, a brief but comprehensive study should be made of intra-Latin-American trade, and a clearing system between those countries and the United States should be planned; in other words, a system of suspended payments should be instituted. With extra-continental countries, however, the normal system of purchases on the free market could be maintained.

It must be noted, as a necessary premise, that once the Marshall Plan is put into effect, it may be supposed that Latin America will have available a substantial volume of purchases amounting to many millions of dollars over a period of five years.

These preliminary questions once settled, the Economic Commission for Latin America, which must seek immediate solutions rather than plans of action, will have to adopt and recommend to Governments some system calculated to put a stop to the movement of currencies, which is the disease we are trying to cure, while making it possible for goods to be acquired through annual "clearing" transactions. I shall venture to sketch one possible system, in order to show how far the Peruvian delegation is prepared to go to ensure the effectiveness of the resolutions to be adopted by the Commission.

We may assume that 30 per cent of the exchange required can be obtained from the Latin-American economies whose trade with one another is balanced. Each country would open a current account in its own currency in favour of the other, and would pay its nationals by means of a certificate -

/something

something in the nature of a bond or warrant - which, like any other credit document, would be good for cash in the commercial banks of each country by a discounting system, for which purpose the central banks would fix a special rediscounting rate. On the assumption that the mutual trade of the Latin-American countries concerned was completely balanced, currency movements during the period in question would be completely eliminated.

Countries not having a complete balance of trade would settle their accounts by the normal method of the international exchange of currency at the end of the commercial year.

SUSPENDED PAYMENTS

After the needs of the Latin-American countries have been satisfied a similar system will be established with the United States, which is now the sole source of goods, equipment and machinery, until the European markets have recovered. No bonds or warrants will, however, be issued. Each country would introduce appropriate legislation providing for central banks to pay their nationals for exports in their own currency, a system of current accounts being opened for that purpose.

If the Latin-American countries were to agree that, so far as their own continent is concerned, the present stagnant situation must be remedied in the manner described, confidence, which is the premise of this proposal, would ensure that, at the end of the commercial year, most Latin-American countries would be in a position to make substantial payment to the United States against their debtor dollar balances; which would be reflected in the current account I have mentioned.

It would also be certain that at the end of a period of two years all the Latin-American economies, now balanced and co-ordinated, would have covered the whole of their foreign currency deficits.

EUROPE AND ASIA

When the Marshall Plan is put into effect, Latin-American sales to Europe and Asia will, as I said, amount, according to reports, to 10,000 million dollars; Latin America will be able to sell a huge volume of its products, receiving a return in dollars.

The United States will then be in a position to guarantee the "clearing" system of suspended payments, mentioned earlier, with the dollars due from these sales, crediting them to the current account of each nation selling goods to Europe and Asia and with a debtor balance to the United States.

It may be assumed that it will be possible, by agreement with the United States, to remit part of the foreign exchange received from sales to
/non-American

non-American countries to each country of Latin America to liquidate annual deficits in the inter-Latin-American trading system.

It will be seen, then, that this system would reflect a state of complete confidence, backed by the guarantee of the sales to Europe.

Our delegation does not claim that the plan, which has been outlined here as a genuinely effective solution, is the only possible one. Other delegations may, perhaps, have other creative ideas for solutions. The Peruvian delegation, however, thought it essential to outline a system of trade to meet the difficulties now besetting the Latin-American countries.

III. The Peruvian Plan for Mass Immigration to Latin America

The statement made by Dr. Enrique García Sayán, ex-Chancellor of Peru, on 29 December 1947 and welcomed in Europe and America represents, in the view of the Peruvian Government, the incorporation in the Marshall Plan of a vast programme for mass European immigration to Latin America. In the words of its author, "It would involve the promotion or establishment in those countries of the conditions necessary to enable them to receive the flow of immigrants with good results. The relief of overcrowding in the over-populated European countries would, on the one hand, reduce the amount of aid and the number of products they require, thereby furthering the reconstruction programme, and, on the other, enable the Latin-American countries to stimulate their production of raw materials for European reconstruction, promote their economic development and increase their capacity to buy the industrial products of Europe and the United States. The effect would be to increase the world labour-force and utilize it more efficiently."

The Economic Commission for Latin America should study the following two questions:

- (a) How far will the implementation of the Marshall Plan prevent Latin America from solving the problems of the recovery of its own trade and the development of its industry; and
 - (b) A great programme of migration to Latin America, with the financial backing required to establish the groups concerned as productive units, which would relieve the over-populated regions of Europe and integrate European reconstruction with the rehabilitation of Latin America by enabling the latter to increase its productivity.
- The Peruvian delegation will state its views on these matters at the proper time.

IV. The Preparation of Technical Economic Data on Questions of Trade and Industry

I must now refer to the economic studies of the Commission and of member nations.

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I am not being critical when I say that this Commission must view its research work, the basis for the adoption of solutions, as the only form of activity which can be really successful in the first year.

The Commission can have every confidence in the proved ability of the Secretariat to carry out such research. But in principle, I believe the following aspects must be covered:

- (a) The statistical aspect;
- (b) Questions of planning:
 - (i) Special economic questions affecting particular nations.
 - (ii) Latin-American inter-dependence and inter-competition.
 - (iii) Bilateral reciprocal relations between Latin America and the United States; and divergencies.
 - (iv) Triangular reciprocal relations between the United States, Europe and other countries and Latin America.

The Peruvian delegation is particularly anxious to guard against our work being simply a matter of research and planning; it must lead to realistic solutions, as happens with economic questions affecting private enterprises.

V. A Modern Balance of Payments System

From the sketch of a system of payments I gave in connection with the problem of industrial development it is clear that no Latin-American nation can abandon the idea of a large-scale programme to develop its basic production, put an end to the colonial nature of its economy and satisfy its legitimate aspirations to planned industrialization.

From the industrial point of view, there are economies like those of Brazil, Argentina, Cuba, Mexico and Chile with considerable industrial development. The remaining countries, although they have rich cattle-raising and mining industries, have developed industrially to a lesser degree.

It is these economies - and some of the first group too - which suffer from a permanent unfavourable balance of payments making it impossible for them to maintain full employment. It is therefore a matter of urgency for the financially powerful countries of America, together with the specialized agencies, to pool their resources to achieve a reasonable readjustment of balance of payments difficulties.

The following questions must be studied exhaustively:

- (i) Financial aid from the specialized agencies of the United Nations.
- (ii) Inter-governmental financial aid.
- (iii) Direction of international private investment, and
- (iv) New methods of suspended payments, with annual or other fixed-term settlement.

When the Secretariat's "Survey of Economic Conditions and Trends" was

/under discussion,

under discussion, the Peruvian delegation suggested the following urgent subject for future studies: a preliminary study of the development and financial tendencies of investor nations and financial organizations, from 1944 to the present day. The Peruvian delegation was very gratified to note that the suggestion was supported by other members of the Economic and Social Council and as you know it was dealt with in the special report presented by the Council after its sixth session.

We must not disregard the fact that investments in Latin America, whether made by the International Bank for Reconstruction and Development, by private investors or by states through direct loans, meet with great difficulties. There are complex problems of confidence, due to the unpaid debts owed to United States investors, the fears of capitalists regarding political changes in the Latin-American Republics, fear of taxation and legal action by each sovereign nation, fear of double taxation, and the lack of technical surveys internationally recognized and backed by signatures in which full confidence is felt. The Economic Commission of which we are part should therefore overcome these shortcomings with the stamp of its guarantee.

If, once the Marshall Plan has been put into effect, mankind is to advance towards genuine reconstruction on a world scale, in other words, towards peace, it may be assumed that when the economies of the world have been stabilized, it will be possible to see that investment is carried out in accordance with the needs of ordered world planning. The Articles of the International Bank for Reconstruction and Development, and its organization, will provide capital with the necessary technical guarantees and will give world endorsement to investment. Delegates will remember that when the Articles of the Bank were approved by the Economic and Social Council, the Bank was given special independence so as to win the confidence of world capital.

CO-OPERATIVE BANK

In short, it may be said that in studying the solution of the financial problem, consideration should be given to the establishment of a special Latin-American Bank on co-operative lines and guaranteeing interest on investments, but distributing the profits to the countries concerned as in the consumers' co-operative system.

In addition, consideration should be given to the solution, also on co-operative lines, of the relations between three basic forms of enterprise:

/Private

Private enterprise,
Semi-public enterprise, and
Public enterprise,

studying their limitation in view of considerations of democracy, prejudice to third parties, and the Charter of the International Trade Organization, and their expansion, to neighbouring countries, through the integration of complementary economies or through customs unions.

It may be assumed that these studies will make it possible to reestablish a multilateral balance of payments system, within the framework of which the expansion of international trade between Europe, Asia, Latin America and the United States will make it possible to attain the basic objectives I have stated, and which may be summed up as follows:

- (a) To draw up a general plan of the requirements to be met;
- (b) To solve, at least, the problem of supplies of commodities essential to a sound economy, the problem of agricultural and mining equipment and of the replacement of industrial plant; and
- (c) Preliminary classification of the requirements of the Latin-American countries and the establishment of priorities based on their needs.

To fulfil these aims, the following will be required:

- (a) A co-ordinated study of the monetary policies of central banking systems in Latin America (reports of the International Monetary Fund).
- (b) A co-ordinated study of tendencies in world finance since 1939 (reports of the International Bank for Reconstruction and Development.)
- (c) A co-ordinated study of Latin-American fiscal policies.
- (d) The establishment of a centre for the training of administrative experts (proposed by Brazil at the sixth session of the Economic and Social Council); and
- (e) An up-to-date revision of the Secretariat's "Survey of Economic Conditions and Trends" with special reference to Latin America.

To summarize, therefore, the Peruvian delegation, anxious to co-operate to the full and to spare no effort to help in finding the best and most speedy solution of the economic problems affecting the world and, in particular, our continent, begs you to reflect on the statement I have just made and make up your minds on the proposals it contains, namely:

- (a) The establishment of a system of current clearing accounts in national currencies in the various Latin-American countries, in so far as their mutual trade is capable of being balanced, nationals being paid for their transactions by certificate, bond or warrant.

/(b) The adoption

(b) The adoption of the same solution with regard to the United States of America, which will retain control of the dollars accruing from Latin-American sales under the Marshall Plan.

(c) The implementation of the Peruvian plan for mass immigration to Latin America, as contained in the statement of 29 December 1947 by Dr. Enrique García Sayán, then Chancellor of Peru. This plan should be regarded as complementary to the Marshall Plan. By making an effective contribution to the strengthening of Latin-American production of raw materials, it will alleviate the distress existing in Europe since the recent war as a result of over-population and mass unemployment.

(d) The establishment of a Co-operative Bank for Inter-American Development. The Bank, as its name implies, should be of the co-operative type and should, as I said, guarantee payment of interest on investments, but distribute profits to member countries on the lines of consumer co-operatives. Finally,

(e) The intensification of investigations and studies of the economy of Latin America in general, and the preparation of technical economic data on questions of trade and production, in particular.

VI. Conclusion

If the Economic Commission for Latin America lays it down as a fundamental principle that its aim is more than research and that it is its duty to propose solutions - as would be the case in private enterprise in a similar situation - if we inspire the public of Latin America with the confidence that, mindful as we are of the needs of scientific investigation and technical and statistical preparation, we shoulder the responsibility of remedying the present distressing position of trade and industry and of ensuring rational industrial development under an ordered plan, the work of this first session of the Economic Commission for Latin America will have its effect on the interplay of our economies, will spread its influence to our traditional European and Asiatic markets, and mark the dawn of a new era of confidence for large-scale capital investments by our neighbours, the United States, Argentina, etc., and by the world.

These complex economic developments will bear the stamp of the ideas of multilateral stability proclaimed by that great organization, the United Nations.

Thank you.
