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NOTE

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Mr. President, during the last ten years, we have accumulated a body of knowledge and information which has enabled us to diagnose the major ills that beset your countries in the pursuit of their new aspirations. During this very session, we will turn once more our attention toward solving those problems in order to fulfil one of our major responsibilities under the Charter of the United Nations. In this nuclear age, we are very much aware of the consequences of a failure to co-operate; this may serve to stimulate new constructive efforts in all parts of the world. I am convinced that there will be no lack of that constructive and co-operative spirit in your deliberations.

Mr. President, I would like to thank you and the people of Panama once more for their gracious hospitality and to extend to all here present my best wishes for a fruitful session.

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*Statement made by Mr. Raúl Prebisch, Executive Secretary,
on 15 May 1959*

I should like to begin by saying how deeply I appreciate the kind remarks that His Excellency the President of the Republic was good enough to make yesterday about ECLA's work. The President also suggested that we should hold a round-table discussion of the ECLA study on the economy of Panama. We are very happy to accept this invitation, which is of great importance for our work, for, in the course of such a discussion of the study which we have carried out with the co-operation of Panamanian economists, conclusions may be reached which will lead us to rectify or ratify its contents with respect to the economic development of Panama. I am also deeply grateful for the references to ECLA made by Mr. José Antonio Mayobre, Minister of Finance of Venezuela, which will remain indelibly imprinted in our minds. Similarly, Mr. Chairman, it is my very pleasant duty to express my sincere gratitude for what you have just said about ECLA's work. Your encouraging remarks mean a great deal to this secretariat, not only because of your high office, but also because they represent the view of one whose outstanding merits have placed him among the distinguished figures of his generation — a generation to whose points of view, as to those of its successors, I am always ready to listen. Perhaps my best qualification for my position as head of the ECLA secretariat is the fact that I have not yet lost my receptiveness to the opinions and suggestions of the rising generation, that I can still speak its language and find in its thinking my best source of inspiration.

Exactly two days ago I was discussing with my collaborators what should be the substance of this statement, and we came to the unanimous conclusion that one fact should be stressed as being of the greatest importance for Latin America. Unfortunately, the illusion that might have been cherished in the decade immediately following the Second World War, to the effect that the development of Latin American economy was gaining great momentum, has been completely dispelled. The high rate of increase of the *per caput* product registered in those years — 2.7 per cent — has in fact considerably slackened, and the exceptional factors which determined it have disappeared. In this context, the most important event is unquestionably the fall in prices of primary commodities. Suffice it to point out that in 1958 alone the value of Latin America's exports dropped by 700 million dollars in relation to the preceding year, mainly in consequence of this price decline.

In these circumstances, and in face of the increasingly complex forms assumed by the development of Latin America, the policy of international co-operation is clearly beginning to assume a new form. As the Minister of Finance reminded us a few moments ago, Latin America's long-standing ambition to have a development institution of its own has just been fulfilled. The capital of the Export-Import Bank has had to be increased; the same is true

of that of the International Bank for Reconstruction and Development; and the International Monetary Fund too has witnessed an expansion of its resources. All these are favourable symptoms, but it would be a serious mistake to suppose that a greater inflow of international capital would alone suffice to deal with Latin America's basic problems. They can be solved only if the following fundamental fact is recognized: Latin America, however great the external assistance it receives, however high the rate at which its exports expand — and they cannot do so very rapidly — will be unable to carry out its development plans, will be unable even to regain the rate of growth it achieved in the ten post-war years, unless it makes a sustained effort to establish within its own territory the capital goods industries of which it is in such urgent need today, and which it will require on a large scale during the next quarter of a century. Production of machinery and equipment in Latin America, estimated at 1958 prices, amounts to barely 240 million dollars.

According to ECLA calculations, by 1975, given favourable hypotheses as to external resources, the level of production of these industries in Latin America will have to be raised to about 6,500 million dollars. This is the conclusion reached in a study which has been distributed to the delegations and which I would particularly recommend them to read, because it sheds a very clear light on prospects for the Latin American common market. I refer to the study entitled "The influence of the common market on the economic development of Latin America", prepared by Mr. Jorge Ahumada, an eminent Chilean economist, with the help of his collaborators.

In order to produce capital goods and develop all the intermediate manufactures required in order to launch these highly complex dynamic industries — beginning with that of iron and steel, consumption of which is now 6.6 million tons and should reach about 38 million by 1975 — Latin America needs a common market.

True, the task of creating the common market is not, and never will be, an easy one. At the meetings of the Trade Committee, during the last few days, it was evident that, although there was a solid body of opinion in favour of the common market, unanimity was far from being reached as regards the form that it should take. This is by no means surprising. An undertaking of such scope requires some time to take shape; much patient explanation and public advocacy will be necessary before it can materialize, although this work may yield results earlier than we might expect.

A doubt has been expressed in the Committee as to whether the common market, as projected by the Working Group on the Latin American Regional Market in Mexico, could combine the features of a free-trade area, and thereby fulfil the conditions laid down by the GATT for its formation. The Working Group did not study the juridical aspects of the common market in any detail, since the session had been convened for a different purpose; but the group of consultants who met shortly afterwards at Santiago (Chile) were able to do so, and worked out a smooth and effective formula which has won the approval of the GATT representative. I feel sure that this formula, although devised for the southern-zone countries, provides the juridical key to a common market project designed to serve the whole of Latin America, and thus supplements the recommendations formulated at the Mexico session. I believe that, in ten years' time, Latin America would be ready to exempt an essential part of its trade from customs duties, as stipulated in the GATT regulations for the formation of a free-trade area. In the opinion of the experts at the Mexico meeting, this free-trade area should be gradually converted into a customs union.

Apart from these and other inevitable difficulties attendant upon the establishment of a common market, there is an increasingly widespread illusion which some attempt must be made to dispel.

To suppose that such a market will provide a magic formula obviating the need to tackle any of Latin America's other serious problems would be a grave misconception. The common market, despite its great importance, will be one, and only one, of the many aspects of an energetic economic development policy; but it will not eliminate the problems which have long been awaiting solution. The need for broadening the industrial market to embrace the whole of Latin America is not the only obstacle to the expansion and increased efficiency of industry, since its growth has been hampered by very serious organic problems which are preventing it from developing horizontally and vertically within each country's individual market.

I have pleasure in endorsing the observations made in this connexion at one of the meetings by a member of the delegation of Cuba. A series of rationally co-ordinated agricultural measures, besides solving the increasingly pressing problem of supplies, would have the merit of helping to lay deeper foundations for the domestic market for manufactured goods. An unsatisfactory agricultural sector, with a low standard of living for those engaged in agricultural production, is not the proper background for industrial activity in Latin America. A higher standard of living for the agricultural population could be achieved only by the effective improvement of farming techniques, by land reform to solve the basic problem of land tenures. Another formidable obstacle is also constituted by the type of autarkic policy which a large number of our countries have followed with respect to agriculture. I am far from imagining that this problem can be solved overnight, with the abolition of duties and restrictions. It would be a singularly unfortunate measure if agriculture in certain countries of the region were to be distorted by a degree of external competition from other Latin American countries which it was unable to withstand. I must stress that, while I criticize the policy of autarky, I do not think that is the way to solve the problem it raises. For a series of reasons set forth in the secretariat's report, I do not consider it an economically sound proceeding to adopt any measure that involves a contraction of existing agricultural activity, with the consequent disemployment of agricultural workers and disuse of farm land. What I do believe is that in this connexion the Latin American countries are faced with a dilemma of major importance for economic development. Either they must continue to pursue their autarkic policy, each one attempting to push agricultural production as far as possible within the confines of its own frontiers; or, alternatively, they could take advantage of the common market system and of economic integration, so that imports of goods which other countries could produce on more economic bases might satisfy part of the increment in the consumption of those countries where otherwise farmers would have to face rising costs, and consumer prices for agricultural commodities would increase.

The introduction of more advanced techniques will in its turn entail, as has already been the case, problems of another sort. Since the time of the earliest ECLA studies we have maintained that industry would have to fulfil, among others, a highly important dynamic function, namely, that of absorbing those very workers that the application of more up-to-date techniques rendered redundant in agricultural production. But it must be taken into consideration that industry also has to find room for the manpower deriving from other sources, especially that most proper to it — the artisan labour force itself. Thus there is an immense problem relating to the productive absorption of increasingly large bodies of active population in Latin America, and comprising more than one cause for concern. The industrial development of Latin America has been intensive, but not sufficiently so for it to fulfil the dynamic function described in a manner adequate to the needs of economic development. I do not think there is a single country in Latin America — apart from the cases where manifest disemployment exists — which has no under-employment problem in both urban and rural activities. Such a state of affairs is often disguised in statistics relating to the break-down of the active population by

economic sectors, which record a striking increase in the population employed in services. This fact has more than once been remarked upon as analogous with the phenomenon that is taking place, and has taken place in the past, in the large industrial centres, where, as the standard of living and productivity improve, demand for skilled services steadily increases. Let us not make the mistake of supposing that it is exactly the same phenomenon which is registered in Latin American statistics. It is true that here too there are skilled services which gradually increase with the progress of economic development, but at the same time a large body of occupations has grown up, of a pre-capitalistic nature, in which productivity is highly unsatisfactory and which constitute a dead weight, a formidable burden, a serious obstacle to the economic development of Latin America. It is an inefficiently utilized body, which can only decrease, slowly and gradually, if industrial production attains a much higher rate of expansion than in the past; and this will not be possible within the narrow bounds of the individual country markets. In this context, the quality of the labour supply also constitutes a very serious problem. Latin America is not doing all that the demands of economic growth require in training its labour force in every category, from that of the technical expert to that of the skilled worker. The importance of this fact can hardly be exaggerated, but as yet it has been very little studied, although successful experiments have been carried out in the training of the labour force, for example in Brazil.

Due attention has been devoted to this question in the secretariat studies, especially with respect to the economic development of Argentina. We have attempted to formulate a projection of Argentine industry's requirements in respect of technicians and skilled labour if certain plans are to be carried out and certain industrial growth targets attained. The conclusions reached are certainly impressive. The proportion of skilled labour and technicians to which training has been given so far is clearly insufficient to meet the needs of such industrial growth. I point this out because it is representative of what is going on throughout Latin America, although in other countries the contrast between supply and demand is still more marked. A great deal of the productive investment that may be effected in the next few years would be wasted without the technical support required to ensure its proper management. Technical training of all categories of manpower is no less important than an increase in capital, and I hope that ECLA may be able, in collaboration with other international institutions, to inquire into that part of the question which is of interest to the Commission, namely, its economic aspects.

Another point with which we are concerned is the study and inventory of natural resources. In compliance with the Commission's recommendations at previous sessions, we have already undertaken the systematic analysis of Latin America's water resources. What I might call an almost exhaustive study of the case of Chile has been carried out; the study relating to Ecuador is in process of completion; and, at the request of the Government of Argentina, a special study has been made of the water resources of Northern Patagonia. All this work has been in the hands of a group of experts from the Technical Assistance Administration (TAA) and others from a series of international institutions interested in water resources from their several points of view. This group is at the disposal of the Governments for the continuance of studies of this type, to which the secretariat attributes immense importance.

Suffice it to mention the following fact as an indication of the need for this analysis to be pursued further. In 1954 hydraulic potential for only 62 million kW was known to exist in Latin America. Today, thanks to the studies mentioned and to another series carried out by the Governments concerned, often with the co-operation of foreign organizations, the water resources figure has been doubled. But the knowledge and measurement of those resources is still far from having acquired the importance that should be attached to it in a far-sighted water resources develop-

ment policy. I feel it is very fortunate that the Special United Nations Fund can contribute to the systematic inventory of these and other basic resources in Latin America. Another reason for satisfaction is that the Organization of American States, through its appropriate technical agencies, is devoting considerable attention to this problem.

The ECLA secretariat in Santiago was recently the scene of a very short unofficial meeting of TAA geologists, with whom it was possible to compare opinions on what might be done in the field of mineral resources. They all agreed that although a great deal of information on these resources was available in Latin America, enough was not yet known about them, and a systematic study programme was needed.

To deal next with forest resources, about them too very little is known, in spite of the research that has been carried out. It is for this reason that we have taken up with great interest a proposal of FAO which will be submitted to the present session for consideration, to the effect that a joint study of these resources should be carried out, and, in addition, an estimate and projection of probable demand in Latin America should be prepared.

In the very act of giving you this information, I reflect that perhaps it might be asked, in view of the immediate difficulties besetting the Latin American economy, why special attention is being devoted to matters of this type at the expense of others of a more pressing nature. Our Governments are frequently led by the very understandable aim of tackling immediate problems to divert their attention from those longer-term questions which will continue to present themselves in Latin America, and the solution of which will be indispensable if a satisfactory rate of economic development is to be attained. I think that the most useful form of co-operation which ECLA and the United Nations in general, as well as other international institutions, could render and are rendering to the Latin American Governments consists precisely in restoring the balance in the attention demanded by these aspects. The difficulties involved are of a structural nature and their study requires the development of special methods, which ECLA has long been actively engaged in exploring. In all its publications in recent years it has stressed the need for the gradual evolution of a technique of analyses and projections of economic development by means of which development problems could be systematically and scientifically tackled. What is more, it has emphasized the necessity for economic programming, for establishing clearly-defined targets and objectives in economic policy, and attempting to quantify them, not for the mere interest of measuring their magnitude, but in order to lay down guide-lines for the efficient and satisfactory utilization of the community's resources.

These ideas, which have been discussed at all the sessions of the Commission, have taken root with amazing rapidity. The statutes of the new Latin American financial organization attach a great deal of importance to the need for programming. The misconception which associated the programming of development with detailed State intervention in the mechanism of the economy has now been removed, and a broad field lies open for the accomplishment of this task. Indubitably, a good deal of the missionary effort that has been involved must be attributed to us, and I say so not to claim a merit but to emphasize a responsibility. Many Latin American Governments are in fact requesting ECLA's co-operation in dealing with their programming difficulties. We launched the idea when the time was ripe for it, and now we are not in a position to respond to all these requests. In the present speaker's view, this is a crucial situation; if it is allowed to continue, the prestige of the idea of programming will inevitably be undermined, and there will be some risk that it may in the end be regarded by Governments as a kind of abstract juggling with techniques that are of no practical utility.

During the last day or two I have glimpsed, with great satis-

faction, the possibility of an effective solution of this problem of rendering systematic assistance to the Governments that request it. Mr. de Seynes, Under-Secretary for Economic and Social Affairs of the United Nations, and Mr. Heurtematte, Commissioner for Technical Assistance, both of whom are present here today, have displayed keen interest in the need to strengthen and increase the resources of the ECLA secretariat with a view to forming a mobile unit of technical experts who, together with specialists in other fields, would be at the disposal of the Latin American Governments at any moment in response to such requests. For the time being our limited resources have restricted action of this kind. At present we have only one well-organized group, which recently went to Colombia at the request of the President of the Republic himself, who desires the co-operation of secretariat experts in organizing the work of economic programming in his country. They are to assist and collaborate with eminent Colombian economists in this work of organization, in the analysis and discussion of basic material, and in the appraisal of the short- and medium-term problems of Colombia's economic development. A few days ago another group went to Cuba to assist the Government in an advisory capacity in connexion with similar work.

Had it been possible to extend this service, ECLA would have applied its efforts specifically to economic development, relegating its systematic studies to second place, so that the countries concerned might themselves carry out such research, with the help of this secretariat, as has been the case, up to a point, with the studies on El Salvador and Panama.

For us it would be an incalculably valuable source of experience to be able to probe farther and farther into the living reality of the Latin American countries, into the increasing complexity of the difficulties of their economic development; it would thus be possible gradually to accumulate a wealth of reciprocal experience which could be pooled among international and national officials, so that ever greater progress could be achieved in the techniques of programming, and increasingly active and efficacious service could be rendered to the Latin American Governments.

But it is not only with the question of long-term development that we are concerned. In the last analysis, practically every substantial difficulty confronting the Latin American economy today is of a structural type, the outcome of a prolonged want of foresight in economic policy or of the action of fundamental factors which obstruct development and which it has not yet been possible to remedy. The lack of foresight referred to might have been justified in the years immediately following the great world depression, a phenomenon which found not only the Latin American countries, but all the rest of the world, handicapped by the burden of an orthodoxy which it has taken a great deal of time and effort to shake off. Today, in the light of past experience, it would be inexcusable if we failed to reap the benefit of all that we have learnt, in order to build an economic development policy on a more solid and rational foundation, and thus prevent a recurrence of difficulties which the Governments cannot easily overcome, because of all the structural obstacles that stand in the way. Only at the cost of great sacrifice will the Governments concerned be able to grapple with the problem of the economic vulnerability of the Latin American countries.

This is not a phenomenon due solely to an adventitious error of policy, an economic misconception as regards imports or circumstantial balance-of-payments disequilibria. Its roots go much deeper. Latin America has been cherishing the illusion that with industrialization it will become increasingly less vulnerable to external fluctuations and contingencies. This illusion is being dispelled, especially in those countries where, because the industrialization process has taken place in watertight compartments, import substitution policy has so severely curtailed purchases from the rest of the world that they are restricted to goods essential for economic activity. Hence, if the capacity to import is reduced

as the result of one of the usual fluctuations in exports, the whole of a country's economy is affected, and the risk of serious unemployment is incurred. The old type of vulnerability, which was reflected in the fluctuations of demand, has been superseded by a new form, which is tending to manifest itself much more alarmingly, especially in the Latin American countries at the more advanced stages of development, on the supply side and in respect of essential goods.

The importance attached by the secretariat to these phenomena is so great that I should like to cite another of the reports which we have submitted to the consideration of this assembly, namely, that dealing with the common market and the multilateral payments system. It contains an analysis of Latin America's import coefficient, that is, the relationship between the value of imports and the total value of each country's national product. According to ECLA estimates, if an annual rate of growth of 2.7 per cent were regained, the present coefficient of 16 per cent would drop to 8 per cent by 1975. To form a clear idea of all that this implies, it is enough to recall that the countries of Western Europe, despite their high degree of industrialization, at present register a coefficient of 18.5 per cent, and to note that in a few years' time Latin America would have reduced its coefficient to a figure much lower than that.

Why does Western Europe's coefficient stand at 18.5 per cent? It is not because of the region's purchases of raw materials and primary commodities from the rest of the world, but precisely because before the common market existed Europe had already developed a brisk and long-standing intra-regional trade. Thus, out of the coefficient in question, 9.5 per cent corresponds to trade in primary commodities and industrial products among the European countries themselves, in consequence of a process of specialization which the common market is accelerating. Meanwhile, in Latin America industrialization has developed in watertight compartments, so that intra-regional imports represent a negligible proportion of the aforesaid coefficient of 16.5 per cent. Herein lies the contrast between the two situations, and the danger for Latin America of continuing to push its substitution policy to such extremes as hitherto.

Import substitution policy is an inescapable necessity, as we have insisted since the days of ECLA's earliest studies, and we now lay equally explicit stress on the need to carry this policy beyond the confines of national frontiers. The time has come to co-ordinate Latin America's efforts to achieve a more diversified intra-regional trade and a degree of economic efficiency which will enable it to export its industrial production to the rest of the world and escape from the cramped position in which trade in primary commodities is placing it *vis-à-vis* the large industrial centres. It is this structural problem which underlies many critical balance-of-payments situations. We should not disregard it, nor attribute it to adventitious monetary factors and to the effects of inflation. It is a deep-rooted structural phenomenon calling for structural remedies.

In that same process of inflation which is so great a motive of concern, financial disequilibrium is not the whole of the trouble, nor is pressure for higher wages. In several Latin American countries, inflation, which up to now has proved impossible to control, is due to the lack of dynamism in agriculture, which has not yet been able to supply low-cost foodstuffs, and which in many cases, on the contrary, is selling them to the working population at

increasingly high prices. Anxiety for wages to offset the effect of this steady rise in agricultural prices has often been one of the most serious determinants of inflation, and also one of the most formidable obstacles to the control of the process, since it cannot be eliminated from one moment to the next by the application of an anti-inflationary formula, but only through the removal of the basic factors which have been hampering agricultural development.

This does not mean that the scourge of inflation should leave us unmoved. In Santiago and Mexico we followed with close attention the praiseworthy efforts of certain Latin American Governments to combat this phenomenon, often at the cost of genuine political self-sacrifice. We have also noted with satisfaction that the expansion of the resources of the International Monetary Fund will enable it to take more effective action in support of anti-inflationary policy. Thus, by means of a combination of internal and external efforts, it may be possible to avert certain highly critical consequences of particular anti-inflationary measures, which in some cases have caused a regrettable contraction of the economy and a loss of capacity for capital formation. The consequences might be serious, because the bold and energetic internal measures adopted have not been duly complemented by firm fiscal action and by such timely co-operation of foreign investment as would enable the domestic economy to make a rapid recovery from the effects of a contractionist policy. This is all the more regrettable since such a policy frequently aggravates the severe social tensions which make themselves manifest in Latin America. They throw into sharper relief than ever the profound inequity of income distribution, the patent and increasing contrasts between the higher income groups, whose traditional comforts are now enhanced by all the conquests of modern technique and all the facilities which life in the great centres affords, and the masses, whose standard of living improves but slowly. There are serious tensions which can be eased only by the close co-ordination of social and economic development policies, and by a wisely-planned fiscal policy in respect of both taxation and the social distribution of public expenditure. Such tensions, rather than slackening, will become more acute, unless Latin America accelerates its rate of growth.

The need for such acceleration is imperative, and that not only in relation to the mass of the population. There is another manifestation of social tension which in certain countries is assuming a critical form. In each generation of young men entering a country's active life, there are dynamic elements, incisive minds, well fitted to combine technique with commerce, industry, the arts. If they are not effectively absorbed by the growth of the economy, if economic development weakens or stagnation supervenes, these elements gradually accumulate in society and very serious resentment and frustration arise. These are phenomena whose importance is self-evident in several countries of Latin America, and whose depth and implications are too great for them to be overlooked by economists when the social and political aspects of economic development are under consideration. For, in the last analysis, the dynamic validity of a system is to be found not in written expositions or in the abstract theories which present it as a scheme in which economic forces spontaneously fulfil economic and social aims, but in the evidence that its practical achievements are measurable in terms of specific solutions for Latin America's serious economic development problems.