INTERNATIONAL CO-OPERATION
IN
A LATIN AMERICAN DEVELOPMENT
POLICY

I

Preliminary report of the secretariat of the United Nations Economic Commission for Latin America

II

Explanatory statement and recommendations of the Preparatory Group appointed by the Commission's secretariat

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Prepared for the Meeting of Ministers of Finance or Economy, as the IVth Extraordinary Meeting of the Inter-American Economic and Social Council of the Organization of American States, to be held at Rio de Janeiro, November 1954

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Explanatory statement

PREFACE

The Tenth Inter-American Conference, held in Caracas during March 1954 adopted resolution LXVI which convened a meeting of Ministers of Finance or Economy of the member countries of the Organisation of American States, and provided, *inter alia*, that "the Inter-American Economic and Social Council shall request of the Secretary-General of the United Nations, through the proper channels, the collaboration of the United Nations Economic Commission for Latin America in the preparation and holding of the meeting".

Following this request, the Executive Secretary of the Economic Commission for Latin America, on the instruction of the Secretary-General of the United Nations and at the invitation of the Chairman of the Inter-American Economic and Social Council, Sr. Jorge Hazera, consulted in May 1954 in Washington, D. C. with Dr. Octavio Paranagua, Chairman of the *ad hoc* Committee of the Inter-American Economic and Social Council which is entrusted with the preparation of the meeting. In the course of this consultation it was agreed that the ECLA secretariat would prepare a report on practical measures for economic development, the financing of development and problems of international trade in relation to the economic development of Latin America, as well as on any item on the agenda which it might deem expedient to analyse or expound; the ECLA secretariat would designate a small number of distinguished Latin Americans to constitute a Preparatory Group, who would be requested to formulate recommendations and economic projects related to the study prepared by the secretariat; and the ECLA secretariat would forward the corresponding documents to the *ad hoc* Committee of the Inter-American Economic and Social Council for their consideration and distribution to Member Governments, together with the rest of the documentation for the conference.

These arrangements were submitted for consideration of the Committee of the Whole of the Economic Commission for Latin America which, at its meeting on 30 July 1954, resolved *inter alia*:

"*To take note with satisfaction*

"(*a*) Of the invitation extended to the secretariat of the Commission to collaborate with the Inter-American Economic and Social Council regarding this matter, and of the measures taken by the secretariat of the Commission to collaborate in the Meeting of Ministers of Finance or Economy;

"(*b*) Of the appointment of a Preparatory Committee, consisting of six outstanding Latin Americans, which will formulate recommendations and projects on the basis of the study prepared by the secretariat;"

and

"*To indicate its pleasure* at this collaboration between the Commission and the Inter-American Economic and Social Council as a new stage in the co-ordination of work and closer collaboration between these two agencies."

The *Preliminary Report of the Secretariat of the United Nations Economic Commission for Latin America* and the *Explanatory Statement and Recommendations of the Preparatory Group appointed by the Commission's Secretariat* have been prepared in pursuance of the above arrangements. The report of the Preparatory Group represents the unanimous views of its authors, who acted in their personal capacities and whose recommendations are put forward entirely on their own responsibility. The members of the group were: Ing. Evaristo Araiza, President of the Council, Banco de Mexico, Director-Manager of Compania de Fierro y Acero de Monterrey, S.A.; Dr. Rodrigo Facio, Rector, University of Costa Rica, former Assistant Director, International Monetary Fund; Mr. Eduardo Frei Montalva, Senator, former Minister of Public Works, Chile; Ing. Francisco Garcia Olano, Director, Research Centre of the Advanced School of Economics, Buenos Aires, formerly member of the Committee of Experts appointed by the Secretary-General of the United Nations to study commodity trade and economic development; Dr. Carlos Lleras Restrepo, former Minister of Finance, Colombia; Mr. Cleantho de Paiva Leite, Director, National Bank of Economic Development, Brazil, Vice-President, National Technical Assistance Commission. At the invitation of the group, Mr. Frei Montalva acted as the Chairman of the Group and Dr. Lleras Restrepo as its rapporteur.

Discussion of various problems and suggestions included in this report which by necessity involve certain aspects of activities of the existing international organizations within and outside the United Nations family, have been undertaken from the point of view of establishing necessary conditions for a dynamic development policy for Latin America. The organizations in question have not been consulted and are in no way responsible for the contents of this report.

Raúl Prebisch
Executive Secretary
Economic Commission for Latin America

Santiago, Chile,
25 August 1954.

I

PRELIMINARY REPORT OF THE SECRETARIAT OF THE UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA

INTRODUCTION

The economic development of Latin America cannot be the object of outdated formulae, either at the domestic level or in the sphere of external affairs. Recognition of this fact is clearly evident both in the discussions and resolutions of the United Nations and in the field of international financial co-operation and technical assistance.

Nevertheless, it must be admitted that this new attitude towards the problems of economic development has not yet had a decisive influence upon the growth of Latin America. Although the merits of certain forms of practical action are not unrecognized, and at times have been considerable, it cannot be denied that such measures still have not reached sufficient dimensions for their effects upon the rate of Latin America's development to be perceptible.

This situation is a source of serious concern to the Governments of the Americas. Thus, the agenda for the Rio Meeting proposed at the Tenth Inter-American Conference, as well as the debates at that Conference, are a vivid expression of the desire to study recent experiences and to extract valid conclusions as a means of achieving maximum efficiency in international economic co-operation. A process is being sought to invigorate existing methods and formulae, to suggest other new measures, and to find individual domestic solutions which, duly combined with those offered by international action, would result in better advantage being taken of such collaboration.

This recent experience and the evident intention to strengthen the inter-American system show that it is indispensable to formulate a well-defined and continuing policy for international co-operation in Latin America's economic development. This policy must arise from the efforts of the individual countries and from a suitable and considered regional development policy, within the framework of the economic policies developed by the United Nations. The period of spontaneous growth, predominantly caused by external factors, is at an end. But economic and technical co-operation from outside the region will continue to be indispensable to accelerate the rate of growth. The United States has on many occasions reiterated its intention to further such aims. Moreover, various reports of United States experts make recommendations to the Government of the United States on the best means to accomplish this purpose. There is no doubt that a clear and objective presentation of the main problems of Latin American growth, as well as a discussion of the means required to encourage it, can contribute on the occasion of the Rio Meeting to the implementation of such international co-operation.

The secretariat of the United Nations Economic Commission for Latin America, in accordance with resolutions of the Commission, has given particular attention to this problem. Recognizing this fact, the tenth

Inter-American Conference requested ECLA's collaboration in the preparation for and holding of the Meeting of Ministers of Finance or Economy which will take place at Rio de Janeiro in November 1954. The ECLA secretariat welcomes and appreciates this opportunity, which constitutes an example of effective co-operation between two independent bodies having similar aims, the one within the inter-American system and the other being part of the United Nations.

This last characteristic of ECLA gives particular significance to the collaboration with the Inter-American Economic and Social Council requested by the tenth Inter-American Conference. The external aspects of a development policy are not limited to the countries comprising the inter-American system. The secretariat of ECLA must therefore consider the problem from a broader perspective, without ignoring either the disposition and the requirements of the inter-American system or the compatibility of the solutions which it may adopt with the corresponding policies required at a global level.

The co-operation requested from ECLA is extensive as regards both the possibility of covering all the points on the agenda and the objective of formulating specific proposals for the governments which are to meet at Rio de Janeiro. In this last connexion, mindful of the restrictions inherent in its character, the secretariat considered it appropriate to prepare this basic report on the measures for international co-operation which should be adopted, in concord with domestic measures, to solve these problems and to accelerate the rate of growth. Therefore, in order to meet the request of the Inter-American Economic and Social Council for concrete proposals which could be presented for consideration of the governments, the secretariat appointed a Preparatory Working Group. This Group, composed of distinguished Latin Americans, was given the task of drawing up proposals according to its knowledge and understanding of the problems.

The Meeting at Rio de Janeiro will meet with a sense of deep concern regarding the present situation in Latin America which has been referred to above. Its agenda may be summarized under four basic headings: the policy for foreign investment; the policy for technical assistance; trade policy and economic development; and finally the measures required to reduce the external economic vulnerability of Latin America. These subjects are discussed in this report. In this connexion, it was considered useful to begin with a general analysis of development policy and of the role played therein by the governments and by private enterprise respectively.

Chapter I

INTERNATIONAL CO-OPERATION IN A DEVELOPMENT POLICY BASED ON PRIVATE ENTERPRISE

1. The need for foreign capital in a development policy

In the final analysis, economic development is an urgent social need. The desire for new consumption patterns and for the higher standards of material existence which more advanced countries could only attain through a steady rise in productivity and per capita income, is spreading rapidly among under-developed countries. But it is well known that productivity develops inadequately in these countries because their adoption of modern production techniques tends to be slow and laborious.

Indeed there is a marked contrast between the gradual process of adoption of modern production techniques and the rapidity with which contemporary methods of diffusion of information and knowledge produce their effects. From this contrast, tensions, on occasions very acute, often arise and can only be resolved through accelerating the rate of growth.

Here one must beware of facile illusions. Latin America has undergone a very high rate of development in recent years. Average per capita income rose by 3.3 per cent annually during the period 1945-52 as compared with a rate of 1.9 per cent recorded in the historical growth of the United States.[1] If a similar rate could be steadily maintained, the Latin American countries could double their present standard of living in twenty-one years. But unfortunately the factors which stimulated this growth were exceptional and show no signs of repetition. The principal factor was the improvement in the terms of trade, which had a favourable effect upon income, both directly and indirectly, by stimulating investment. But the outlook has been changing for the worse and the slight effect which may still persist is being absorbed by the obstinate tendency of consumption to take advantage of any available margin of product for its own benefit.

The anxiety aroused by these events in responsible Latin Americans is clear to see. A firm conviction has gradually been forming of a need whose satisfaction cannot be postponed. Latin America lacks a vigorous economic development policy in which the fundamental role belongs to its countries' own efforts. Only thus can international co-operation in such a policy be justified. A basic element in this policy is the investment of foreign capital, to break the traditional and vicious circle of a low income level which does not allow investment to increase, and an investment rate

[1] See ECLA, *Economic Survey of Latin America, 1953* (E/CN.12/358. United Nations publication, Sales No. 1954.II.G.1), statistical appendix to chapter 1.

See also Solomon Fabricant, *Economic Progress and Economic Changes*, National Bureau of Economic Research, Inc., May 1954.

which is insufficient to raise the precarious level of income. A wise investment programme, supported by domestic measures to facilitate its full success would, with the passage of time, enable the countries of Latin America to increase their per capita income to such an extent that the entire future investment effort, necessary to achieve the continued growth of income at a satisfactory rate, could be accomplished from their own resources, since the attainment of a high coefficient of saving would eliminate the need for new and substantial supplies of foreign capital.[2]

It is undeniable, however, that some increase in investment would be possible even with the low average income which prevails in most of the countries. The upper income groups do not as a general rule save and invest what might be expected of them if they did not so readily adopt the consumption patterns of the higher income groups in the industrial countries, or rather, if such patterns were not superimposed on already very high standards of living, sometimes much higher than those in the more advanced countries. Measures are indispensable to raise and orientate investment at the expense of these groups, and here primarily the tax system is required to play a role which in the past has not been important in Latin America. But such measures alone would be far from adequate to accelerate economic growth sufficiently without the participation of foreign capital. Failing such participation, the consumption of the working-class masses—already in itself precarious—would also have to be reduced, in contradiction to the very justifiable endeavours which are being made to increase it.

Whether this could be achieved by persuasion, or whether persuasion would need to be strengthened by the authority of the state, is a controversial question. However that may be, the dilemma is obvious. To accelerate the rate of growth, either consumption would have to be curtailed or supplementary foreign capital would be required. Belief in the virtues of inflation has been greatly weakened, and to increase investment and simultaneously improve consumption among the mass of the people has in the past proved to be an inaccessible goal unless it was due to a temporary conjunction of favourable external factors.

2. Encouragement for Latin America's private enterprise

There is one essential point of departure in an economic development policy and, if it is not clearly recognized, deterrent factors may intervene to compromise the efficacy of such policy. The industrialization of Latin America is not an economic error nor is it the consequence of nationalistic designs, however much it may be accompanied on some occasions by manifestations of national pride and on others by deplorable mistakes. Industrialization is an ineluctable requisite of economic development and constitutes an essential complement to technical progress in agriculture as well as in a wide range of pre-capitalistic activities having very low productivity. It is recognized that, in Latin America, the effort towards industrialization is being mainly carried out by the entrepreneur, who is either a Latin American or a person from abroad who has assimi-

[2] It should nevertheless be recognized that, even after the attainment of a satisfactory rate of growth, it may be useful to continue obtaining new supplies of foreign capital which would make possible an even faster rate of growth and the introduction of new techniques.

lated his techniques and initiative to the countries of the region. The Latin American entrepreneur is therefore an indisputable reality and the evidence of his drive and constructive ability would suggest what may be expected from his future activities if he is granted the incentives and favourable conditions which he does not adequately enjoy at present.

The entrepreneur is also emerging and establishing himself in agriculture, although the survival of anachronisms in the land system constitutes the obstacle which most hampers the productivity of private enterprise in this domain.

Economic development in Latin America depends to a great extent upon the actions of the private entrepreneur; even in countries of the region which have been characterized by certain forms of State intervention which interfere with private enterprise, this concept is generally acknowledged. State intervention has not usually been the consequence of an ideological position but the result of a succession of special circumstances, first the great depression, then the Second World War and then inflation. This type of intervention almost always aims at controlling in one way or another the behaviour of the individual entrepreneur; and, although some positive results may be apparent, the adverse consequences, deriving from such regulations often outweigh their possible advantages, apart from the opposition which they may arouse on account of excessive red tape. Such is the opinion which is becoming widespread in Latin America, although the abolition of a system of such measures is not easy as long as the evils which it aims at correcting continue to exist, as is the case with the effects of inflation. This by no means indicates that economic development will result from the spontaneous action of economic forces alone. Private enterprise must be combined with a firm State policy, with a type of intervention calculated to encourage development, creating conditions to guide and stimulate in one way or another the activities of the entrepreneur without regulating his individual decisions. For this purpose the State has recourse to the media of monetary and fiscal policy, tariff policy and its own basic investments.

Basic public investment has led to an expansion of the sphere of State influence, which in some cases has unnecessarily entered the realm of private enterprise. This is an aspect which will be discussed later. In this chapter only a few conclusions will be mentioned. This problem must be viewed in its perspective. There is no essential disparity of criteria between the countries of the region as to the role which private enterprise fulfils and should continue to fulfil in economic development. But this in no way excludes certain forms of State participation in economic life which have historically developed in Latin America in contrast with the part played by private enterprise in the United States.

In the first stage of economic development which preceded the world depression of the 'thirties, although the Latin American countries were firmly attracted to the idea that the State should not interfere in economic matters, governments were in the habit of contracting large foreign loans for purposes of basic social investment. Following such investment—if not simultaneously with it—came private enterprise, and a Latin American tradition was thus created in which the present forms of State enterprise are deeply rooted.

Herein lies a problem of securing the balance in the respective participation of free enterprise and the State in economic life which will ensure the maximum possible rate of economic growth. It may be asked whether the present methods of international financing are supplying Latin American private enterprise with the resources that it requires to maintain this balance with State enterprise. The International Bank requires a State guarantee, and most of its operations have been directed to public investment. Such a policy is not inexpedient; on the contrary, important reasons are given later for providing a greater impetus to this policy. The balance cannot be achieved by curtailing State investment, but by giving the greatest possible encouragement to investment by private enterprise, and for this purpose it is precisely the basic social investment by the State which is essential.

In this connexion, the countries interested in Latin American development think first of the initiative of private foreign enterprise, and occasionally of its possible combination with private domestic capital. There are evident advantages, especially when such private enterprise includes new production and organization techniques, in an atmosphere of free competition, devoid of monopolistic combines and exclusive practices. But the development problem is too vast and urgent for it to be possible to expect decisive action from such a policy. Furthermore, as already stated, there is the Latin American entrepreneur who — given his fundamental role in the development of these countries—should be placed in a position enabling him to perform a similar role to that performed by entrepreneurs in the United States, allowing for such differences as environment and size.

In this respect the historical position of the United States is unique. When Great Britain and other European countries invested large amounts of capital in Latin America, the yield thereon came to constitute —especially in the case of Great Britain—a not insignificant fraction of the national income and an important item in the balance of payments. This is not the case in the United States. Its Government supports a United States company, which places investment abroad, and attends to its interests. But it may be asked whether, in so doing, the United States is aiming principally at increasing its national income, which is already growing rapidly as a result of powerful internal forces, or whether it has the more general motive of contributing to the evolution and consolidation of the system of private enterprise, upon the desirability of which the countries of the continent are agreed, without prejudice to the adaptations imposed by fundamental differences. If this is so, nothing will contribute more effectively to such a design than the encouragement of Latin American enterprise itself.

Governments may adopt measures to encourage domestic enterprise. But in Latin America such domestic measures, however wise they may be, will be insufficient. It is indispensable to guarantee the Latin American entrepreneur easy access to sources of international capital and techniques, thus offering him opportunities comparable with those enjoyed by the foreign entrepreneur. The lack of access to international public resources, which have been offered almost exclusively to governments for basic investments, represents one of the most serious defects of the present financing of development. And if the capacity for absorbing these resources is found to be lower than had been thought of some years ago, one of the chief reasons is to be found precisely in the inaccessibility of such resources to the Latin American entrepreneur. The potential demand of these entrepreneurs for capital is undoubtedly very great, as well as their demand for technical services. This is one problem on which the Meeting at Rio de Janeiro might reach decisions of great future importance.

3. Private enterprise and State intervention

The importance of the incentive to private enterprise, as already stated, does not imply that the State should abstain from economic activities. In addition to basic investment, State policy can play a decisive part in economic development. The fundamental difference must be emphasized here between State intervention which regulates the individual conduct of entrepreneurs—a policy to which there is growing resistance in Latin America—and the other type of intervention by which the State creates, or helps to create, certain conditions and factors which, while they influence entrepreneurs indirectly, do not curtail their liberty of action. The classic example of this type of intervention is that of a monetary nature. The appropriate authorities—within the limits imposed by external factors—decisively influence price levels, without depriving the entrepreneur of his ability to use the market as best suits his interests and in accordance with his own sense of responsibility, which constitutes the essence of a free enterprise system.

An economic development policy, however, besides requiring monetary instruments, calls for other measures, notably of a fiscal nature. In Latin America's present situation one of the basic conditions of such policy is the needs to raise the domestic savings coefficient so that, after some years, new contributions of foreign capital, although still valuable, may no longer be necessary to maintain a satisfactory rate of income growth. Raising of the savings coefficient does not generally result from the normal interplay of economic forces. This must, therefore, be one of the objectives of a development programme, to the success of which the State can make an outstanding contribution, *inter alia* through fiscal measures encouraging investment and discouraging an increase in consumption beyond certain income levels. This is another example where State intervention does not interfere with the individual entrepreneur's freedom of action, although it creates conditions which induce action in the desired direction.

This is a most efficacious and at the same time most delicate aspect of development policy; it is also one in which Latin America has not as yet had enough experience, notwithstanding all that may be anticipated from its use. In any event, this need for influencing the savings coefficient shows that if, on the one hand, the efficacy of a development policy depends upon the private entrepreneur, on the other hand, State intervention through the measures referred to above, is also inevitable. Consequently, the accent placed in Latin America on private enterprise does not mean that it is thought that the acceleration of economic development will be secured by the free interplay of economic forces, as occurred in the Latin

American countries at an earlier stage in their development when almost exclusive emphasis was given to satisfying the needs of the international market.

4. Principal aims of State intervention in economic development

The acceleration of economic development thus cannot be a spontaneous phenomenon resulting exclusively from the operation of the above forces, but must spring from the combination of private enterprise with vigorous State action. It is the type of action that is under discussion here, and not the need for it; there are fundamental motives for State intervention in economic development.

Firstly, for reasons to be expounded elsewhere,[3] a considerable proportion of the international financial resources will have to be canalized by means of loans of a public nature. The State needs to have an investment policy for the use both of these loans and of the resources of domestic origin at its disposal. This policy, moreover, cannot be drawn up independently of the requirements of private activity. Hence there is need for an overall investment programme in which investments in the public sector are combined with those which it is estimated will probably be made by private enterprise, taking into account the incentives and measures by which it is encouraged.

Secondly, the State will have to try to raise the domestic savings coefficient, for the reasons already given.

Thirdly, the economic development of a country demands, as a general rule, a continuous substitution of imports by domestic production, in so far as foreign markets cannot, without a perceptible deterioration in the country's terms of trade, absorb enough of the country's exports to satisfy its entire demand for imports. This process of substitution normally requires measures of protection and development to stimulate private enterprise and place it in a position to compete with foreign activities having a greater productivity achieved during earlier stages of development and maintained through their higher capital density and their easier access to modern techniques. It must be determined what activities are to be encouraged and how far such encouragement may justifiably go. This is a type of intervention which no Latin American country has been able to avoid, any more than any other country in history could do in the initial stage of its industrialization, except for those which, being the first, had no more-advanced competitors. It appears, however—save in exceptional cases—that no country in Latin America developed a policy of protection which, besides being based on logical criteria of economic soundness, took account of the import substitution necessary for economic development, so as to give investments their indispensable order of priority.

Fourthly, State intervention is necessary if it is desired to make the domestic economy less vulnerable to external fluctuations and contingencies. This adds another reason to that mentioned above and makes it advisable to introduce structural changes with a view not only to the substitution of imports but also to the general strengthening and diversi-

[3] See chapter II.

fication of the national economy. National measures are not enough to mitigate the consequences of instability abroad, and it is considered necessary to complement them with international measures for the control of such instability.[4]

Fifthly, State intervention in the extension of credit to supplement the needs of private enterprise—especially medium and long-term credit —or to provide the banking system with adequate resources, could have a considerable influence on economic development. In this case, the State facilitates private investments while in others it goes so far as to replace them or to associate itself with them when they are insufficient by themselves, as has occurred in the iron and steel industry in some Latin American countries.

Sixthly and lastly, to refer only to the fundamental driving forces of an economic development policy, such a policy demands deep and sustained State action in the technological field. The absorption and assimilation of the vast wealth of technical knowledge of the more advanced countries is not a task that can be left in its entirety to private enterprise. Here a situation arises similar to that which has characterized the technical evolution of United States agriculture. In a country of private initiative and free enterprise, the admirable progress of agricultural technique—parallel with that of industrial technique—has been due more to the action of the State, the universities and the special institutes than to individual action on the part of agriculturalists or private research workers. The knowledge obtained by scientific research and experiment has not therefore been confined to a particular firm or individual, but liberally disseminated among them all. The same thing is occurring in Latin American agriculture, and the technical co-operation of the United States especially has had most efficacious results. But what is being done is still not enough in relation to the urgent needs of economic development. State technical action in the industrial sphere has not yet been systematically developed and organized, except in very few, though praiseworthy instances. The relatively small or medium size of Latin American industrial undertakings, combined with other causes, does not allow the industrialist to avail himself of the forms of private technical co-operation which are accessible to the large companies; and this is one of the obstacles in the way of an increase in productivity. It is the State, therefore, in collaboration with the universities and technical institutes on the one hand, and with the trade organizations on the other, that must deal with this task. This offers fruitful possibilities of international co-operation.

5. Social importance of economic development

This need for State intervention in economic development is due in Latin America to institutional, economic, political and social circumstances very different from those prevailing in some other countries when they passed through a similar stage of their evolution. Of course there are some common denominators, and the most important of these is the entrepreneur and his free enterprise. But this does not mean that, at

[4] See chapter V.

the present stage of Latin American development, free enterprise will function in a similar institutional environment as it once had in some more advanced countries. Latin America appears to be seeking its own path, its own ways of combining private enterprise and State action. Many things indicate that this may be so. Latin American economic development is likely to reproduce neither the same historic process nor the same patterns of growth as did the more advanced countries in the periods of their early stages of development. Moreover, the economic organization of these advanced countries—imbued with a marked social sense—is not what it was in the nineteenth century. The particular circumstances in which the phenomenon of development is taking place in Latin America require solutions which had no place in the evolution of the great industrial countries. The interest aroused by development policy in recent years, the concern of several governments in defining this policy and in establishing development programmes, the insistence on obtaining new forms of international co-operation, are precisely due to the conviction that it is indispensable to find new solutions and to give to the economies of their countries a dynamism which they lack today in sufficient degree *vis-à-vis* the social demands of development. Those of previous generations who took an interest in the problems of economics and their social consequences, habitually stressed the need for measures of a redistributive character to improve the precarious situation of the masses. Nowadays there is an ever-growing tendency to concentrate attention upon the ability of the economic system—and on the institutional environment in which it functions—to increase without delay the income per capita and ensure its fairer distribution. In fact, the validity of a system tends to be judged by its capacity for economic growth.

Now that the pace of this growth has slackened in Latin America, government responsibility is considered of increased importance. The governments have vast possibilities before them. If they know how to take advantage of them through the combination of national and international efforts, new generations will have the most powerful incentives to participate with conviction and enthusiasm in the process of growth. Instead of a barren and disintegrating struggle to share a national income which hardly increases at all, there will have been an expansion of the horizon of life for all those of drive and creative spirit who emerge in every generation. A high rate of economic growth and the structural changes which accompany it give fresh opportunities to young people in the technical and economic fields. All this has perspectives which reach beyond the limits of economic development. In short, not only the satisfactory rate of economic growth and its contribution to the well-being of the masses are at stake, but also the whole value of the economic system prevailing in Latin American countries in its aptitude for growth and its flexibility in adapting itself to the new demands of social reality.

Chapter II

FOREIGN INVESTMENT POLICY

I. Desirability of establishing a target for foreign investment

1. Limited volume of foreign investment and inappropriate composition

It is a matter of concern that so little foreign capital is being invested in Latin America. The object of this chapter is firstly to examine the factors influencing this situation and secondly to consider the possibilities for a greater absorption of such capital.

Some figures will be presented to substantiate the above statement. During the four years 1950-53, net investments in Latin America of United States capital—including, in this context, operations of the International Bank for Reconstruction and Development—reached an annual average of some 421.7 million dollars.[6] In addition to these resources devoted directly to economic development, the United States Export-Import Bank granted special loans to some countries for overcoming balance of payments difficulties; if such loans are included, the aggregate resources invested in Latin America amounted to an annual average of 527 million dollars.

This annual average of investments of only 421.7 million dollars indicates the inadequacy of international effort in the economic development

Table 1

United States net capital investment in Latin America[a]

(Millions of dollars)

Year	*Private capital*	*International credit institutions*	*Total*
1950	116	43	159
1951	447	55	502
1952	585	119	704
1953	222	100	322
Total	1,370	317	1,687
Annual average	342.5	79.2	421.7

Source: Economic Commission for Latin America.

[a] Excluding the loans granted by the Export-Import Bank to overcome balance of payments difficulties, which averaged 105.2 million dollars annually.

[6] Figures for European capital are not included due to lack of reliable data. It is estimated that over 100 million dollars have been invested annually, especially in short- and medium-term loans connected principally with trade operations. In this report reference is made exclusively to United States investments, including, in this context, those of the International Bank for Reconstruction and Development.

of Latin America. In addition, the composition of investment reveals that the two above-mentioned institutions granting public loans, have provided only an annual average of 79.2 million dollars, or barely 18 per cent of the total. The remaining amount, i.e., 342.5 millions, corresponds to United States private capital investments, as shown in table 1.

The limited amount of international public loans raises problems of extreme importance. Due to the nature of such loans, they are devoted principally to investments of social capital in transport, power and other services that constitute a predominant part of public investments. Public investments reached an annual average of 2,240 million dollars for Latin America as a whole during the four years under consideration. Thus the 79.2 million dollars provided by the International Bank and the Export-Import Bank represent barely 3 per cent of aggregate public investments. Figures corresponding to loans granted by these two institutions may be seen in table 2.

TABLE 2

Investment of international public resources[a]

(Millions of dollars)

Year	*International Bank* New loans	*International Bank* Amortization	*International Bank* Net balance	*Export-Import Bank* New loans	*Export-Import Bank* Amortization	*Export-Import Bank* Net balance	*Total* New loans	*Total* Amortization	*Total* Net balance
1950.......	39	–	39	50	46	4	89	46	43
1951.......	57	–	57	37	39	−2	94	39	55
1952.......	66	1	65	97	43	54	163	44	119
1953.......	50	2	48	98	46	52	148	48	100
TOTAL	212	3	209	282	174	108	494	177	317

Source: Economic Commission for Latin America.

[a] Excluding loans granted by the Export-Import Bank to overcome balance of payments difficulties, which averaged 105.2 million dollars annually.

During the nineteenth century and from the beginning of the present century until the First World War, the financing of economic development was entirely dependent on private capital, and consequently the foreign contribution to Latin American public investments was very high in relation to the scanty 3 per cent mentioned above.

This is the principal explanation for the lack of social capital that at present characterizes most of Latin America. In fact, it has not been possible, as in the past, to resort to the private bond market in order to finance these requirements, and, as will be explained below, private direct investments would have been too costly. It is evident that social capital investment is essential in creating the proper environment for private investment, and the fact that this has not been carried out to a sufficient extent constitutes one of the major obstacles hindering the economic development of Latin America.

Moreover, most of the resources devoted to investments of social capital during those times originated from bond issues on the financial markets, principally in London. In fact, over two-thirds of the aggregate investments in social capital and for other purposes, were the product of bond issues. As is well-known, the international bond market did not again become accessible to Latin American countries, and the international credit institutions have tried to overcome this deficiency by loans of public resources. However, as previously indicated, these loans constituted only 18 per cent of total foreign capital investments in recent years.

This contrast between the relatively small share of public resources in foreign investments and the considerable proportion which was previously derived from bond issues needs to be stressed. The interest paid on bonds is far below the yield on direct investments of foreign private capital. Since direct investments constituted less than one-third of total foreign investments in Latin America prior to the First World War, the cost of foreign investment at that time was lower for debtor countries than that typical of recent years, when a high proportion of foreign direct investments has prevailed.

As will be discussed later, foreign capital investments should be immediately encouraged in order to accelerate the rate of Latin America's economic development. It is clear that to maintain a high proportion of private capital would involve a substantial increase in the burden of financial services on the balance of payments. This does not mean that the absolute amount of private investments will have to be reduced. On the contrary, as will be explained later, their expansion is desirable for Latin America. But an even more intensive increase must take place in loans of public resources with a relatively low rate of interest. This follows from the two reasons already mentioned: firstly, the need to reduce the cost of foreign investments for Latin America; and, secondly, the need to increase the participation of international public resources in financing the social capital investment necessary to provide an ample opportunity for private national and foreign investment.

Increased loans with public resources mean that the role of international credit institutions should be strongly emphasized, at least until the private bond market is reopened. Should this occur, the Latin-American countries would welcome the development. Besides providing an additional source of credit that could in certain cases advantageously serve in place of those institutions, United States and other countries' private savings would again become active in the economic development of these countries.

From another point of view, an increased scale of international loans for basic investments on a larger scale would have favourable internal consequences in Latin American countries. It is well known that the financing of such investments from inadequate domestic savings has frequently caused governments to resort to the expansion of bank credit. Conversely in those cases where it was possible to use the genuine savings of the population for basic investments, this generally proved to be at the expense of private investment, which in turn was forced to utilize bank credit as a substitute. A larger contribution of foreign resources, covering at least 20 to 25 per cent of these basic capital investments, could therefore prove very useful in the application of an anti-inflationary policy.

With regard to investments of private foreign capital one further observation may be made. The greater part of such investments do not result from new capital inflows but are rather the re-investment of profits accruing from capital already invested. Out of the total United States private investment, excluding repatriations, of 1.531 million dollars, some 56 per cent consists of re-investment. It is, of course, desirable for profits to be re-invested rather than remitted abroad. It should be noted, however, that if these re-investments are deducted, the annual average inflow of new capital in private foreign investment falls to barely 168 million dollars (see data contained in table 3).

TABLE 3

Net investments of United States private capital in Latin America

(Millions of dollars)

Year	*Direct investments* New[a]	Re-investments[b]	Total	*Repatriation of investments*[c]	*Net investments*
1950	47	105	152	36	116
1951	209	276	485	38	447
1952	324	305	629	44	585
1953[d]	93	172	265	43	222
TOTAL	673	858	1,531	161	1,370

Source: Economic Commission for Latin America, based on official United States data.

[a] Including the non-distributed profits of branches. Excluding investments and disinvestments in petroleum shipping companies controlled by United States interests in Panama, except for 1953.

[b] Re-investments of subsidiaries only. These figures include the investments in oil tankers referred to in [a].

[c] Portfolio investments and compensation paid by Mexico for petroleum and agrarian expropriations.

[d] Preliminary estimates.

Another indication of the limited amount of foreign capital recently invested in Latin America is the relationship between the amount invested and the financial remittances required to service and amortize the existing capital. It is obvious that, in developing countries, the capital invested should exceed the remittances. Nevertheless, a time might come when this would no longer be necessary. As income increases, a higher savings coefficient could support the remittances without requiring new capital inflow to cover the amount of such remittances.

Although Latin American countries in general are still far from reaching this stage, the figures for remittances nevertheless exceed those for investments (see table 4).

TABLE 4

Investment of United States capital in Latin America and remittances for repatriations, amortizations and financial services

(Millions of dollars)

Year	Total investments of public resources and private capital[a]	Remittances: Repatriations and amortizations[b]	Remittances: Financial services[c]	Remittances: Total	Excess of remittances over investment
1950	265	87	554	641	376
1951	671	82	685	767	96
1952	797	93	637	730	−67
1953	714	96	648	744	30
TOTAL	2,446	358	2,524	2,882	436
Average	611.5	89.5	631	720.5	109

Source: Economic Commission for Latin America, based on official figures.

[a] Includes the loans of the Export-Import Bank to cover the balance of payments deficit.

[b] Includes the repatriation of portfolio investment, the compensations for the petroleum and agrarian expropriations in Mexico, amortizations of loans granted by the International Bank and the Export-Import Bank, and the lend-lease settlements with the Brazilian government.

[c] Includes the financial services of direct and indirect private investments and the interest on official loans.

When considering this fact, it should be remembered that approximately 30 per cent of private capital investment has been devoted to developing export activities, principally mining and petroleum. As a result, a part of those remittances has been covered by increased exports. Nevertheless, this fact in itself clearly indicates the insufficiency of foreign investment.

It is not, however, the only fact. Another involves the relation of foreign to total capital investments carried out by the Latin American countries. The annual average for the latter was 4,427 million dollars of net investments during 1950-53. As previously indicated, net investments of United States capital averaged 421.7 million dollars, or only 9.5 per cent of the total. Unquestionably this proportion is inadequate. And although the principle is recognized that the development of Latin American countries must depend basically on their own resources, an increase of this proportion to at least double the figure for recent years would have a very favourable effect on the rate of development without weakening the validity of the principle. This would have to continue until such time as it would have been possible to effect a substantial increase in the national savings coefficient, for this alone would be sufficient to ensure a high rate of economic growth.

2. FOREIGN CAPITAL REQUIREMENTS

The figures that have just been given indicate the very limited contribution of foreign capital in recent years to the development of Latin

America. It is evident that the needs are much greater, and that a policy of stimulating these investments and improving the technical and economic capacity of the Latin American countries to absorb them should result in considerably higher figures than those registered in the last few years.

Unfortunately, an estimate of foreign capital needs must be made upon conjectural bases. Very few countries have made sufficient progress to provide an approximate idea of the amount of such needs and, until the application of an efficient method of analysis and projection of economic growth[6] becomes widespread, no satisfactory basis for such estimates will be available.

Moreover the estimates themselves depend upon the rate of growth which is considered to be both possible and desirable. Consequently, every proposed figure must be considered only as a first approximation and not as a precise calculation. With such qualifications an attempt will now be made to provide some idea of the size of the problem.

Between 1945 and 1952, Latin America developed at an extraordinarily rapid rate. Its per capita income in fact rose by an average of 3.3 per cent annually. The factors influencing this high rate of growth were exceptional, and it is highly improbable that they will be repeated in the years to come. For such a rate to continue it would be necessary for Latin America as a whole to make gross annual investments equivalent to 20 per cent of its income. But, as noted earlier in this report, the coefficient of its savings, having once approached this figure, has slackened on account of both a deterioration in the terms of trade and of the continuous pressure of consumption. In 1953 it is estimated that the savings coefficient reached only 14 per cent, which would barely allow an annual per capita growth of 0.9 per cent.

In order to attain an investment coefficient of 20 per cent and given a continuation of this relatively low savings coefficient, a foreign capital contribution amounting to 6 per cent of total income would be required. In 1953, income for the whole of Latin America stood at some 46,000 million dollars so that the net capital contribution would have to be some 2,800 million dollars.

If this figure is compared with the 500 million dollars which, in round figures, have comprised United States annual investment during the last four years,[7] the disproportion in size becomes obvious.

Until research is intensified and made more widespread, it would be rash to establish the precise totals which foreign investment should reach if a given rate of growth is to be attained. It would not be surprising if these surveys led to a figure close to that of the rough estimate. But meanwhile, it would appear no exaggeration to fix, as a provisional reference point for an investment policy, the attainment, over a three-year transition

[6] This method has been recommended in a report of the ECLA secretariat. See *Preliminary Study on Techniques of Programming Economic Development* (E/CN.12/292).

[7] Including Export-Import Bank loans to overcome balance of payments difficulties.

period, 1955 through 1957, of a total volume of United States capital investment amounting annually to at least some 1,000 million dollars. In these three years a more accurate approximation could be made of the real requirements for foreign capital and at the same time a better understanding obtained of the possible contribution of European capital to Latin America's development.

It should be understood that, until this knowledge is available, it would not be desirable to attribute to such a figure any other significance than that of a provisional target towards which the efforts of all those concerned should be directed.

3. The foreign investment target

The establishment of such a target appears advisable for an investment policy. Once this policy is mapped out, the activity of international credit institutions will be judged not only by the careful attention they give to examining suggested projects—a factor of vital importance—but also by the volume of their operations. If, within a reasonable time, a minimum figure, similar to that mentioned above, has not been attained, it will have to be concluded that the investment policy is not being satisfactorily implemented and the determining factors of the situation will have to be reconsidered.

Conversely, to define an investment target might have very positive effects upon the Latin American countries themselves, creating an atmosphere favourable to programming economic development among the leaders of political and economic life, as well as in the spheres of business and labour. The doubts and uncertainties of obtaining an adequate and reasonable degree of foreign financial assistance have not exactly played an encouraging role in the formulation of development programmes. This requires expending a considerable effort and incurring heavy expenditure, and it is very understandable that governments are reluctant to enter into these obligations without being certain of obtaining abroad the capital required to complement domestic savings.

It would over-simplify the matter to assert that this is the explanation why several countries still show no interest in programming and why others have not yet put either the energy or the required sense of continuity into such a task. The existence of a policy aimed at raising investment can undoubtedly reinforce the authority of those who are endeavouring to follow the path of development programming in the various countries. Such a process does not only signify the formulation of a programme but also the successful adoption of a series of measures to assist the placing of investments.

The crux of this matter must not be ignored. The establishment of an investment target might have the virtue of centring the efforts of credit organizations upon its success, but it would also have an effect upon the Latin American governments themselves. Interest in a development policy is as yet in its initial stages—in some cases very confused initial stages—and it may be indispensable to add this external stimulus to those of a domestic nature so that certain aspirations towards economic development may be crystallized in a definite policy.

In what concrete form could an investment policy, with the fixing of the provisional target suggested, be inaugurated? There are four elements to be considered: private capital, loans from the International Bank, credit from the Export-Import Bank and finally the system of loans to Latin American entrepreneurs.

It is obvious that no precise objective can be formulated for investments of private capital. The only possible method would be to estimate their possible development on the basis of the experience of recent years. It would be hazardous to suppose that, in the next three years, such investments could reach a net figure higher than 30 or 35 per cent of the 1,000 million investment aggregate. Furthermore, there is no reason to consider the desirability of a very marked increase in this figure due to the heavy burden that its financial servicing would involve.

Consequently the emphasis should be placed on investments from international public resources, which involve a much lower rate of interest, although this aspect is not the only one to be considered. Governments have a key role in determining the amount of this type of investment. This is evident in the case of the Export-Import Bank, the entire resources of which are supplied by the Government of the United States. In Latin America widespread praise and recognition is generally accorded to this Bank, since it is recognized that it has understood development needs and has shown vision and foresight. Among its most effective contributions to Latin American development are the loans granted for the establishment of the iron and steel industries in Brazil and Chile.

One can thus appreciate the prevailing opinion in Latin America regarding the important role which this Bank as well as the International Bank, could fulfil in the financing of economic development in Latin America. The Export-Import Bank, moreover, depending as it does on the decisions of the United States Government, is particularly well placed to act within the inter-American system, particularly if a vigorous policy of co-operation in economic development in Latin America is adopted at the Rio Meeting.

The International Bank, in its capacity as a United Nations body, has in turn clearly perceived the requirements of development, has insistently urged upon the Latin American countries the expediency of a development programme, and on several occasions has actively co-operated with them in implementing such a programme. These factors and the experience which the International Bank has been gathering in the Latin American field, should enable it to provide very effective collaboration.

If it is estimated that the system of industrial loans referred to later in this report might provide between 50 and 100 million dollars of the provisional target established at 1,000 millions, and if private investment were to total between 300 and 350 millions, the loans granted by the International Bank and the Export-Import Bank would be expected at a level of 600 to 650 million dollars annually. Bearing in mind the volume of operations carried out by the International Bank in Latin America, it is possible that this figure may prove exaggerated in terms of reality and that the Bank may not wish to undertake operations of the necessary size. In such an event, further expansion of the operations of the Export-Import Bank would be indispensable, especially if, after the three initial years of the investment policy have elapsed, it appears that Latin America's absorptive capacity is above 1,000 million dollars and that loans should be expanded.

4. Indispensable continuity in credit policy

In addition to establishing certain investment goals for Latin America, it is desirable to analyse the possible introduction of those specific methods which experience recommends. Hitherto, as a general rule, the policy followed has been one of gradually agreeing upon the loans to the extent that the respective projects were approved. A country drawing up an investment programme, partially based on foreign resources, could not anticipate whether or not it could count upon these resources during the years in which the programme was being implemented. Furthermore, in countries subject to great economic instability of external origin, the envisaged volume of domestic savings in the programme might perceptibly diminish, thus seriously affecting the programme unless credit institutions were to assume responsibility for a reasonable share of the investment which it was planned to make with these savings. If, however, the development policy is controlled, as is to be hoped, by wise and responsible bodies, doubts may arise as to the desirability of involving their country in an investment programme which in actual fact cannot be implemented; such doubts might suggest restricting the scope of the programme, or simply eliminating it, and following the more sensible path of approving the projects one by one, as and when the required resources become available.

It is clear that international credit organizations could not unconditionally approve their own participation in an investment programme. However, this is not the question; it is one of approving in principle the investments which must be financed in each year of the programme, while final approval must be dependent upon the separate submission of each satisfactory project and upon the fulfilment of those conditions held to be indispensable for the efficacy of each project. At the same time, such credit organizations might undertake to finance additional investments in the event that, for external reasons beyond the control of the country concerned, the country were unable to mobilize the domestic resources of the size envisaged in the programme.

The adoption of such a practice would undoubtedly act as a powerful stimulus to development programming. However, it should be recognized if such operations amounted to a substantial sum, they might involve the international credit organizations in certain difficulties. In the case of the International Bank, its resources to a large extent originate from securities; it might well occur that the market was unfavourable to their issue at the precise moment when the capital was required. But this problem should not be exaggerated and several formulae for its solution might be found. As for the Export-Import Bank, its resources are supplied by the United States Treasury, within the authorizations approved by Congress; the obligations which this Bank may acquire—however important they may be for Latin America—will not reach a volume which cannot be met at its normal level of operations.

5. Towards an inter-American investment programme

The starting point and keynote of this discussion has been that Latin America requires a development policy with ample international collaboration. Some of the elements of this policy already exist, and if it can be developed, it will constitute the first step in a new experiment, the importance of which can hardly be stressed too strongly. This new experiment demands a search for new methods and instruments of action. These may properly be discussed in the preliminary document. Just as a national development policy requires a programme, so an inter-American development policy will also need a programme. Investment must naturally play a predominant role in this programme and for a long enough period of years to allow the Latin American countries to increase their own savings capacity. This inter-American programme, however, can only be based on national programmes, at any rate for the larger countries, and in this sphere a considerable effort, which has only just begun, must be made. Meanwhile, the establishment of a provisional investment target might in itself be of great importance if the governments decided to adopt it as a first step towards such an inter-American programme. It would then be indispensable to continue and expand the analyses and projections of economic development which the secretariat of ECLA is carrying out in some countries with the encouragement and support of the governments.

The governments of the inter-American system could have the results of this work at their disposal, together with the other opinions which they may require for the examination—at such periodic meetings as they may consider expedient—of the implementation of the development policy, the establishment of new targets and eventually for the formulation of an inter-American investment programme.

This would not be a Marshall Plan for Latin America. That plan, conceived to meet a very serious situation, had necessarily to be based on subsidies. The economic development of the Latin American countries can proceed with a high rate of growth without any recourse to subsidies, except for a few countries where per capita income is very low.[6] Latin America's need is for productive loans on very long terms and at rates of interest as low as those permitted by money markets. But once again an indispensable distinction must be drawn. The Marshall Plan has led to a widespread concept of assistance which usually includes loans as well as grants. But in fact these are two entirely different operations. A loan presupposes the regular payment of interest and amortization, while grants are purely and simply an act of donation.

It is desirable to forestall the psychological and political consequences of this confusion, both in the United States and in the Latin American countries, particularly if the idea should spread that their economic development depends upon such donations and that the primary aim of Inter-American conferences is to obtain resources upon that basis. Despite the extremely high per capita income, there are certain needs in the United States for which a satisfactory solution has not yet been achieved, an example being the inadequate working-class dwellings in the larger cities. Furthermore, the heavy taxes are not only a burden upon the high-income brackets—so much so that in some aspects their standard of living is lower

[6] Such cases are covered by the proposal for a Special United Nations Fund for Economic Development (SUNFED), at present under discussion in the United Nations General Assembly.

than that of corresponding groups in Latin America—but also fall with considerable weight upon the earnings of the middle class and working-class masses. It is worthwhile asking whether the prestige and continuity of an inter-American economic development policy should rely upon resources extracted by taxation from the taxpayer, or whether recourse should rather be had to their savings in competition with productive domestic investment.

6. Collaboration of independent experts in a development policy

There is a further aspect of the problem of public investment of international resources in Latin America which requires extremely cautious handling. A programme is the concrete expression of a development policy and does not consist solely of investments but of a series of measures designed to raise the savings coefficient and stimulate domestic investment, while simultaneously creating favourable conditions for such investment to fulfil the proposed objectives. The degree and form of foreign co-operation will depend upon the validity and common sense of this policy and it may easily be understood that credit institutions are not only ready to offer aid for certain aspects of this policy, but may wish to link their loans to the fulfilment of specific conditions. It is indeed inconceivable that one of the parties should guarantee to contribute resources over a certain period of years, without the other party also accepting an obligation to maintain certain basic conditions, previously agreed upon by both parties. Without such a formula, it would be impossible to put into practice an effective policy for international collaboration.

Every international negotiation of this character contains many delicate features, and the possibility of finding more satisfactory formulae should be explored. The formation of a programme—especially if important measures of an economic and financial nature are necessary for its implementation—usually requires the advice of experts who can provide authoritative and impartial opinions by virtue of their detached and neutral position in the matters at stake. It may be enquired whether the credit institutions, precisely because they are directly interested in the solution of the problem, are always best qualified to give this advice and, even more, to exert their efforts for or against the adoption of given measures. Their zeal might perhaps be interpreted as intervention in a country's domestic problems and not as the creditor's attempt to present his conditions to the debtor.

Experience can here provide a guide to future action. If both a government and the authorities of the credit bodies were jointly to express their confidence in certain independent experts, and were to request their advice and recommendations, it would be less difficult to negotiate the contribution of foreign resources to a national development programme and there would be less likelihood of arousing understandable national susceptibilities. What is more, these experts—because of their impartial and neutral position—could advantageously mediate in the negotiations and obtain formulae which are sometimes more difficult to find when both parties are dealing directly with each other.[9]

[9] The United Nations technical assistance programme provides a notable example of such independent expert services.

II. Obstacles hindering the investment of international public resources

The first section of this chapter has pointed out the desirability of establishing a minimum annual target for investment from abroad, and an annual average of 1,000 million dollars was suggested as an initial target to be attained over a transition period of three years. Within this period, measures would be adopted to mitigate—or in some cases eliminate—the principal obstacles that have hindered the operations in Latin America of the two principal international credit institutions.

Such obstacles are varied in nature and have been divided here into two large groups: those pertaining to the Latin American countries themselves and those deriving from the policies of the above-mentioned institutions. In order to become acquainted with the character and scope of these obstacles, the secretariat have not only had recourse to official publications but have also had the privilege of discussion of such matters with officials of the above institutions and of the Latin American governments. But the interpretation of these obstacles that follows should not be attributed to any of these sources; it is entirely the responsibility of the ECLA secretariat.

1. Obstacles pertaining to the Latin American countries

(a) *Lack of investment programmes and duly presented projects*

The International Bank has emphasized the desirability of drawing up development programmes that encompass all the projects of the public sector and estimate the investment requirements of private economic activities. The task of programming was commenced some time ago in several countries and is now being undertaken in some others. Unquestionably the presentation of general programmes that have been carefully conceived will have very favourable effects on the policy of the credit institutions. Nevertheless, as stated in the previous section, the preparation of such programmes is a difficult and costly process; consequently the willingness of these institutions to agree in principle to finance a programme for its entire duration would offer a strong stimulus to the task of programming.

With regard to specific investment projects, their preparation also requires considerable technical and financial resources which governments are not always willing or able to expend, apart from the time required to formulate such projects. The risk that a plan may finally fail to obtain approval, after these resources have been used, sometimes acts as an inhibiting factor. Nevertheless, experience has been indicating satisfactory formulae. In several cases, the International Bank has sanctioned certain undertakings in principle and has encouraged the submission of plans which were afterwards approved. Furthermore, on occasions, it has even suggested the expansion of such projects with a view to achieving better economic solutions. From this aspect, extension of technical co-operation by the United Nations and its specialized agencies to governments could contribute to eliminating the obstacles. Such co-operation in planning has been given in specific cases, but there is also a lack of training for those technicians in the different countries who would be able to formulate projects or judge the value of projects drawn up by other technicians.

(b) *Defective administration of enterprises*

There are some badly administered public utilities, which the credit institutions have suggested should be reorganized before loans are granted. A case exists of a loan having been made for the import of equipment which rapidly deteriorated because it was used inefficiently. The elimination of such difficulties naturally depends upon governments themselves, although a commitment to grant the loan, if given conditions are fulfilled, would assist the adoption of corrective measures.

(c) *Obstacles imposed by inflation*

The inflation prevailing in certain Latin American countries is undoubtedly a substantial obstacle to the investment of international resources, although in some of these cases a considerable amount of loans has been granted. Nevertheless, international resources aimed at a large investment programme are difficult to obtain, unless at least some measures are taken to curb inflation. Conversely, the fact cannot be ignored that the use of such resources, in accordance with a well-conceived policy, is generally necessary for the success of an anti-inflationary programme.

There are recent examples which offer very useful lessons. If the inflation was caused by private investment financed by bank credit, the immediate consequence of the withdrawal of such investment—to curb credit expansion—is unemployment in both the industries directly affected and in those which supplied consumer goods to persons employed in the former, accompanied by all the inevitable repercussions. A contraction of the economy then follows, the consequences of which generally lead to a renewed inflationary expansion of credit. The most effective way of avoiding this is to cover the inflationary excess of investment with foreign capital—whether from the same previous investment or other different ones—and to continue in this manner until such time as it is possible to cover it entirely from a higher domestic savings coefficient.

In these cases, an inflow of foreign capital would make it possible to avoid the disturbances that would accompany simple deflation. Although such inflow alone would not correct the disequilibrium underlying the inflationary process, nonetheless it would be easier to correct the disequilibrium if there were an increase in available goods or if an increase in imports could be financed by foreign resources.

This leads to the conclusion that the best way of attacking this type of inflation is to adopt an investment programme while simultaneous and energetic anti-inflationary measures are carried out.

If inflation is due to investment in the public sector, higher taxation is generally the most convenient formula, in so far as the reduction of such investment is inadvisable. But this increase in taxation takes time and very often it is necessary to find solutions to technical, administrative and political problems, or, in other words, to establish a procedure of fiscal reform. Foreign capital can facilitate this transition, enabling it to be carried out in a shorter time or reducing its negative effects on the level of income. The temporary aid of international resources then becomes essential, in the same manner as when the effects of contracting such expenditures are to be prevented.

The problem becomes much more difficult in the case of a wage or cost inflation. Here also a large investment programme is imperative, which, together with other measures, enables productivity and income to increase rapidly and without which inflationary pressure cannot be lifted.

Some years ago, the thesis that inflation enabled investments to rise and encouraged economic development was not uncommon in Latin America. This has occurred in some cases, while in others inflation exists alongside an extremely low investment coefficient. But even in the former case, for investment to increase, there must be an expansion of the share of entrepreneurs and high-income groups in the national income. Apart from its unfavourable social consequences, this feature has ultimately discouraged private investment, and therefore economic development, because of the slow growth which this type of income distribution has caused in the effective demand of the working class.

It is no exaggeration to say that inflation, owing to its economic, social and political effects, is the most acute problem facing Latin America. It must of course be attacked by domestic measures, taken with firmness and conviction. Nevertheless, if such action is to be taken, the contribution of international resources is indispensable. Otherwise, anti-inflationary measures would be incompatible not only with development but even with the stability of the domestic economy at the level of employment reached in inflationary conditions. Once this combination of efforts is achieved, there can be no doubt that the capacity for absorption of international resources would substantially increase.

(d) *Obstacles imposed by the difficulty of meeting external payments*

Apart from inflation, the difficulty which a country may experience in the financial servicing of foreign loans is a major obstacle hindering the capacity for absorption of foreign capital. Latin American countries frequently experience periodic foreign exchange difficulties which could be appreciably reduced—or even perhaps avoided—if far-sighted measures were taken to encourage exports and to substitute imports through changes in their composition. It has already been stated that one of the most important aspects of a development programme is to obtain the investments necessary to introduce such structural changes into the domestic economy. Consequently, a country's capacity to pay for financial services—and therefore the limit of the foreign loans which could be raised—should not be judged in the light of such foreign exchange crises, but should take into account the possibilities of structural readjustment. Thus, it might often occur that these foreign exchange difficulties, instead of discouraging the investment of international resources, could become an incentive thereto, thus helping to expand the capacity for capital absorption.

2. Obstacles deriving from the policy of credit institutions

(a) *Limiting investment to imports of foreign equipment*

The practice followed by international credit institutions of limiting their financing to the amount needed to pay for imports of capital goods, has a reasonable basis if each loan is considered separately on its own basis.

merits. It appears logical that the recipient of a loan should call upon domestic savings to cover the share of his investment represented by local expenditures. An exception must be made, however. There are cases where a rise in production also causes an increase in the working capital represented by semi-finished goods imported from abroad. There would be no valid motives for restricting investment only to those goods which constitute fixed capital.

However, if the economic process is considered as a whole, some doubts arise on which it is expedient to comment. One example may be given. Supposing that at a given moment a country has net savings, equivalent to 10 per cent of its national income, which are entirely used in investment, and that additional investment is planned to raise the coefficient of all investment to 12 per cent of national income. Half of the additional investment constitutes capital goods which must be imported and for which appropriate international resources are available, in accordance with the current practice being reviewed here. The other half, however, which is equivalent to 1 per cent of income, would represent domestic expenditures. If spontaneous savings stand at only 10 per cent, there would be no means of covering this additional sum, unless the State—if the State is involved—resorted to higher taxes for this purpose, which might be a reasonable solution in favourable circumstances. Conversely, the private entrepreneur has no option but recourse to the banking system, with ensuing inflationary effects both at home and in the balance of payments.

A closer analysis of this example is justified by the lessons it offers. The persons employed by that half of the additional investment which must be covered locally, will mainly come from the increase in the active population plus the population displaced from primary production and from activities having a low productivity. Of the net income collected by these new employees from funds supplied by the banking system, part will be spent domestically and part on imports. As a result, if a disequilibrium in the balance of payments is to be avoided, it will be necessary to cover at least the latter part with resources from abroad. But as regards the share of domestic demand, an inflationary pressure on supply will occur, since the latter part will take some time to increase, while the increment of income tends to be rapidly spent. Hence, from this direction also imports will receive a stimulus, owing to the additional pressure of consumption expanded in an inflationary manner.

If this were not a question of additional employment, but instead simply involved the transfer of persons already employed in the production of consumer goods to the production of capital goods, the inflationary pressure would be greater since the volume of income would remain the same while production for consumption would diminish.

In this example, the only way in which the domestic expenditure of this increase in investment could have been covered without inflationary consequences, would be if an equivalent part had remained unused from the 10 per cent domestic savings.

It is thus apparent, if the economic process is viewed as a whole, that the practice followed in this example limits the productive absorption of international resources or leads to inflationary consequences.

But the lack of savings does not constitute the entire problem; there are also difficulties encountered in transferring savings abroad in order to purchase capital goods. It may happen that all the savings required are available and yet their transfer abroad may cause disequilibrium in the balance of payments. It is unlikely that such a situation would arise in countries that produce their own capital goods and have no need to import them.

In this—as in other aspects of international investment—the policy of the London financial market before the First World War displayed very interesting features of adaptability to existing needs. The bonds which were launched on the market when a British railway was being built abroad, covered not only the materials and equipment required for export but also the sterling needed to cover wages and other local expenses, for transfer to the country receiving the investment. It might be inadvisable today to follow a similar method, but its lesson can be profitably applied in searching for a more satisfactory solution to this aspect of the problem.

It must be acknowledged that such a solution might be difficult to find in individual cases. In contrast, if within a development programme it is calculated that the spontaneous domestic saving of a country cannot exceed a certain proportion of its income, and if an investment plan involving a larger amount is drawn up, the surplus must be covered from international resources, whatever projects are chosen to use this surplus. It is interesting to note that, for the economic development programme for Southern Italy, the International Bank has loaned resources to cover additional imports brought about by the increase in income.

(b) *Preference for private investment*

As noted previously, prevailing opinion in the Latin American countries is in favour of encouraging private enterprise and there could therefore be no fundamental objections to giving priority to the investment of private capital. Accordingly, the investment of international public resources is generally regarded as justifiable only if no private foreign capital is available for the purpose. But there are two aspects which must be considered in working towards a satisfactory and practical application of such a policy.

Attention has already been drawn to the traditional attitude of Latin American countries in favour of the carrying out by the State of certain types of public investment which in some other countries have been undertaken by private enterprise. This was compatible with substantial private investment in other public services, showing that such an attitude did not arise from any ideological considerations but simply because in this way a country's economic development was more satisfactorily served.

Nevertheless, it is evident that there is a tendency, entirely apart from any ideological considerations, to place some undertakings, formerly left to private enterprise, in the hands of the State. One important example is sufficient to illustrate this tendency. For the State to exercise control over the rates of public utilities is an established practice. In the United States, rates which provide a yield of up to 6 per cent of the invested capital are considered reasonable. Although a somewhat higher limit may be justified in Latin America, private capital would be difficult to attract into new public utilities with yields at that level. To achieve this goal, it would be necessary to raise the rate of yield substantially, which would not in fact be justifiable in view of the nature of such undertakings. It is no longer, as in the past, a matter of introducing new technologies, but rather of utilizing well-known existing ones. No reason thus exists for paying to foreign capital a considerable premium for technical knowledge which has now become common property.

It is therefore understandable that under such circumstances governments should prefer to effect such basic investments on their own and that they should have to resort to public international loans at a relatively low rate of interest until a private bond market has been re-established in the large financial centres. Nor, for the same reason, namely the low profit yield, is the alternative always available of interesting private Latin American capital in such undertakings.

The example of existing public utilities which are in the hands of private foreign capital is different. Their additional capital requirements can be satisfied at suitable rates of interest, either in the financial market or from international credit institutions. The usual problem in this case is of a different nature. The rates of such utilities have frequently not been adjusted to the rise in operating costs caused by inflation, so that in some cases they have reached the point where reasonable profits cannot be made or indeed where capital is actually being lost.

This also frequently occurs in the case of public utilities which are the property of the State, where the situation derives more from the damaging results of inflation than a specific policy of opposition to foreign investment. When, as often occurs, the adjustment of wages and salaries to the rise in prices is delayed, the profits of entrepreneurs generally increase, while rates for public utility services, in order to prevent a further rise in the cost of living, are not increased. There is thus a transfer of real income to entrepreneurs, not only from the working classes but also from the public utilities, whether they are of public or private ownership. On the other hand, if it is difficult to increase the rates when public utilities are State property, it is much more so when they belong to private interests and when, in addition, they are of foreign ownership.

In other cases, there has been reluctance to accept foreign capital when, for some reason or another, this takes the form of a monopoly or openly seeks to limit competition. It is sufficient merely to mention this fact here as it will be dealt with later in connexion with private capital.

Finally, the large size of certain foreign enterprises and the considerable influence that they might attain in the internal life of a country, have at times given rise to feelings of mistrust. This situation, although proscribing private capital from access to certain fields of activity, nevertheless leaves investment opportunities in other activities for capital from private sources as well as from international credit institutions.

In those activities where considerable mistrust has existed, it would be desirable for the government to limit and define the respective fields of action that it has reserved for itself and for private domestic enterprise and to give sufficient security to private entrepreneurs in all other sectors of activity not affected by that policy in order to avoid any undue restriction of private initiative in these sectors.

The fact that such a policy is possible is shown by the case of Mexico in recent years, where agrarian reform and the expropriation of petroleum and the railways have not prevented private national and foreign entrepreneurs from investing in manufacturing industry and other activities.

From another point of view, in those cases which justify preference being given to private capital rather than to public investment, it is essential to provide the Latin American entrepreneur with ready access to international sources of capital and techniques in order that he may compete freely with the foreign entrepreneur. This is one of the weakest points of the system of international loans, and section III of this chapter contains an examination of important aspects of this problem.

(c) *Differences of opinion as to the suitability of a plan*

At times, in spite of unquestioned technical reasons for a plan, doubts may arise as to whether it represents the best solution for furthering a country's economic development. It would not be difficult to solve the problem if the two parties concerned had the same criteria for judging an investment plan from this point of view. A case in point is the report of the Currie Mission on the Economic Development of Colombia. Although this Mission was sent by the International Bank, the report expresses opinions for which its authors are alone responsible. They showed themselves as opposed to the establishment of the iron and steel industry at Paz de Río, basing their opinion (among other considerations) upon the fact that domestic production costs were higher than the price of imported iron and steel. If this criterion had prevailed throughout Latin America, industrialization would not yet have begun. Even if costs are higher than foreign prices, an industry can be economical if the net increase in product derived from the factors employed therein is greater than that obtained in other occupations. The examination of foreign trade problems will clarify this point.[10] Therefore, no judgment could be passed in this specific example without reviewing the other investment alternatives and without discussing the possibilities for import substitution which a country must effect by virtue of its own growth. The need for a development programme becomes more evident from examples of this kind. At meetings such as that to be held in Rio de Janeiro, agreements reached in regard to a development policy—and especially as concerns its international aspects—can well provide a suitable framework for concrete solutions of such problems.

(d) *Reluctance to invest in certain public services*

Until the period of the world crisis, loans had been obtained by Latin American governments in London and other capitals of western Europe, and later in New York, for public services such as health, schools and public buildings; these did not always increase productivity directly but

[10] See chapter IV.

they did make a notable contribution to the overall increase in productivity. As a general rule, they were long-term loans which were serviced out of current public revenue and in some cases from special levies. At the present time, the private capital market abroad continues to be practically inaccessible to countries of the region and no other way of satisfying the need has yet appeared. There can be no doubt that the decision to grant loans for this purpose from international public resources would considerably stimulate the absorption of such resources in Latin America.

(e) *Need for a government guarantee for loans*

This prerequisite also tends to impose serious limitations on the capacity for absorption of international resources in the field of private enterprise. On the one hand, there are governments which may prefer to satisfy their own needs before those of private entrepreneurs. On the other, entrepreneurs frequently feel restrained by the possibility that a State guarantee of a loan for which they are applying may entail direct intervention in their undertaking, although there might be no other reason for this. These factors explain why international public resources in Latin America have only rarely been available for private undertakings, and these were generally of substantial size. Credit has been inaccessible to the small and medium-sized enterprises which carry so much weight in industrial development. The next section of this chapter reverts to this point.

III. The access of the Latin American entrepreneur to international public resources

1. Instructive results of an initial experience

The chief obstacles to the investment of international public resources were explained in the foregoing pages, and a general examination made of the possibilities of eliminating them. It is now relevant to enlarge upon one of these possibilities which is of primary importance, namely the possibility of using such resources to encourage the initiative and private investment of entrepreneurs established in Latin America.

Economically and technically, the situation of these entrepreneurs is unquestionably inferior to that of their foreign counterparts, and any effort to decrease this difference will have marked effects upon economic development, and the functioning of the free enterprise system. The examination is limited here to the economic aspect, the technical being dealt with elsewhere.[11]

It is a well-known fact that in Latin America the need for medium and long-terms credit for industry can be adequately satisfied only in very few cases and that this is one of the factors which retards development. The banking system is well prepared for the usual short-term loans to supplement a lack of working capital, and such loans are often made with inflationary consequences. The basic organization for loans to industry is therefore available, but not the resources at sufficiently

[11] See chapter III.

long terms. Banking legislation itself is often opposed to the immobilization of an excessive proportion of current deposits in operations of this kind.

In some countries, besides commercial banks, there are special institutions for furthering industrial development, but they are almost always hampered by a shortage of resources. The problem, therefore, consists of using the best institutions existing in each country—without prejudice to the creation of others if considered advisable—so that through them international credit may reach entrepreneurs in Latin America.

The international credit institutions have not had the opportunity of granting loans to these entrepreneurs in Latin America, as their operations in the field of private initiative have been mainly confined to public utility enterprises, mostly of foreign origin. The wish to overcome this deficiency has led these institutions to try to meet the requirements of the Latin American entrepreneurs. Thus, the International Bank for Reconstruction and Development began to put this idea into practice in Mexico, but under circumstances which did not contribute to successful results. With a guarantee from the Mexican Government, the Bank decided to grant a 10 million-dollar credit to an association of private banks which had been formed there on an *ad hoc* basis for providing medium-sized loans to industry. The main circumstances which prevented this plan from achieving success were the following:

(*a*) The procedure was too complicated for the size of the undertaking. Each operation had to be approved in Washington, so that it was necessary to transmit information which applicants for credit were not accustomed to submitting in their routine transactions with the banking system. Such approval was in fact the fourth to be required. The first was required by the bank originating the operation, the second by the banks that took part in it as signatories with joint liability, and the third by the Nacional Financiera, an official Mexican institution which provided the State guarantee.

(*b*) The need for three banking signatures also appears to have been an obstacle, although on this point opinions obtained in Mexico are at variance. According to some banks, it led to a better selection of loan projects, while others maintained that it proved a deterrent to banks which had no wish to share their own portfolio operations with others. Whatever the answer, there would have been no opposition to a requirement of one banking signature only.

(*c*) In operations of this kind, exchange risks must be faced. The central bank took responsibility for half the risk and the remainder was incurred by the debtor. Under such circumstances, the investment banks that grant medium- and long-term loans in Mexico could offer better terms for individual transactions since, although the rate of interest was somewhat higher, operations were effected in domestic currency and not in dollars. But the credit capacity of these institutions is somewhat limited and, if it had been a question of many substantial transactions, they would have been unable to compete with capital from foreign sources, apart from the international transfer problems which funds of domestic origin might have encountered.

In addition to these obstacles, there were others resulting from the Mexican legislation which could, however, probably be surmounted without undue difficulty.

The Export-Import Bank carried out an operation of a similar type, but for a larger investment, with Italian industrialists. Its satisfactory results have led to another similar experiment in the Philippines.

2. Possible solution to the problem

An examination of the difficulties leading to the failure of the Mexican project reveals no intrinsic obstacles to their elimination. If the most reliable and respected banks or other institutions are chosen in each country, there would be no reason not to provide large sums, proportionate to their capital and reserves. Such sums could be used for direct industrial loans in accordance with stipulated conditions and without the requirement for prior approval, except when the loans exceeded a certain limit which would be simple to establish. Reports would subsequently have to be submitted on the transactions effected, but without the need to present all the information required in the first experiment in Mexico.

As regards the exchange risk, the solution in the Mexican case seems reasonable. But the operation would have to be made more attractive to the industrialists by offering a lower interest rate than that on credit in the domestic currency. The rate of interest charged by the international organizations is relatively low and could be lower than the comparatively high rates normally required for such operations in Latin America. This could be so despite the guarantee commmission which has to be paid to the bank acting as intermediary and the exchange risk premium which the Central Bank would have to collect on that half of the loan for which it would guarantee the rate of exchange. It is logical that the industrialist should assume at least half the exchange risk, since the assets acquired with the aid of the loan will also rise in value in the event of a currency devaluation.

It is now appropriate to examine the concrete possibilities for carrying out these operations on the broad scale which they could attain in the whole of Latin America under an adequately organized system. There are three possibilities: to organize the industrial credit system under the direction of the International Bank; to do it within the framework of the Export-Import Bank, and to create a special Fund.

Let us glance at the first two solutions so that we may then examine separately the question of the special Fund. As regards the International Bank it would be desirable, for the reasons already given, that these operations should not require a government guarantee, although the Central Bank in each country would have to approve the aggregate sums to be lent in order to cover the exchange risk. While it is true that the statutes of the International Bank demand such a guarantee, these operations could be conducted by means of an affiliated organization, such as the International Finance Corporation, for which the Bank itself drew up a project in 1951 at the request of the United Nations Economic and Social Council. According to this project, the Corporation would be authorized to carry out operations of this nature, although its purpose would be somewhat different. The objectives of the Corporation would be primarily to attract foreign private investment to the under-developed countries and to promote domestic investment, either through loan operations or by underwriting shares which it would later sell on the domestic or foreign market. The Corporation would have at its disposal a capital of only 250 million dollars for the whole world, an amount which might prove very inadequate if industrial loans were to progress according to reasonable expectations. The original aims of this Corporation are not incompatible with such loans. In fact, they are so mutually complementary that if the Corporation were to have larger capital resources, a satisfactory solution could be achieved for this important problem.

As regards the Export-Import Bank, the fact that this institution has successfully begun to carry out industrial credit transactions of this type indicates that it is fully qualified to do so. Moreover, it has available resources which are bigger than those planned for the above-mentioned Corporation. The Export-Import Bank is not obliged to obtain its resources by issuing bonds on financial markets. This institution can therefore act with a freedom that might perhaps not exist if it were obliged to take account of certain doubts or reticences with which operations unfamiliar to foreign financial centres might be received.

3. Creation of a special Fund within the inter-American system

A valid objection might be raised against this suggestion, namely the planning of a new body, when two institutions already exist that could fill this role. The scope of this report does not include a recommendation as to the most expedient solution. But it is necessary to point out that, if breadth is to be given to an industrial credit system, a special instrument should be developed, either in combination with the agency outlined by the International Bank which, as mentioned earlier, is now under consideration by the United Nations, or as a new department of the Export-Import Bank. In fact, the operations involved are different from those normally carried out by these two banks and also require considerable special experience. In this connexion it would perhaps be necessary to establish agencies or branches in the principal countries in order to maintain closer contact with the banking system and to gain direct knowledge of industrial needs. It is obvious that such an objective would require specialized personnel, of whom the majority might be drawn from Latin American banks if due importance is to be given to direct knowledge of the operational environment.

All this leads us to present this third alternative, the choice of which might also be influenced by other considerations. If the foundations of a vigorous economic development policy are laid at the Rio de Janeiro Conference, it may be necessary to consider the creation of instruments which the inter-American system at present lacks. In this case the third alternative would be worthy of examination along with the others.

If the proposal should materialize, all the countries would have to contribute capital. But only a comparatively small proportion of the credit resources would come from Latin America, since the heart of the matter is to attract international resources. It would thus be essential to endow such an entity with an adequate amount of special resources, while the capital—without prejudice to its use for credit operations—would be mainly devoted to guaranteeing eventual losses in applying the resources.

In present circumstances it would be very difficult to find any solution other than the endowment by the United States of a special fund in some suitable form for such operations. However, there is one financial source that, on account of its special character, might be considered as the most suitable. It is calculated that the United States Government receives about 100 million dollars annually from the tax imposed on the yield of capital invested in Latin America by United States companies. This revenue thus accrues from Latin American sources, and—excluding the legal aspects involved—the desirability of this revenue remaining in Latin America and contributing to the acceleration of its rate of growth might be emphasized. Indeed, the United States Treasury has itself demonstrated its willingness to consider a reduction in the receipts from this tax, as a means of encouraging private investments of United States capital in Latin America. The possibility of abolishing the tax altogether has frequently been discussed; but such a proposal has been opposed, not so much on account of the reduction—in fact insignificant—in public revenue, as on that of the discriminatory treatment which would thereby be introduced into the U.S. tax system. This obstacle prevents private United States investment in Latin America from receiving the maximum stimulus from the Treasury. But in contrast, the opportunities of using these funds to stimulate private enterprise in Latin America might well be discussed.

Unfortunately, the Latin American countries could not under present circumstances utilize the United States money market to obtain resources for a Development Fund of this nature. But if the United States could endow the Fund with the revenue accruing from this tax for an appropriate period, such funds could serve as the basis for a loan on the United States money market, under conditions similar to those for Treasury operations. This would provide the Fund; as its operations were gradually increased, with much larger resources than through a direct contribution of the current tax proceeds. This formula would offer the advantage of helping to renew the interest of private savings in Latin American development, while a financial market which has remained practically closed to Latin America since the world crisis, would once more be opened—although only in this special form.

It is impossible to estimate the exact amount of resources for these industrial credit operations which Latin America could absorb each year. It will mainly depend on the skill with which the system is organized and administered. But, given the substantial potential needs of the Latin American countries, it is no exaggeration to consider that at least between 50 and 100 million dollars could be absorbed annually once the system has been organized.

If the resources considered above should prove to be insufficient, the possibility might be considered that the Fund rediscount part of its portfolio with the Export-Import Bank in order to create new credit resources. Whether the International Bank could assume a similar responsibility would depend upon the collective guarantee given by participating governments to the Fund's operations; this would enable the Bank to comply with the relevant stipulations of its articles of agreement.

A possible inadequacy of resources would have to be foreseen if the Fund extended its operations to agriculture. This should also be a matter for special attention, since one of the most serious obstacles to agricultural progress in Latin America is the lack of capital. Agriculture in general is at a disadvantage as compared with trade, industry and other urban occupations. Not only does it experience difficulties similar to those faced by industry in obtaining medium and long-term loans, but it also encounters problems in securing credit for working capital. It is a well-known fact that private banks prefer short-term operations of a commercial and industrial nature, because, apart from their greater liquidity, they can be concentrated in the cities and are less costly to handle than agricultural transactions. Agricultural working capital generally requires longer terms, while such loans run the risk of being immobilized by weather contingencies. This has led to the very widespread practice of entrusting such operations to state banks. But state banks are often endowed with only a relatively small capital and are obliged to resort to rediscounts as a means of obtaining additional resources, a factor which usually leads to inflationary consequences.

The fact that State banks are involved has enabled the International Bank to carry out operations with them and with other official institutions for the promotion of agriculture. Most loans have been earmarked to cover imports, but cases have occurred when the Bank has abandoned this practice and has provided credit to State banks to enable them to enlarge all their operations, without that restriction. For this purpose the Bank uses resources accruing from the repayment or amortization of loans covering imports of capital goods. In reality, it is just as if the resources accruing from the repayment or amortization of loans were received by the International Bank and were then re-loaned to the country. But in choosing this method, an elastic criterion has been used that enables the problems to be obviated. It is evident that, if the Bank could do this in a direct manner, its agricultural operations could be greatly enlarged. In that case, the extension to agriculture of the new system for industrial credit would not be necessary, particularly if the Export-Import Bank also entered this field. Under such circumstances, the suggested Inter-American Fund could specialize in industrial credit, which would be highly advantageous from every point of view.

IV. Investments of private foreign capital

1. Brief review of the present situation

Investments in Latin America both of private United States capital and of private capital from other sources have shown a marked inclination towards export activities. This traditional characteristic continues to prevail. Except in special cases, investment in domestic activities has not aroused the same degree of interest; it responds to other factors, requires knowledge of a local market which is usually limited, and is subject to transfer difficulties which are generally escaped by investments aimed at promoting exports. It is customary to mention as an instructive example the great attraction of Canada's domestic development for the entrepreneur in the United States. But Canada constitutes a special case which does not allow generalizations.

Aside from this, the yield obtained by private capital in the United States has been high. During the period 1947-50 the average yield of the investments in manufacturing companies after payment of taxes was 14.6 per cent, and in the four years since 1950, while the average has fallen to 10.5 per cent, it still remained relatively high.

It is logical that private foreign capital should attempt to obtain a yield at least equal to what it receives at home. There are naturally investments in Latin America which give a much higher yield. But if, in such circumstances, investments of this type were to become widespread and expand substantially, the burden of financial services might become a very serious factor in the balance of payments of the Latin American countries.

All this leads to the conclusion that, even in highly favourable conditions for investments of this type in Latin America, it is not reasonable to expect that they will increase sufficiently to contribute substantially to an acceleration of the region's rate of development. And even if that should occur in the future, the burden of financial servicing would restrict the capacity for absorption of capital. However, it should be borne in mind that if the yield from private capital were only 10 per cent, two-and-a-half times more capital could be absorbed in the form of international public resources, with the same financial service, given the current relation of interest rates.

2. Obstacles and possibilities of overcoming them

This is far from implying that the present state of affairs may be considered satisfactory. There is a general desire to receive more private foreign capital, particularly in those frequent cases in which it is accompanied by new techniques, in production as well as in the organization of the concern and the development of the market. But it cannot be denied that there are real difficulties which sometimes hamper the inflow of this capital to several Latin American countries. The chief problems are reviewed below.

(a) *Transfer difficulties*

Elsewhere emphasis has been laid upon the need for a far-sighted policy of encouraging exports and replacing imports to reduce or eliminate the periodic foreign exchange crises so frequent in Latin American countries. Such a policy would relieve the transfer difficulties that occur in many cases.

Inflation is also a major cause of these difficulties. When it is not a question of a simple cost inflation, the profits and interest to be transferred abroad increase and, if the currency has not depreciated externally to the same degree as internally, the pressure of these transfers on the balance of payments may prove very disturbing. This is what happened in those cases—and they were unquestionably important—where the dollar quotation long remained steady while domestic prices rose sharply.

This consequence is often aggravated by the practice of foreign concerns, which work in Latin America with comparatively liberal credit granted by the national banking system, of taking account of the firm's responsibilities abroad rather than of the real capital assigned to its local operations. In this way the foreign concern is working with substantial capital of domestic origin and yet transfers profits abroad as if they were the yield of foreign investment.

Measures which ensure remittances up to a given yield of the invested capital and of some proportion of amortization, represent a favourable advance on the former situation when remittances of services were subjected to severe restrictions. Only a free exchange market permits transfers without any limitations. But even here the relief so given is often curbed by the instability that is generally produced in these cases or by the extent to which the external value of the currency exceeds its domestic purchasing power. However that may be, this is a characteristic evil of the distortions caused by inflation. On one hand, it causes an exaggerated increase in company profits and, on the other, it leads to restrictive measures or to adverse situations which—although they may be justified by circumstances—are considered contrary to the interests of private capital. In fact, satisfactory solutions cannot exist in a state of inflation of this type; this provides further proof of the adverse effects which this phenomenon sooner or later exerts on economic development.

(b) *Restrictions on certain investments*

Sometimes a selective criterion is established for the investments which a country wishes to admit or to which it is prepared to grant special exchange treatment. Such a policy represents favouring investments of one type and discouraging others which, in the opinion of the governments, should be the responsibility of national enterprises. This latter case includes, for example, all those activities whose techniques are easily accessible and in which the investment of foreign capital and the consequent remittance of profits abroad would be unjustifiable so long as such funds could be used elsewhere to the positive advantage of the country.

The motives for this attitude may be understood, as well as the misgivings it arouses in capital-exporting countries. But such discrimination always gives grounds for uneasiness, and it may be inquired whether the adverse effects on foreign investment caused by discouraging its inflow are or are not, in practice, offset by tangible results of this policy.

The organization of an international credit system for the Latin American entrepreneur might modify the atmosphere in which such restrictions have arisen, because he would no longer feel at a disadvantage on account of capital shortages as compared with the foreign entrepreneur. If to this factor are added means of facilitating his access to modern techniques as a way to increasing productivity, the need for a system of selective approval of private foreign investments would be deprived of most of the economic arguments which at present exist for its justification.

(c) *Resistance to certain types of investment*

To omit one other delicate factor, on account of the controversies it arouses, would fail to meet the aim of an objective survey of the obstacles to private foreign investment. Even in those cases where a tendency towards some selective control of investment is evident, there have really been no outstanding instances in Latin America of animosity towards foreign capital invested under freely competitive conditions. A hostile feeling towards foreign capital has generally arisen when, from the very nature of the concession—as in the case of public utilities—or from the organization or size of the company itself, a monopoly or, in practice, open restriction of competition existed. In contrast to such cases in the public eye, countless others could be cited of commercial and industrial companies which—in addition to having earned general recognition of their technical and economic efficiency—have never suffered from hostility of any kind, although in the course of business they may have encountered transfer problems or administrative difficulties with the authorities.

There is no reason to suppose that the attitude of the Latin American public in this respect is any different from that of the public in the United States. That a company be an expression of free enterprise is insufficient for the public to be favourably inclined towards it. Free enterprise must go hand-in-hand with free and fair competition, and in this connexion public opinion holds a theoretical position which is unassailable. In the United States, the pressure of public opinion has won two fundamental victories. The first represents legislation protecting the general interests of the community coupled with a mechanism for the supervision and application of the law. The second is the development of a sense of collective responsibility, accompanied by the practice of giving publicity to the operations of those large corporations which, on account of their size or the nature of the market, move in a sphere of limited competition.

The assurance that United States companies operating in Latin America are not in practice exempt from such laws might help to clarify the unfavourable atmosphere which has been created. Such may be the interpretation placed upon the recent decision of the Department of Justice in the United States to enquire into the working methods of a large domestic corporation in Central America. In some cases, the application of anti-monopolistic measures might cause the breaking-up of a complex of operations that would be detrimental to the efficient functioning of an organization. This does not imply that the problem cannot be satisfactorily solved. There are here effective possibilities for international co-operation. Intergovernmental agreements could be envisaged aimed at ensuring that the business methods of large corporations should be subject to adequate standards of control, without prejudice to the freedom of enterprise of private companies in their appropriate sphere. Such standards, besides guaranteeing the interests of the community, may also enable Latin American countries to know the real size of profits and assist them to apply reasonable taxation.

The complexity of economic life makes it impossible to establish a single formula to solve the serious and varied problems caused by such private companies. But, once a policy of co-operation with common aims is established, it will first permit the gradual elimination of disturbing elements and, later, facilitate the creation of favourable conditions for effective investment in Latin America's economic development.

It can be understood that in cases of the above nature, the State itself might consider the alternative of making the investment, in order to avoid the complications which the limited degree or lack of competition involves. It could not be said that by acting thus a Latin American country would be improperly interfering with the principle of free enterprise. This principle is already violated when free competition ceases to exist or finds itself seriously restricted. From this point of view, a government might well resort to international loans of a public nature.

Even if this obstacle to a government's access to international loans were to be overcome, others might arise in connexion with the operation itself. Credit institutions are naturally obliged to ensure that their resources are advantageously applied to projects with sound economic bases; and they must also be convinced that the administration of a company is conducted with acceptable efficiency. No question of principle is thus involved, but one of practical judgment.

Possibilities are now appearing which have yet to be exploited. Examples exist where, even though private enterprise cannot operate satisfactorily, for the afore-mentioned reasons, it can do so very effectively in the realm of management contracts or the loan of services, whichever name is preferred. For example, the State can agree with one private firm on the building of a given plant and entrust its administration to this or another firm for a long enough period to amortize the whole or a considerable part of the loan. Such firms may also wish to contribute a share of the capital, on either a temporary or a permanent basis. Various possibilities exist, both in this case and in those having special elements of risk. At all events, a general characteristic of these contracts might be the obligation of private foreign firms to train national personnel, both for technical and administrative employment, so that, with the passage of time, they could assume responsibility for all operations of the concern.

3. Final considerations

In this Report nothing has hitherto been said about the nationalization of foreign private companies. In capital-exporting countries, however, this is usually mentioned as a factor which acts as a deterrent to the foreign investor. Although there have been very few instances of nationalization in Latin America, and those with troublesome indemnization problems have been even rarer, it is undeniable that their psychological repercussions were widespread. While a discussion of this problem and of the merits of any legal formulae is outside the scope of this report, there can be no doubt that in this and other aspects of the problem of foreign investment, a satisfactory and lasting solution can only be reached on the basis of a policy of international co-operation for the economic development of Latin America. A well conceived policy, complemented by indispensable national measures, that besides stimulating the rate of economic growth also helps to remedy such adverse factors as those indicated above, will give a better understanding of the objectives aimed at by the investment of foreign capital. And this will be the best guarantee of its successful application.

Latin America's political instability is also frequently mentioned as a source of discouragement to investments of private foreign capital. Outside the region importance may doubtless be attached to the psychological repercussions of political changes which occur through irregular methods. Latin America is subject not only to the vicissitudes of its internal policies but also to the impact of political and economic changes which occur within the large industrial centres and which in one way or another are usually of considerable magnitude. All this affects Latin America's balance of payments, its possibilities of development, its capacity to import and its ability to service foreign capital. On the other hand it does not generally appear that the attitude towards foreign capital of Latin American governments which hold power as a result of irregular political changes has revealed either more or less understanding than that of governments empowered by regular constitutional processes. In any case, the favourable attitude of both types of governments appears to depend primarily on the creation of the favourable atmosphere, to which reference has been made, by means of an adequate harmonization of national and international measures.

Chapter III

INCREASED PRODUCTIVITY AND TECHNICAL ASSISTANCE POLICY

I. Technical assistance activities in the sphere of productivity

1. Concentration of effort on agriculture

Technical assistance is a fundamental element of external collaboration in an economic development policy. In general terms, it can give the most immediate results in the field of increasing productivity by enabling better use to be made of the resources currently employed in agriculture, industry and mining. This tends to have a decisive effect on the acceleration of economic development. But it should not be forgotten that there are other fields in which, although its effects mature slowly, technical assistance has a considerable bearing on the problem of productivity. This is particularly so with regard to the investigation and inventory of natural resources in the Latin American countries, and to research concerning new uses for these resources, new production methods and to the serious problem of training skilled personnel.

This chapter will not deal with all these forms of technical assistance but only those having a direct bearing on the problem of productivity. This in no way implies that the other forms are unimportant, and in fact towards the end of this chapter it will be recommended that the study considered essential for outlining a policy of productivity in Latin America should also be extended to them.

It is insufficient to take action in isolated cases and then allow the knowledge thus obtained to spread slowly throughout the economic sphere. If the rate of economic growth is to be accelerated, higher investment must be accompanied by an intensive training campaign in technical procedures which will help in securing the greatest possible benefits from the existing capital and the available land.

The Latin American countries have at their disposal in the technically more advanced countries a substantial store of knowledge and skills, already perfected, as well as research methods for perfecting others which may be made more easily adaptable to the particular conditions in which they have to be used. The problem consists in how to transfer and assimilate such knowledge so as to bring about increases in productivity at a more rapid pace than hitherto.

Private action has played a very effective part in this transference of knowledge. But from the point of view of a vigorous economic development policy, its contribution is very far from sufficient. Recognition of this fact has led governments—Members of the United Nations—to organize international technical assistance. This decision—together with the decision to organize the investment of international resources—has been of outstanding importance. Of course, the first years have been in the nature of an experiment—albeit performing important pioneering functions—as much because of the largely unexplored field in which technical assistance has had to be given, as on account of the limited resources available.[12]

In any appraisal of technical assistance rendered by the United Nations and specialized agencies, one should take account of the limited character of their resources; in 1953, for example, they were able to spend only a little more than 4.5 million dollars on technical assistance for Latin America, in comparison with nearly 17 million spent directly by the Government of the United States, and with somewhat more than 24 million to be spent in 1954 (see table 5). Without any reflection on the great value of international technical assistance, it can be asserted that in this matter of productivity, the action taken by the United States Government in Latin America has been of first importance.

TABLE 5

Expenditure on technical assistance to Latin America by sources

(Thousands of dollars)

	1951	*1952*	*1953*	*(Proposed) 1954*
United States	10,895.0	17,875.5	16,953.8	24,342.0
United Nations and specialized agencies[a]	1,182.9	4,699.4	4,616.4	4,571.0[b]
Organisation of American States[a]	388.0	998.2	1,627.1	1,646.9
TOTAL	12,465.9	23,573.1	23,197.3	30,560.0

Source: Foreign Operations Administration of the United States, Annual Reports.

[a] The United States contribution is included.

[b] Based on an estimated allotment corresponding to 26 per cent of the entire technical assistance given by the United Nations.

Note: In recent years, the expenditure on private technical assistance to Latin America incurred by the United States has amounted to almost a million dollars a year and has been earmarked almost entirely for agriculture. These funds have been supplied, above all, by the Rockefeller Institutions—the Foundation, the IBEC Research Institute and the American International Association.

Of the 24 million dollars which the United States Government expects to spend directly on technical assistance in Latin America in 1954 and apart from its contributions to programmes established by international organizations, about 44 per cent relates to agriculture and natural resour-

[12] Despite this limitation of resources, technical assistance rendered by the United Nations and its specialized agencies has been an important factor in the preparation and execution of activities which provide an effective contribution towards the economic development of many countries. In the broader context of technical assistance as an essential element of development policy, reference should also be made to the technical assistance at present being rendered by the United Nations and the specialized agencies to the Central American countries in their economic integration programme, sponsored by the Economic Commission for Latin America. Attention should also be drawn to the important principles established by the United Nations which govern the operations of international technical assistance.

ces, and barely 8 per cent to industry, mining and labour. During the period 1952-54, however, the most rapid increase in technical assistance related to transport and industry (see table 6).

TABLE 6

United States Government programme for technical co-operation in Latin America

	1952	1953	1954
	(Percentages of the total expenditure)		
Agriculture and natural resources	43	35	44
Health and hygiene	28	27	21
Education	15	11	12
Transport, communications and power	2	3	4
Industry, mining and labour	1	10	8
Public administration	4	8	6
General and community development	3	1	1
Costs of the national programme	3	4	4
TOTAL EXPENDITURE (millions of dollars)	17.9	17.0	24.3

Source: Foreign Operations Administration of the United States, Annual Reports.

Note: As these are round figures, their sum total may not be accurate.

The United States technical assistance in the agricultural sphere in Latin America dates back several years, and there has been unanimous acknowledgment of the efficacy and significance of this effort in all the countries in which it has been applied. This assistance covers a vast range of subjects, from genetics to the organization of agricultural credit. Technical services are generally provided in collaboration with the governments of the various countries, through the medium of combined organizations whose expenses are covered jointly, in varying proportions, by the United States Government and the country concerned. Assistance is not limited to short-term visits by experts, but is generally given through personnel on long-term appointments, who work both in research and in the dissemination of its results, and in addition help with the training and perfecting of the local personnel.

Besides this official collaboration, the activities of the Rockefeller Foundation deserve special notice, particularly in the field of genetics, in which remarkable results have been achieved in several countries. The Turrialba Institute of Agricultural Sciences in Costa Rica, a subsidiary of the Organization of American States, has also proved of positive value both in the training of agricultural experts and in research and practical action; however, its limited resources do not allow this Institute to extend and intensify its work, its annual budget being less than a million dollars for the whole of Latin America.

Since its establishment the Food and Agriculture Organization of the United Nations has devoted attention to the problem of productivity, although its methods of work have not always been similar to those followed by the United States Government. FAO has sent many experts for short periods to solve problems of a special nature. In other fields—particularly forestry and animal husbandry—missions of a more permanent nature have been provided.

Thus, in the realm of agriculture an indisputably successful beginning has been made in the immense task of bringing to and assimilating in Latin America the agricultural techniques of the more advanced countries, especially those of the United States, where a striking degree of productivity has been reached.

2. Industry

The same thing has not happened in the case of industry, so far as United States technical assistance is concerned, as is shown by the figures for expenditure in table 6. There are several explanations for this disparity.

In the first place, there is no doubt that technical assistance was more urgently needed in agriculture. If export activities are excluded, where modern technique has penetrated with less difficulty, Latin American agricultural activity was and still is, generally speaking, in a precarious condition. Secondly, attention may be drawn to the opinion prevalent until a short time ago in some circles according to which the problem of development was essentially rooted in the technifying of agriculture, without its being as yet clearly perceived that industrialization constituted the inevitable complement of this. Finally, industry by its very nature is in a much better position than agriculture from the point of view of access to techniques. The big industrial enterprises of Latin America can obtain technical assistance privately, either by contracting experts directly, or through the collaboration of foreign companies which pass on their technical methods and procedures on a royalty basis. But small and medium-scale industrialists are not in the same position, and it is to them that priority should be given in allotting this type of assistance.

These industrialists—who individually may not appear significant—have fulfilled a very important function in the industrial development of Latin America, and would fulfil it more effectively if they were given reasonable access to the sources of international capital and techniques. Indeed, the appearance of these industrialists has provided a basis for a selective process in Latin America, since from their ranks have often emerged the men of enterprise who with the passage of time were to build up large-scale industrial undertakings. It is not therefore a matter of consolidating antiquated forms of organization, but of assisting growth and the attainment of more suitable dimensions, through the co-operation of international capital and advanced foreign techniques.

A short time ago the United States Government began to devote attention to the fundamental problem of productivity, through the organization of technical assistance services for industries of this type. The initial results are instructive. This very important undertaking is still in its early stages, and the policy to be followed has not yet been defined, presumably pending a more thorough knowledge of the needs of the industrial milieu.

The United Nations Technical Assistance Administration has attached great importance to this problem, and a large proportion of its expenditures concern technical assistance in the industrial field. However, here too the limited character of its resources has been a serious obstacle. Another way of increasing productivity which is beginning to be tried out in Latin America is the improvement in production methods or the introduction of new activities in both urban and rural artisan circles. A considerable increase in the income of these sectors can be achieved at a relatively small capital outlay, since it is mainly a matter of introducing small equipment or of taking advantage of the rural workers' spare time. This is an aspect which appears to offer encouraging prospects, particularly in countries with an indigenous population or those whose farming activities are seasonal.

3. Experience in European industry

It is obvious that, in deciding to inaugurate this assistance to Latin American industry, the United States government has found inspiration in the experiment undertaken successfully in Europe since the Marshall Plan. As is well-known, a serious productivity problem has also arisen there the solution of which was indispensable, not only to the domestic economic rehabilitation of the countries of Western Europe, but also to the recovery and subsequent increase of their industrial exports. It is worthwhile to call attention to this last point, as it is a very significant symptom of the changes which events are bringing about in the foreign economic policy of the United States.

These industrial technical assistance services have been developed gradually in Europe. They began with sporadic experiments and are being transformed into extensive programmes which are being implemented in collaboration with national centres of productivity in each of the countries of Western Europe.

With this object a European productivity institute has been set up, which forms part of the Organisation for European Economic Co-operation, but is intended to function as an independent body. The institute will have a Board of productivity and practical research and a consultative council, and will function under a director-general appointed by the Organisation. The institute will carry out its aims through the national centres mentioned above. These centres, in their turn, are formed by the government, private companies and trade unions. The role of the latter is very interesting and there is no doubt that—apart from what it means to the understanding of the problem—labour participation in the increased profits generated by greater productivity has been an important motive force. In fact, technical assistance is given only to those firms who guarantee to distribute this increment among consumers, workers and the firm itself.

After successive experiments the productivity centres have gradually set up their criteria for selecting the industrial enterprises to which the service is assigned. First and foremost, they must be industries that produce essential goods for a growing market; moreover, the possibility of achieving concrete and visible results must exist; likewise, the company and the workers must show a clear interest in increasing productivity, and the firm's administration must be capable of carrying out the recommended improvements; finally, these improvements must be such as can be put into practice with only a small increase in capital, or with no capital outlay at all.

To give direction to the action of the productivity centres, different procedures have been followed. One of them has been the constitution of productivity groups. Some European groups visited the industries of the United States while others from North America inspected the European industries. Visiting groups in Europe itself were also organized. These groups, like the centres, were made up of entrepreneurs, workers and government representatives, and were followed by exclusively technical groups. Besides these observation and study groups, other activities of special types have been carried on, as, for example, the sending of specialists from European industries to North American firms so that they might study the best manufacturing processes; likewise, the United States Bureau of Standards has placed its services at the disposal of European technicians to carry out practical research and select research and testing equipment. European manufacturers can submit their problems to the productivity centres, and the latter consult Washington on any that they cannot solve by themselves. Finally, the centres have been supplied with technical and scientific literature as well as with documentary films.

These visits have enabled very useful parallels to be drawn between factories in the United States and in the European countries. Moreover, the United States Bureau of Labour Statistics undertook a series of surveys of productivity—which now number 100—in a certain number of North American industries, especially in relation to agricultural tractors, paper and pulp, manual tools, bricks and tiles, food processing, aluminium goods, beet sugar refining, footwear and some textile goods. Alongside these surveys others were made in similar industries in European countries, so as to compare productivity and establish the differences and the factors which cause them, and also arrive at the determination of certain standards of industrial productivity whose attainment must be attempted.[18]

II. Need for a productivity policy

The United Nations General Assembly and the Economic Social Council, as well as ILO and FAO, have been devoting attention to methods of increasing world productivity. The Economic and Social Council has requested the Secretary-General, after consultation with the specialized agencies concerned, to continue studies of problems of raising productivity in under-developed countries, in both industry and agriculture. It may be noted that in the Council's resolution 416 E (XIV), governments of under-developed countries were recommended to consider:

[18] Jointly with the technical programme in industry, technical assistance for agriculture has also been developed, but this absorbs barely a quarter of the resources. These resources are contributed both by the Government of the United States and by the governments of Western Europe. The former makes a contribution of 135 million dollars and the European governments one of a comparable amount.

"... the establishment of national productivity centres, adapted to the economic and social conditions existing in their countries so as to give special impetus to research and the dissemination of information concerning improved practices and techniques and to their practical application in the various fields of economic activity, keeping in mind the international technical assistance facilities available to them;".

The United Nations Technical Assistance Administration and the specialized agencies concerned are responsible for providing such international technical assistance facilities at the request of governments.

Latin America needs a definite productivity policy which can count on resources much greater than those which have hitherto been brought into play. But for this policy to achieve its objectives efficaciously, a previous analysis of the problems of growth and of prevailing trends in each country will be indispensable. Technical assistance must have a definite orientation and this must arise out of a development programme. So long as technical assistance is given in isolated instances and only on a modest scale, its close relationship to the overall development policy of a country may not be fully apparent; but when it acquires breadth and produces perceptible effects on the rate of increase of productivity, it will have to be adapted to the requirements of a development policy. In other words, the policy of productivity is only one aspect, though an extremely important one, of the policy of development.[14]

Indeed, not all the measures that increase productivity ought to stand in the same order of priority; what is chosen as a first objective, and the various alternatives which might be pursued, are not matters of indifference. A brief incursion into the relations between increases in productivity and in capital will enable us to deal with the nature of this subject which is so important in the drawing up of a development programme.

1. Significance of the various ways of increasing productivity

It is useful to remember, first and foremost, that an increase in productivity can be achieved either by a more intensive exploitation of the capital or land immediately available, or by making better use of labour resources. It is easily understood that, in countries where there is a comparative shortage of capital and a relative abundance of actual or potential labour, the technical processes that increase the productivity of capital or land generally enjoy a higher priority, as with the same capital—without additional investments or with only small investments—an increase in the product can be obtained. In Latin America a case often in evidence is that of capital equipment which is not used to full capacity; one of the usual explanations is the smallness of the national market, notwithstanding which new units of production are often added without satisfactory use having been made of those

[14] The international agencies rendering technical assistance, being fully aware of the above-mentioned need, have insisted that countries co-ordinate their development projects with a view to obtaining greater benefit from such assistance. The annual programming of the technical assistance of the United Nations and the specialized agencies, in pursuance of a recent resolution of the Economic and Social Council, is to be formulated on the basis of integrated country requirements. A resolution adopted at the Inter-American Conference at Caracas recommends that the countries should co-ordinate their requests for technical assistance, which provides an incentive for subsequent steps in programming the diverse projects.

already in existence; but alongside these cases are to be seen others in which the equipment is exploited more intensively than in the advanced countries, and a greater product obtained from it but at the cost of employing more labour. Power production is a typical case in which a greater yield could be obtained with the same capital. The authorities who have investigated this problem nearly always agree that there is a considerable amount of waste which could be prevented by better processes of combustion or better use of electric power.

Very frequent too is the case where improvements in the quality and durability of the product are possible with the same equipment, either by raising the standard of the raw materials used or by improving the methods of manufacture. For example, in the survey of conditions in the iron and steel industry and its prospects of development, which is being carried out by the secretariat of ECLA in several countries, it has been verified that defective alloying of the metals used had an adverse influence on productivity as well as on the quality and durability of the goods. These defects are not generally difficult to correct.

But the typical case of an increase in productivity with scanty investments is to be found in agriculture. With the same unit of land, large increases in productivity have been successfully achieved by means of better methods of cultivating and storing the product. It is clear that such ways of increasing productivity with the same—or with slightly augmented—capital, and the same amount of land, should be explored and pursued in preference to others which require larger additions to capital.

Among these methods there are important gradations, all involving a saving of labour. But while in some, this economy is achieved without increasing the capital, in others it involves a heavy capital burden. An example of the first type, confirmed in surveys carried out by the secretariat of ECLA, can be cited. In the course of a careful survey of the cotton textile industry in five Latin American countries,[16] it was found that the labour per kilogramme of cloth could be reduced by from 42 to 78 per cent, according to the countries, if the work were better organized, even without changing the existing antiquated equipment. With the installation of more modern equipment, an additional saving of labour of from 14 to 33 per cent could be achieved. It can be seen that this additional economy is less than that which could be effected by making better use of the existing equipment. The importance of using this to better advantage before investing capital in other new equipment can thus be grasped. To what extent this and other interesting conclusions as to productivity in the textile industry would prove applicable to other industries, is something on which no absolute pronouncement can yet be made. Only further research can answer this question, which is of such great importance for development policy.

The case we have just pointed out is proof of the possibility of freeing labour and thus correlatively increasing the yield of the labour still employed, without any increment of capital. By contrast, there are other cases in which the freeing of labour demands an additional invest-

[16] See *Productivity of Labour in the Cotton Textile Industry in Five Latin American Countries,* New York, 1951. (United Nations publication, Sales No. 1951.II.G.2.)

ment. The mechanization of agriculture could be cited as an example: when mechanization does not help to increase production—and there are cases in which this happens—its effects are not expressed in terms of a greater yield per unit of land, but in a reduction of labour per unit of land and per unit of product.

This way of saving labour by investing more capital is also characteristic of industry. Modern technique, especially in the United States, is directed towards a progressive saving of labour by an increase in the amount of capital per head. The freeing of labour thus represents a capital cost which has not the same significance when capital is plentiful—as in the case of the United States—as when it is scarce, as in the case of the Latin American countries.

Nevertheless, the labour liberated also requires fresh capital if it is to be productively absorbed in a country's economy. An effort to increase the output of labour would be lacking in economic sense if there were no possibility of absorbing it, and still more so if freeing it should involve a heavier investment of capital.

A policy of increasing productivity therefore requires a previous planning of the various ways of achieving it, and their several combinations. There is an obvious gradation with respect to the respective needs for additional capital: first, those technical measures which increase production without any appreciable necessity for fresh capital; next, those which allow labour to be freed without employing fresh capital, but need capital in order to absorb that labour, and finally, those which require a double investment of fresh capital, both to free labour and to absorb it productively in the national economy. For this reason, if technical assistance is to be given on a large scale, as it should be in Latin America, a careful analysis of this type, serving to determine the general lines not only of a productivity policy but also of the investment programme itself, is indispensable. How much progress can be made in this direction, is first and foremost a question of availability of capital. There can be no doubt that, where there is enough capital, it will be expedient to use even the last method for which a double investment is required. The more labour is freed by increasing the work yield, and the more capital can be employed in absorbing it, the greater will be the average increase in productivity per head and consequently in the rate of economic growth. But in fact the solution is not easy, since modern techniques do not generally offer all these alternative gradations, and processes will often have to be chosen which mean incurring heavy capital costs and thus achieving considerable savings of labour in circumstances in which there is already labour available which cannot be absorbed because of insufficient capital. This increases the complexity of the problem and makes it all the more necessary to set up standards for guidance.

Except in agriculture, where there are considerable possibilities for applying techniques to increase the productivity of land without releasing manpower, increased productivity in other fields, notably industry, usually involves a release of manpower.

Consequently, besides the need for capital, another problem is presented, namely to determine in what activities such manpower can be absorbed. Those activities should first be considered which produce goods or services for which there is a growing demand, as against those for which this is not the case or where the opposite occurs. It is obvious that in the former the saving of labour can be accompanied by the absorption of all or most of it in the same activity. On the other hand, in slow-growing activities, difficulties often arise in transfer and adaptation which may prove serious.

With respect to this last aspect there is one case of outstanding importance. If the transference of labour is carried out within one single industrial community, the difficulties are simply those of readaptation. But if the transfer involves the necessity of a geographical displacement, to these difficulties is added the provision of a greater amount of social capital to supply the needs of the increased population in the place to which the labour is shifted.

In connexion with a programme for increasing productivity, it is important to consider possible forms of action in certain industries where high production costs affect the prices of basic consumer goods and, therefore, the level of real income of the majority of the population. If costs and prices in such industries as textiles, certain food products and building materials could be reduced, purchasing power would be released among the mass of consumers which would create demand for new products and thus assist in absorbing the displaced labour.

2. Determination of the types of technical assistance needed

All this shows that an active productivity policy, which aims at achieving perceptible results in a relatively short space of time, demands a careful study of the actual state of affairs, not only in its technical aspects, but also in its implications from the standpoint of economic development. This does not mean that the results of this survey will have to be awaited before a wider range can be imparted to the technical assistance which is being given at the present time. This assistance must be continued and extended. Nevertheless, if such a survey were carried out, it would assist in providing the ample scope required for technical assistance.

The study of the various activities will be useful in fixing the priority and the degree of intensity in which technical assistance should be given. This done, the type of assistance which is justified by the circumstances will have to be determined. This can only be done after careful analysis of the factors determining the low rate of productivity in each activity to which intensive technical assistance has been assigned. This analysis demands a review of the representative enterprises within each activity, as in the afore-mentioned textile report.[16] In each establishment a careful examination was made of the various successive operations from the time the raw material first enters the mill to the moment the finished product is dispatched. At the same time, the organization of the mill was analysed, and it was thus possible to review the different phases of manufacture and compare their productivity with that obtainable under what were considered normal conditions. To set up standards of operation which corresponded to these conditions was often indispensable, because the nature of the equipment and other characteristics of Latin American

[16] See page 49.

industry did not allow United States industry to be taken as a standard of comparison. Here we find ourselves faced with the aspect of the problem of productivity in which differences of environment must be carefully studied if grave errors are to be avoided.

Once the factors which most frequently influence low productivity within each industry have thus been determined, it will be possible to define the type of technical assistance required.

In this case the same observation must be made as before, namely, that the lack of such an analysis of the industrial enterprises ought not in any way to prevent the technical assistance, already given, from being rapidly extended, since the very experience thus gleaned will be of noteworthy help in establishing the most suitable methods of operation. If, however, the emphasis has been placed on the need for this analysis, as also on the survey to form criteria, it is in order to prevent in time the possible consequences of a too empirical approach, whereby purely technical considerations, or even circumstantial motives, may prevail over the fundamental interests of economic development.

Again, the knowledge of the factors determining low productivity and of the type of technical assistance they call for, will supply the requisite data for defining the qualifications of the experts who will have to give it. This point is of great practical significance. The form that technical assistance has often assumed has been the sending of some specialists who, after a short stay in the country, leave and lose all contact with the purpose of their visit. Of course, there are many cases which by their very nature completely justify this attitude; but in others it is due to the fact that the fortuitous and transitory character of the assistance given does not permit of the formation or more or less permanent teams of experts who are daily accumulating more and more experience.

(a) *In industry*

In this connexion it is possible that a technical assistance service for industry may require—along with experts on short-term contracts in special advisory capacities—a body of experts to operate, in accordance with the nature, magnitude and frequency of the problems, in the national sphere, in groups of countries or in Latin America as a whole. There will thus be an excellent opportunity, first of training Latin American personnel while the foreign experts are at hand, and then of using them more effectively.

It is hardly necessary to emphasize the importance of this aspect for the success of such a system of assistance in the field of productivity. The Latin American technician, once trained, besides having the advantage of knowing the environment, will also have to be imbued with a strong sense of the mission he is fulfilling, of what his enthusiasm and steadiness of purpose may mean to Latin American development. All this must be based on a careful selection of trainees and, in order that this may be as broad and effective as possible, it should cover the whole of Latin America instead of a few individual countries. This would also facilitate the dissemination and application of the experience acquired in one country to similar situations in other countries. This is a consideration of no little importance in determining the type of approach which may eventually be found most suitable. It is possible that a regional approach to technical assistance for productivity in industry would prove to have advantages over arrangements made on a purely national level, not only on the grounds just described but also because of the continuity of the goal pursued and the increased administrative independence within each national framework which is required for effective regional collaboration. An excellent example of a broader than national approach is the Central American Programme of Economic Reciprocity and Integration, which receives its direction from ECLA's Committee on Economic Co-operation in Central America and is composed of Ministers of Economy and other ministers concerned.[17] It is clear that the operation of a technical assistance programme on a regional level must involve finding out the best methods of working in each country, in close association with the local organizations interested in solving the problem of productivity.

Another aspect which ought to be pointed out is that relating to the extension of industrial technical assistance. The problem is of vast proportions in Latin America, and however generously endowed this service may be, resources will have to be used in such a way that the results of the measures recommended are disseminated as rapidly as possible. The experience acquired in Europe by European and United States experts will likewise be of great value in this connexion, and no doubt use is already being made of such experience in the services which the United States Government has begun to provide in some Latin American countries. This need to ensure a speedy diffusion of results naturally has financial repercussions. If assistance were limited to those firms which were to apply for it spontaneously and were prepared to pay for the whole or a considerable part of its cost, the system of assistance could, at the end of a few years, cover all its expenses. But if it attempted to extend its scope so as to make an intensive contribution to accelerating the pace of development, a considerable labour of persuasion and recommendation, which would require special resources, would be necessary. It can, however, be declared with certainty that these resources will signify one of the investments which will produce some of the largest returns—if not the very highest—in Latin American development.

(b) *In agriculture*

In the domain of agriculture it is also advisable to make a survey of the problem of productivity as a whole. It is true that the effective action which is being taken in this sphere has been a valuable source of experience for understanding the nature of the factors responsible for low yields and for seeking the practical way of tackling them. In this connexion it will not be necessary to start from scratch, as is generally the case in industry. But it is no less true that from this experience there have not been extracted so far any principles of sufficient clearness and precision for the mapping-out of trends and objectives for an agricultural productivity policy. It is indeed striking that an achievement, so praiseworthy in numerous cases, should not have been followed up by an over-all analysis such as is being advocated.

[17] It may be added that this Committee receives advice from a working party composed of representatives of the ECLA secretariat, the United Nations Technical Assistance Administration and the specialized agencies concerned.

Let us look at the aims which such an analysis ought to pursue. First and foremost, it would be necessary to carry out a systematic survey of the factors accounting for low productivity in agriculture in each of the Latin American countries; next an examination would have to be made of what has been done in each instance to deal with such factors, both through international technical assistance and through the action of official, trade union and private organizations; this will permit an accurate appraisal of the results of technical assistance, not only in their intrinsic significance but in their relation to the real dimensions of every aspect of the problem of productivity. Thus, in this appraisal, it will not suffice to know how much the yield is increased by using a particular variety of seed. It will also be necessary to investigate what proportion of the production concerned has been improved with this seed, and what measures could be taken—and how intensively they could be applied—to cover the production in its entirety. Such a comparative analysis would have to be made of every one of the factors which are hampering productivity. In this way a thorough notion would be obtained of what is being done in comparison with what ought to be done, and we would be able to approach the formulation of a policy of productivity, or, in broader terms, of agricultural improvement, combining national and international technical assistance measures.

Nevertheless, what ought to be done could not be a mere technical projection of what is being done. As in the case of industry, here too there is an imperative need for guiding principles in accordance with the exigencies of economic development. In this we discover one of the urgent motives for programming. The difficulties of expanding agricultural production are notorious in most Latin American countries, and the most elementary degree of foresight suggests that, without neglecting immediate problems, an examination should be made of the possibilities of responding to the future growth of demand originating in an increase in the population and an increment in income, according to admissible hypotheses. These projections—worked out over a term of five or ten years, so as to keep within reasonable bounds—constitute a valuable and indispensable aid in determining the order of priority of technical assistance measures, as also in formulating a programme of agricultural investments with suitable guidance and stimulus to private investment. Needless to say, this agricultural programme must be strictly related to the general economic development programme, since agricultural measures must be determined in the context of the growth of the national economy as a whole. Of course a productivity policy in agriculture cannot avoid dealing with certain basic factors and with the creation of incentives which are often non-existent due to antiquated and defective agricultural tenure systems, as pointed out in the resolutions and studies of the United Nations and FAO.

It is, therefore, necessary to insist that productivity policy is only one aspect of a general development policy; but this does not mean that the former cannot be inaugurated nor its scope broadened until the general policy has been formulated. These deterrent attitudes are usually very harmful in practice. It must be stressed that the knowledge of existing realities which the various countries already possess—if it can be ordered and systematized—is often sufficient to map out the principal features of such a policy and to implement it firmly. The development programme will subsequently enable the policy to be improved and rectified in some aspects, the dimensions of the problem to be more accurately estimated, and priorities to be fixed, as well as the most suitable distribution of technical assistance and investment resources to be established.

III. Preliminary tasks which may pave the way for a productivity policy

1. Preparation of basic reports

An attempt has been made to show the need for research into facts, possibilities and prospects in order to formulate a productivity policy intimately bound up with the development policy. The task is neither short nor simple, and demands the exertion of a considerable effort by reason of its extensiveness and the patience required for performing it. But it is indispensable to tackle it without delay. The collaboration of well-informed people in Latin America, as well as of the foreign experts whom it may be desirable to call in, can be relied upon. Contact with Latin American economic activities shows that there is a considerable quantity of information, comment and opinion, empirical or scientific, to be tapped. In order to do so, those people in each country who, by virtue of experience or study, are authorities on their respective subjects or spheres of action, should be drawn in to play their proper part in this undertaking. Besides the direct advantages inherent in this collaboration, acquaintance with such authorities will allow the gradual preparation of a well-classified list of individuals who could be borne in mind, according to their qualifications, for training courses in their own country or abroad, or to form technical assistance groups in both the agricultural and industrial spheres.

When a series of basic reports on the problem of productivity in the Latin American countries—or at least in a sufficient number of them to be representative of the most general or typical cases that will have to be considered—had been drawn up in this way, the same procedure that has proved successful in similar cases could be followed. It would be expedient to submit these reports to a select group of Latin American and foreign experts for analysis and discussion of their conclusions and recommendations in *ad hoc* committees. Among the experts who have worked on industrial productivity in Europe should be chosen those whose experience could be assimilated in the Latin American countries, together with others who have had experience in these countries, so that comparisons could be made which would be very enlightening.

In this way, governments would have at their disposal all the necessary elements for determining the content and orientation of a technical assistance policy designed to improve productivity. The Rio de Janeiro Meeting offers a favourable opportunity to discuss this problem and adopt the measures which governments think desirable.

It is obvious that a productivity policy, such as has just been sketched out, presupposes not only the adaptation of the technical knowledge of more advanced countries, but also the assimilation of forms of technical research which enable fresh practical knowledge to be acquired in order to increase productivity. But, apart from this type of technological research—which is generally the most urgent—there are two other fields in which special effort is required and where important results might be obtained. As stated at the beginning, one relates to research into the natural resources of Latin America and their exploitation; the other, to the possibility of finding certain technical solutions which are better adapted to the shortage of capital characteristic of developing countries.

2. Investigation and inventory of natural resources

Until a few years ago it was insistently declared that Latin America was one of the regions of the world with least possibilities of industrialization because of the shortage, among other resources, of coal and iron. Experience shows this statement to be without foundation, since it is evident that the region is one of the least explored as far as its potential natural resources are concerned, and few countries have even succeeded in taking an inventory of, and appraising the resources already discovered.

The programming of economic development clearly shows the fields in which these investigations are most urgent. For instance, studies of demand may show that known hydro-electric resources will satisfy demand for only a limited period of time. In that case the investigation and appraisal of new hydraulic resources should be undertaken immediately, if difficulties are to be avoided at the end of that limited period.

Similarly it may be of value to investigate the possibilities of obtaining pulp from the tropical jungle, which constitutes about 90 per cent of the forest wealth of Latin America and which hitherto has not been the object of any systematic research. The economic and technical problems relating to its exploitation will be discussed, together with other matters, at the Latin American Meeting of Experts on the Pulp and Paper Industry which will meet in Buenos Aires in October-November of this year under the auspices of the ECLA secretariat, the United Nations Technical Assistance Administration and the Food and Agriculture Organization of the United Nations.

It is noteworthy that, within the programme of integration and economic reciprocity for Central America, in the planning of which the ECLA secretariat, the United Nations Technical Assistance Administration and other international agencies are actively assisting, one of the projects is the creation of an Institute of Industrial Research and Technology, whose principal aims include methodical and co-ordinated research into the natural resources of Central America required for industrial purposes, the adaptation of the technology of more developed countries to local conditions, and a survey of the existing industries and methods of work with a view to obtaining greater productivity.

Of course, in carrying out research of this type the requirements of economic development must also be borne in mind, and it would be very desirable to make a preliminary survey of the fields in which such research is most needed in Latin America.

The necessary investigations are costly and require specialized equipment and personnel. It is a virtually virgin territory in so far as international co-operation is concerned.[18]

3. Training of personnel

From the point of view of time, the problem of productivity may be divided into two large groups of subjects. On the one hand, there are those which may permit of a relatively speedy solution through technical advisory services. On the other are those which can only be solved through the progressive raising of the educational level of the population and by the technical training not only of specialized supervisors but also of skilled and manual workers. Those who have paid attention to this aspect of the problem of productivity agree that it is serious and urgent in most of the Latin American countries. There are two main difficulties to be overcome. First of all, the financial resources set aside for technical training are relatively small, and there is a shortage of qualified instructors; secondly, there is insufficient correlation between the teaching given and the real needs of the economy.

The Latin American governments have shown, particularly in recent years, that they are aware of the responsibility that rests on them to improve general education and to promote technical training. It must, however, be recognized that requirements far exceed achievements. The adaptation of the educational systems to the new requirements imposed by economic development, and the promotion and extension of technical training for workers, technicians and engineers of various specialities, are still at the initial stage in many countries. In others, experiments are being made which will undoubtedly prove useful for the rest of the continent, or partial analysis of the problem is being undertaken. No further mention is required of the assistance being tendered in these studies and experiments, as well as in fellowship programmes, by the United Nations, the specialized agencies and by the United States Government.

But an examination of the problem as a whole is required, in order to determine clearly the magnitude of needs in general and in their various partial aspects, with a view to framing and developing a policy which will satisfy the requirements of economic development in the most efficient way. Such an examination should be based on an estimate of the needs for trained personnel in the different branches of agricultural and industrial production, including energy and transport, and in the various levels of professional training. Consideration should be given to those fields in which complete or partial training must, for the time being, be acquired abroad, as well as to other fields in which on-the-job or home training for workers is at present available in Latin America but which require greater financial or human resources.

At the same time, teaching systems and methods should be appraised with a view to utilizing available resources to the maximum, so that technical training may reach the largest possible number of young

[18] Reference may be made, however, to the Economic and Social Council's resolution 345 (xii) and to ECLA's resolution 60 (v) on this subject (See E/2405). The limited resources of the international organizations should be borne in mind in this connexion.

people and adult workers. Naturally, conditions in each country differ and demand different solutions. However, a general orientation and philosophy of the education required under the economy's new conditions would be a firm foundation for guiding the governments and interested sectors, provided it is accompanied by practical alternative solutions, adaptable to the different conditions.

In any event, it appears unnecessary to stress that the general study described cannot and should not be considered as a prerequisite for fostering technical training as energetically as possible. Economic development is, in many countries, encountering difficulties in practice due to the absence of managers, engineers, agricultural and industrial experts and skilled workers in different spheres, and these difficulties tend to increase daily. In view of this problem, immediate and vigorous action is required, and large-scale technical assistance is indispensable both to provide qualified instructors and to improve methods and take maximum advantage of existing possibilities and resources. But this should not conceal the fact that the problem of technical training must be considered, on the one hand, in relation to the probable growth of the economy and to the projections of its development, and, on the other, with reference to the general criteria which serve as a guide for adapting the educational systems to the requirements of development.

4. Possibility of a new orientation for technology in countries where capital is scarce

Finally there is a deeper problem which concerns the orientation of technological research itself. In a paper submitted by the ECLA secretariat to the Fourth Session of the Commission, held in Mexico in 1951, this problem has already been stated.[19]

Technological research in the more advanced countries, especially the United States, is directed above all towards the discovery of technical formulae which, by means of ever greater increases in the amount of capital per head, will enable the greatest saving in human effort to be achieved. Developing countries—which, unlike the advanced countries, have plenty of actual and potential labour and relatively little capital—find themselves obliged to adopt the same productivity technique as the industrial countries. Of course, in their case technological research ought to give priority to the development of equipment which would enable the productivity of their capital to be increased, rather than to improving the yield of labour.[20]

[19] See ECLA, *Theoretical and Practical Problems of Economic Growth* (United Nations publication, Sales No. 1952.II.G.1.)

[20] There are other cases where a high degree of priority in technological research is justified. Among them should be mentioned the building industry, which is of particular interest to Latin America. It is a well known fact that the rate of urbanization of the Latin American population is among the highest in the world. This fact, together with demographic growth, has provoked a severe housing shortage. On the other hand, while the building of houses is one of the most capital-absorbing activities, it is also one where the techniques in use have progressed least. The question of house building has not been given special consideration here. The subject is being studied by the United Nations secretariat at Headquarters, at the request of the Economic and Social Council, and by institutions forming part of the Organization of American States.

A very serious problem is involved here, which the economist can only state, without being in a position to discern its solution. This ought to be the subject of preliminary research leading to an investigation of the possibilities of obtaining specific results. It is interesting to note that the subject has been included in the programme of research on economic development which is being conducted at the Centre of International Studies of the Massachusetts Institute of Technology in the United States.

Chapter IV

TRADE POLICY AND ECONOMIC DEVELOPMENT

I. Essential principles governing trade policy

1. Industrialization and protectionism

There are two principles, the frank recognition of which would exert a substantial influence on the policy of the Latin American countries as regards their trade relations both with industrialized countries and with each other. Firstly, in differing degrees according to individual countries, industrialization is an inevitable feature of economic development. Secondly, a reasonable measure of protection is generally indispensable for industrialization.

In order to demonstrate the validity of both principles it is unnecessary here to underline the details of previous reports by the ECLA secretariat. A brief explanation of the basic arguments and some new comments will suffice to enlarge and refine these earlier studies.

It is already known that the economic development of Latin America involves reducing the high proportion of the active population which works with low productivity in primary production and in handicraft activities. As modern techniques penetrate these activities and raise their productivity, proportionately less manpower is generally required to accommodate the growth of domestic and foreign demand for primary commodities. While the proportion of persons actively occupied in primary production declines, the proportion of those in other occupations, that is, industry, transport, trade and other services must rise.[21] Certain functional relations exist between these other occupations, however, and balanced development cannot take place if, for example, industry should grow out of proportion to transport or to other services.

This process has been characteristic of all developing countries and there is no reason to believe that it will be different in Latin American growth. In reality, the development of the region is in its initial phase. The average of the active population occupied in primary production is still around 60 per cent. This represents the conditions existing in the United States around 1860 although, during the century which has elapsed since that date, the proportion in that country has fallen to 12 per cent. This does not imply that Latin American countries should in time show a similar change, since different factors are in play, but it does provide some idea of the distance to be covered.

[21] Certain cases exist in which the increase of productivity in primary production does not have these domestic effects on economic development; for example, if greater productivity results in a deterioration in the terms of trade or in an increase of profits sent abroad, without stimulating the domestic demand.

Latin America's problem, therefore, does not consist of determining whether industrialization should or should not take place while technical advances are made in primary production and other activities of limited productivity. Industrialization is essential to absorb labour resources and to contribute to the increase in the aggregate product of the community.

Once this fundamental principle is recognized, the problem arises of determining how and to what degree industrialization should be accomplished. This is the key to an industrial policy, although only the aspect of tariff protection is considered here.

The major justification for protection lies in the differences of productivity between less developed countries and those which have developed to a greater degree. These differences are explained basically by the great disparity in the capital per occupied person and in the technical skills which they possess.[22]

In the abstract the possibility might be conceived whereby a decrease in the wage levels of less developed countries could offset these differences in productivity. On this supposition a given country could entirely abolish its protective tariff, always provided that the decline in salaries would compensate industrial establishments for the losses which would ensue. But, in addition to being impracticable for social and political reasons, such a policy would have serious economic consequences. If a decline in domestic wages was followed by a fall in prices, real wages might recover their former levels, assuming that adequate adjustments could be made. However, this wage decline could in turn affect export activities, causing a drop in export prices through the workings of the wage-price mechanism. Since this would not be accompanied by a corresponding fall in import prices, a deterioration of the terms of trade would result, with adverse effects on investment and the rate of development of the country.

Therefore, if the spontaneous development of industry is impracticable and uneconomic, protection alone, either through customs tariffs or subsidies, would remain to offset the differences in productivity, since direct import restrictions are usually less advisable as a measure of industrial policy, unless of a temporary nature.

Such is the type of protection required by Latin America's industrial development. Within the classical school of economic thought, protection is condoned during the initial phase of industrialization until such time as industry can be strengthened and has the ability to meet foreign competition. It is certainly admissible that in a country in process of development a given industry may achieve the same capital density and the same productivity as in the large industrial countries. In such a case, in view of lower wages, it would cease to be an infant industry requiring protection even before reaching the same degree of productivity. But this could hardly be the case for all the industries which a developing country requires to expand as a means of absorbing the actively employed population not required by other sectors. For this purpose it would be

[22] To avoid excessive complications, the diversity of natural resources and other such factors have not been introduced.

necessary to obtain a volume of capital per occupied person similar to that of highly developed countries and also the necessary technical skills. It is not difficult to show that such a situation is theoretically possible, but it could not occur in reality in the foreseeable future, since, while productivity grows in under-developed countries, it also increases in the industrially advanced countries—and sometimes with greater rapidity.

As a result, the argument employed to demonstrate the inevitability of protection enlarges the scope of classical reasoning. Instead of considering one isolated industry, the new approach includes industry as a whole and establishes the need for protection so long as productivity[23] continues to be lower than that of more advanced countries and to the extent that the difference in productivity is not offset by differences in wage levels.

The need for protection in a sound development policy cannot be avoided and is in no way detrimental to world trade so long as it is maintained within the limits required by development. Within such limits, which are discussed at a later stage, protection does not reduce the imports of a developing country but only changes their composition in accordance with the structural modifications of the domestic economy. Customs tariffs decrease or eliminate some imports for which domestic substitutes are found, thus causing an increase in other imports with a very elastic demand in relation to the growth of per capita income.

Thus, if protection does not exceed these limits, it does not affect the total volume of imports. This volume is determined by the exports of primary products from developing countries (as well as capital investment and other positive elements in the balance of payments which are omitted here to simplify the reasoning). In this connexion, primary producing countries, which represent the periphery of the world economy, play a very different role from that of the industrial centres. Because this distinction is of great importance in the problems of trade policy covered by this chapter, more detailed study is justified.

2. Peripheral countries and the industrial centres

If an industrial centre of such world importance as the United States increases its purchases of primary products from a peripheral country, the latter's imports of industrial goods will rise accordingly, although with some delay. The growth of imports is thus an induced phenomenon. But if the same peripheral country independently increases its imports from the centre, this will not perceptibly raise the purchase of primary products by the centre. The periphery thus plays a passive role while the centre has the active or dynamic part in world trade. The centre with its own rate of growth and its demand for primary products therefore influences the rate of growth of peripheral countries. But the latter have no positive influence upon the rate of growth of the centre, except in a negative manner, as will be explained later.

Since a peripheral country has no dynamic influence on the centre's capacity for absorbing primary commodities, its capacity to import

[23] For greater theoretical accuracy: marginal productivity of the industries which must be established to absorb the available active population.

depends primarily upon its sales to the centre. In other words, while the centre can generate purchasing power in the periphery, the latter cannot perform the same function in the centre.

To understand the practical consequences caused by these functional inequalities, another significant difference is explained. It is a universal characteristic of economic development that, as per capita income rises above a certain minimum, the demand for primary products grows less intensely than that for industrial goods and services.

This phenomenon has a considerable influence on trade between the industrial centres and primary producing countries. Given the same rate of growth of per capita income, the demand for industrial imports in the periphery tends to grow more rapidly than the demand for primary imports in the industrial centres. If the population of a given country in the periphery increases more rapidly than in the industrial centres, the disparity in the trend of growth of imports is aggravated. Furthermore, if the income of the peripheral country rises more rapidly than that of the centres, the disparity becomes more marked.[24]

In consequence, if a peripheral country is not to develop at a slower rate than the centres, if it wishes to develop economically and to reduce —or at least maintain—the difference in income between them, there will be a persistent tendency towards disequilibrium because its industrial imports will tend to increase more than its primary exports. It is not possible for such a country to raise primary exports through encouraging its industrial imports. No other solution is available than to limit its imports to the level permitted by its capacity for external payment. But if the restrictions are not applied by selectively decreasing or eliminating some imports in order to increase others, the country is obliged by the play of economic forces either to compress its income and to slacken the rate of growth or to restrain imports through currency devaluation, so as to correct the disequilibrium.

In any case, the reduction of imports to the level of the payments' capacity is inevitable. The fundamental distinction lies in whether restrictions are applied spontaneously to the detriment of the rate of growth or whether they are part of a deliberate policy favouring that rate. Whichever path is chosen, such a country in the periphery is not reducing world trade in an arbitrary manner but is only attempting to re-establish equilibrium. It is trying to maintain imports within the bounds allowed by its exports to the industrial centres.

[24] Imports of primary products into the industrial centres do not generally increase in a degree compatible with a satisfactory rate of growth in peripheral countries. Income elasticity of demand for such imports into the centres is ordinarily low, and this low elasticity is accentuated by the restrictive import policy. All these factors together explain why imports of primary products in the centres tend to grow with much less intensity than the demand for industrial goods in peripheral countries. The following striking example is worth mentioning. For every one per cent increase in per capital income in the United States, imports of primary products tend to rise 0.66 per cent, while the same per capita increase in Latin-American income tends to bring forward a demand of 1.58 per cent for industrial goods.

There is thus an impressive disparity in the respective income elasticities of demand. There is no other way of correcting this disparity than the promotion of industrial production in peripheral countries, inasmuch as they cannot obtain all the industrial goods they require in exchange for exports.

Nevertheless, such a country, if it exaggerates its restrictive policy for imports and reduces the volume below the level necessary to correct the imbalance, will adversely affect world trade by reducing it or by limiting the increase which would otherwise have taken place. It is true that an isolated peripheral country, through its relatively small share in world trade, may decrease imports in this arbitrary manner without any detriment to its exports. But if several countries combine to follow a similar policy, the effects will be progressively greater and will cause a growing disequilibrium for the industrial centres until the latter will be obliged to enforce restrictive measures similar to those which must normally be used by countries in the process of development.

It is thus found that, while the periphery has no dynamic or positive role in stimulating world trade, it could have a serious depressive influence, reducing it or weakening its rate of growth. This could occur through the application of import restrictions which exceed the minimum required to correct the tendency to disequilibrium caused by economic development, or if export activities were deprived of the productive factors required for their normal development.

3. Two different types of protection

These facts provide a first conclusion which is very important for international trade policy. There are two types of protection in developing countries. Firstly a type of protection exists which encourages the structural changes required by economic development without provoking a reduction in imports below the volume corresponding to the capacity for external payment and without either reducing world trade or weakening its rate of growth. Secondly, there is the type of protection which exceeds these limits and adversely affects world trade.

It would be a serious error of judgment to confuse these two types of protection, or rather these two stages in a policy of protection. To condemn protection in the first case would deprive economic development of one of its fundamental instruments. Indeed, protection allows industry to absorb part of the surplus active population no longer required by primary activities and other occupations because of increased productivity. The remainder is absorbed by services. This phenomenon must be considered in its dynamic sense. It does not normally consist of a movement to industry of persons previously occupied in primary production, but rather of a shift towards industry and services of a growing proportion of the annual increase in the active population. In this way there is only a gradual decline in the proportion of manpower employed in primary production in relation to the whole labour force.

It is evident that, if no encouragement is given to industry, the manpower which could have shifted to that sector would exert a pressure upon wage levels causing them to fall. This is how the possibility of a spontaneous process of industrialization may be considered in the abstract, by depressing wage levels, it would have unfavourable effects on the terms of trade and would in fact be impracticable.

It is thus apparent that industrialization, if kept within proper limits, is compatible with the development of primary commodity exports to the extent permitted by the increase in the capacity for absorption of the industrial centres. Other things being equal, the degree to which industrialization is justified will depend upon the rate of growth of exports: the lower the proportion of the increase in the active population required for the growth of exports, the greater should be the extent of industrialization.

A rise in the capacity for absorption of primary products in the industrial centres depends upon an increase in their income, upon the income elasticity of demand for such products, upon the degree to which the centres substitute domestic output for imports, and finally upon the prices for primary commodities. A price decline would thus permit the growth of peripheral primary commodity exports to be increased. In this way it would be possible to absorb in primary production a part of the active population which would otherwise be employed in industry. Nevertheless such a policy has relatively narrow limits if related to the periphery of world economy as a whole or to those countries—or groups of countries—which substantially influence the world trade of a given commodity. The world market has a fixed capacity for growth at current price levels while every addition of productive factors in export activities causes a correspondingly smaller net increase in income due to the fall in prices, even when quantum production yields are not diminishing. The time will come when this smaller net increase in income will equal that obtained by using additional productive factors in industrial activities, although the cost of the goods thus obtained would be higher than that of similar imported goods. At this point protection is fully justified since it permits the use of the available productive factors in activities with greater economic yield. In consequence, a fall in prices to stimulate the growth of exports might, up to a point, be economically convenient. This is the precise point where industrialization becomes economic and a further increase in exports uneconomic. Conversely, before reaching this point industrialization would be uneconomic.

A distinction is thus reached similar to that previously described in relation to a policy of protection, but from the angle of the domestic economy and not from that of world trade. Both points of view can now be combined. For the first type of protection, exports continue to rise to the extent permitted by the absorption of the industrial centres, while imports are adapted to the capacity for external payments provided by exports and other elements in the balance of payments. At the same time, industrialization is carried out sufficiently to absorb available productive factors which cannot be economically used in export activities. For the second type of protection, exports increase less than the capacity of the industrial centres to absorb them, or they may even decline, according to the intensity with which protection deprives them of productive factors. As a result, the growth of industry becomes uneconomic, with a rise in real income lower than that which might have been achieved if the corresponding productive factors had been used in export activities. To summarize, in the first case the volume of world trade is not reduced in relation to its potential, and the maximum increase in real income of the developing country is attained. In the second case, world trade is unfavourably affected and the available resources are used uneconomically.[25]

It has already been noted that this distinction is of great importance to international economic policy. Among the specific objectives of the United Nations in the economic sphere, two are especially pertinent to this report. The first is to encourage the sound progress of international trade and the second to contribute to a more intensive growth of less developed countries. If, to attain this second aim, it were necessary to sacrifice the first, a serious conflict of objectives would arise. But this is not the case. The protectionist policy required for the economic development of peripheral countries has no reason to injure world trade if such a policy remains within the limits imposed by the economic interest of the developing countries themselves. The recognition of this compatibility of objectives will have far-reaching consequences upon the guidance of world trade policy. From a strict development point of view, protection is not an exceptional or short-term need; it is a systematic long-term necessity. A trade policy with a point of departure which differs from this principle will delay economic development or will require continuous and laborious adjustments which could have been avoided if this principle had been fully recognized. In the long run it will also be detrimental to the sound progress of world trade.

Protection, within the limits mentioned earlier, obviously entails changes only in the composition of imports and not in their volume. This can, however, cause difficulties in some industrial countries, a factor which can hardly be ignored in considering international co-operation. These difficulties are inherent in any process of adaptation in the dynamics of the economy. While these changes in composition unfavourably affect certain imports, they provide a strong stimulus for others. As noted in many previous analyses, the proportion of Latin America's imports of industrial non-durable consumer goods tends to decline while that of imports of raw materials, capital goods and durable consumer goods tends to increase. The repercussions of these phenomena differ according to the countries of origin. The United States and Germany, late comers to the export trade of manufactured goods to Latin America, rank first among the countries favourably affected by these structural changes. At the other extreme are Great Britain and France, whose exports of manufactured goods for popular consumption or of easy substitution have suffered considerably as a result of economic development in the periphery.

In consequence the policy of protection required by development does not affect aggregate imports from industrial centres, but does react strongly upon the origin of these imports, creating the need for a re-adaptation which is generally difficult and takes a long term period to complete. These are, however, inevitable transformations and do not nullify the validity of a policy of protection. Nevertheless, they suggest the advisability of studying with care the specific conditions for the application of such a policy.

[25] Nevertheless it is possible to envisage a situation in which a given country, despite these unfavourable effects, would develop with protection domestic activities which reduce its external economic vulnerability. The advantage of greater stability must be weighed against the disadvantages of this type of protection.

When, as it is hoped, alternative programmes are available for the development of Latin America as a whole, it will be possible to form an idea of the changes in the composition of imports which must continue to be introduced. This could give adequate and preliminary guidance to the process of readapting the foreign trade of the industrial centres. This process is just as inevitable as the necessity of growth of the less developed countries.

4. Consequences of protection in the industrial centres

Protection in the industrial centres and its consequences for world trade, especially the trade of the countries in process of development, should now be considered. It has already been stated that a general characteristic of the centres is for imports to increase at a slower rate than income. This tendency may be either neutralized or accentuated by trade policy. In Great Britain during the XIXth century, the elimination of customs duties upon imports of primary products encouraged them to such an extent that for a number of decades imports increased more rapidly than income and their coefficient rose steadily. The influence thus exerted by Great Britain, not only directly on the periphery but also indirectly on other industrialized countries, was one of the outstanding features of economic history in that period. This was the period when the Latin American countries received a strong impetus to their external development, in response to a world demand which expanded with great rapidity. Countries such as the United States, which had commenced to develop internally, found themselves favoured by this strong stimulus of world trade; this has slackened to a great degree today when Latin America is called upon to follow a similar process. Despite such favourable conditions in the international sphere, industrialization in the United States systematically resorted to protectionist measures, the theoretical rejection of which at that time is clearly evident in the many criticisms of the classical school.

Great Britain at that period is an example of how trade policy may alter the tendency of primary imports to increase at a slower rate than income. The case of the United States, now transformed into the principal economic centre as a result of its prodigious growth, is an example of the contrasting phenomenon. The protection of primary production strengthened the pressure of this import tendency in the United States where the import coefficient is at present almost 3 per cent. In the case of the principal economic centre during the XIXth century a coefficient of 35 per cent was registered in 1880.

The results of this phenomenon cannot be interpreted in the light of the previous explanation of peripheral protection. Another distinction of decisive importance must be introduced. The effects of protection on world trade are not the same in an industrial centre as in countries in course of development. While primary imports to the centre tend to increase less than its income, its exports of manufactured goods have a tendency to rise more rapidly than the income of peripheral countries. This disparity in trends creates contrasting problems. Imports to countries in course of development tend to expand more than their exports, while the opposite tends to occur in the industrial centres, although to a very different extent (with exceptions which appear on later pages), and to the degree in which the composition changes in imports from the periphery affect their industrial exports.

Thus, demand by developing countries for imports from industrial centres tends to grow faster than does the demand of industrial countries for primary products.

Under these conditions, there might be other motives for supporting measures to protect domestic primary production, although very different from those which protection requires in developing countries. Naturally there is no tendency whatsoever towards a negative disequilibrium in the balance of payments, but rather the exact opposite. Further, the active population which technical progress is gradually eliminating from primary production, spontaneously moves towards other domestic occupations and to the industrial export activities favoured by foreign demand.

Consequently, protection in under-developed countries — within the limits previously established—results in maintaining the close relationship between imports and exports, without retarding the rate of growth in world trade. But for an industrial centre with such characteristics, protection reduces imports below the capacity for external payment and unfavourably affects world trade.

In other words, given the substantial income elasticity of demand for industrial goods in general, the restriction of certain types of imports in under-developed countries is offset—within the bounds set by the capacity for external payments—by increased imports of other commodities which could not previously be acquired in the same volume. In contrast, restrictions on the import of a given primary commodity into a large industrial centre are not necessarily neutralized by greater imports of other primary products since the demand was already met by existing imports. This will be the case unless, together with import restrictions, measures are taken to stimulate imports of other primary products as well as of manufactured or semi-finished goods.

The logical results of such a protectionist policy on the part of a large industrial centre is evident. Countries in the process of development are compelled to strengthen their own protectionist policies because of a new and weakennig factor for their export trade. They must clearly exert stronger pressure on imports, both in order to reconcile them with a potentially lower capacity for external payments and to encourage the additional use in industry of productive factors which would have been absorbed by export activities in more favourable circumstances.

II. Practical significance of the principles of world trade

1. The United States and trade reciprocity

It is of interest to examine the breadth of the functional differentiation which was noted at the end of the previous section. A large industrial centre, the United States, has a decisive influence on world trade. Confining the argument to Latin America, it is a well-known fact that its industrial imports depend closely upon exports of primary products. But, as already stated, the opposite does not hold true. If Latin America independently increases its purchases from the industrial centre, this does not imply that the centre will acquire more primary exports from Latin America. The volume of these exports is governed by other such important factors that fluctuations in Latin American demand are insignificant in comparison. Therefore, the only effect of an independent rise in Latin American imports, not caused by a previous increase in exports, will be a disequilibrium in the balance of payments.

The position of the United States as the principal dynamic centre of the world economy contributes very special emphasis to the concept of trade reciprocity. Upon examination, reciprocity is found to be implicit in the functional nature of the centre, since, if imports are increased simultaneously with exports, compensation is spontaneous and it is unnecessary to manipulate the tariffs of other countries in order that this may take place without any difficulties. It was also a faculty of the British centre to provoke the immediate reaction of the periphery when industrial exports from Great Britain were subject to very intense demand.

Thus the tariff concessions granted by the United States to countries in course of development act as a counterpoise, and world purchasing power generated by greater United States' imports will tend to transform itself directly or indirectly into greater international demand for United States' exports. In fact the position of the United States in regard to the economic development of Latin America could not be more favourable. While Latin American countries maintain their policy of protection within the given limits, it will be not their tariffs but their volume of exports to the United States[29] which will determine their quantum of imports. It is true that if Europe strengthens the competitive position of its industry, a part of the dollars generated by the United States would be diverted towards that region; but these dollars would soon be transformed into European demand for United States' exports, as indicated by the foregoing reasoning and also by experience. This is a well recognized fact.

Clearly, since Latin American tariffs are the instrument for modifying the composition of imports, United States' export activities must undergo the process of readaptation mentioned elsewhere in this report. In this respect also the United States holds a favourable position as compared with other industrial countries. It is not only due to the slight incidence of its exports in the national income (approximately 5 per cent), but to the well-known fact that its exports are those which are attractive to Latin American countries, even to an exaggerated extent. This statement does not imply that in certain cases the United States may not have a particular interest in promoting exports of specific commodities in preference to others and that such goods may be precisely those, the domestic output of which a Latin American country may desire to stimulate. This is a matter for trade negotiations, which would be far easier if agreement were reached on the fundamental principles of an economic development policy.

[29] Without considering, of course, other elements in the balance of payments.

If the principle is recognized that the volume of Latin American imports is not determined by tariffs but by exports, it would not be difficult to find an agreement of interests. Suppose that, as a result of United States tariff concessions, a Latin American country should increase its exports and therefore be able to raise its imports; but it may also be assumed that this country wishes to reduce rather than raise imports of certain goods which can be replaced by domestic production through a reasonable measure of protection. It is probable that with this object in view the protective duties on such goods will be increased. What will happen to the other imports? There will be a tendency towards an overall increase, without any need for a reduction of customs duties. Nevertheless, it is evident that if the duties on certain goods were to be reduced or eliminated, imports of these commodities would increase at the expense of others. An increase could therefore take place in imports of luxury goods mainly consumed by the higher income brackets or of commodities which are not indispensable for popular consumption. The resources could have otherwise been advantageously employed in acquiring capital goods. Once again the value is apparent of considering all these aspects within a development policy which not only attends to present requirements, but also to the evident need to introduce future changes in the composition of imports.

To return to protection, the maintenance of high duties on goods to avoid over-encouragement of imports might cause their domestic substitution to the detriment of productive factors for other uses of greater advantage to the country. A good development policy has at its disposal internal fiscal means with which to meet such cases, and in this way isolates one of the difficulties which often appears in trade negotiations.

This ability of the United States to obtain spontaneous reciprocity for its tariff concessions is a result of the fundamental changes that have taken place in the short lapse of one generation. Interested as it is in a vast peripheral development policy, the trade policy of the United States should also be modified in accordance with its new international situation. But to assume that this merely consists of accommodating a policy to new principles would be an artificial over-simplification of a real and very complex problem. There is no reason why exporters in general—and especially those encountering tariff obstacles elsewhere—should react in a manner which does not coincide with their immediate interests. This attitude is even more explicable in a country where only a few decades ago the efforts of its foreign trade policy had necessarily to be focused upon the encouragement of exports.

2. Possible revision of the policy towards Latin America's exports

Seen from another angle, the tariff concessions granted by the United States since the policy of reciprocity began, although of special significance in isolated cases, have not had outstanding effects upon overall imports of primary products. Nor does it appear probable that they will do so in the immediate future. Specific possibilities exist with regard to certain minerals, as will be seen directly. But in regard to other commodities, technical progress has often permitted productivity to rise above that of other countries and, if costs are higher in the United States, it is because of the high wage level there. In any case, there is one consideration which implies that no radical changes may be expected in trade policy. Recent technical progress and its immediate prospects are so great that the economy of the United States will have to make a very intensive effort to absorb the productive factors that no longer find employment in primary production. Thus, there are aspects of the United States' economy which are similar to those of a country in course of development and simultaneously give other indications of maturity. The complexity of the problem therefore increases and its examination needs the same comprehension required for Latin American development problems and in this particular case for the nature of its trade policy.

For the same reasons, the recent attitude of the United States Government in deciding to propose the lowering of some tariffs must be emphasized. Previously the attempt to raise certain duties, which would have affected some Latin American countries most unfavourably, was successfully opposed.

The special case of encouraging Latin American mineral exports should be considered. It is not surprising that some important strategic minerals are being produced in marginal high-cost mines in the United States. This contributed, in part, to the substantial rise in copper production, since the events in Korea. In 1957, aggregate world capacity will probably reach some 1,150,000 tons against 852,000 in 1951. The gravity of the situation can be more clearly appreciated when it is recalled that the increase in production anticipated for 1957 represents 68 per cent of the 1951 imports from Latin-American countries.

For aluminum an even more intensive programme of expansion had been established in the United States. A short while ago, however, it was decided not to continue with the third stage of this programme, which consisted in raising output capacity by 240,000 tons through the investment of 200 million dollars of public funds. This decision was made, among other reasons, because the proposed tonnage could be imported from Canada.

A similar situation exists for lead, zinc and other minerals which can be bought cheaply in Latin America, although in some cases additional investment is required. This situation presents an interesting opportunity for agreeing on a policy which would simultaneously supply the United States with cheaper minerals and promote the development of Latin America's exports.

Another aspect of this problem is worth mentioning here. Since 1939, United States' policy has frequently resulted in the suspension of tariffs on minerals, whenever they are in short supply and the prices rise. For example, copper duties of 2 cents a pound were eliminated when the domestic price in the United States rose above 24 cents. The same situation applies to lead and zinc. Undoubtedly this policy tends to regularize domestic market prices, but its effects on Latin America are very unfavourable. When world market prices fall, duties rise, with a proportionately greater influence on exporting countries. In view of this, measures should be sought to avoid, or at least reduce, such external repercussions if it is impossible to change this system of flexible duties in accordance with considerations of United States' domestic policy.

Finally, for both minerals as well as other commodities, additional opportunities are available to assist Latin American exports. The United States' tariff system weighs more heavily on the finished product than on raw materials, and consequently represents an important obstacle to the industrial finishing of raw materials in Latin American producer countries. This therefore undoubtedly represents another possibility for raising the value of Latin American exports.

3. Liberalization of inter-Latin American trade

The centre of gravity in Latin American economic development will continue to be industrialization, fundamentally associated with greater technical progress in agriculture, that is, on dynamic forces of a domestic nature. If, as a result of exceptional events, exports should increase more than is at present foreseen, the rate of development would receive a greater impulse.

These factors impose the need for new trends in trade policy, and not only in regard to trade between the Latin American countries and the industrial centres. Trade policy between individual Latin American countries is still influenced by former methods of development in which their isolated interests converged upon the complementary needs of the industrial centres in the classic exchange of primary products for manufactured goods.

The development of such trade, far from being incompatible with industrialization, is a basic means for its attainment. But industrialization is developing in "water-tight" compartments of national economies, and trade in industrial products between Latin American countries is very rare. While industrialization merely covered those goods for which the national market permitted enterprises of sufficient size to be established, this industrial isolation was no cause for serious concern. But when, to meet the needs of development, industrialization is extended to goods which can only be economically produced by mass production methods which exceed the demand of the domestic market, it is imperative to organize reciprocal trade between the Latin American countries.

Examples which illustrate these facts have recently occurred. A foreign company, encouraged by such protective measures, plans to begin manufacturing passenger vehicles or tractors in several Latin American countries, although not on the most economic scale owing to their limited individual consumption. If these vehicles could enter other Latin American countries freely, or with lower duties than imports from outside Latin America, production could expand appreciably with all its consequent advantages.

This liberalization of trade between the Latin American countries need not influence either the United States or Europe more than the effects of a tariff with which either of these countries might attempt to protect its domestic output. Import restrictions on goods from the United States and Europe would be the same in each case; in both cases Latin America's output must be expanded in view of the urgent requirements of economic development. The difference does not lie in the external effects but in the domestic consequences. The liberalization of trade permits specialization with its kown advantages; on the other hand, in a system of water-tight compartments, high cost production will often result from the inadequacy of the domestic market.

Clearly this type of liberalization is insufficient to cause a satisfactory reciprocal trade movement. A series of additional measures agreed upon between the interested countries would be required, so that specialized industries could be established in each country and such plans could be combined with current trade and its possible encouragement. Under no circumstances should exclusive rights be given to some enterprises, but only to provide specific initial incentives for the activities thus established in each country, leaving a free field for competition at a later date.

This form of liberalization, confined to Latin American countries, requires the establishment of a special system which has neither the characteristics nor the wide scope of a customs union. On account of its breadth and overall nature, the concept of a customs union has at times been a powerful obstacle to the attainment of more moderate but practicable reciprocal advantages. A customs union arouses suspicions which are easy to understand. In addition to affecting current interests adversely, it means entering a sphere full of unknown quantities among which the diversity of monetary and exchange policies between the participating countries—to refer to the most important—may lead to unexpected consequences for domestic production.

The consequences would be entirely different if reciprocity agreements were aimed principally at stimulating a reciprocal trade in goods which are not at present being produced, which are only being manufactured in small quantities or which are alone produced on a large scale in some of the countries and not in others. This could represent a concrete solution which, instead of raising opposition, would rather favour a healthy combination of interests in the countries concerned.

For such a policy to yield all the anticipated results, it would have to be of a multilateral character and include the largest possible number of countries. This does not imply that bilateral agreements are not also useful. On the contrary; they generally indicate the beginning of a reciprocal trade policy which could later be enlarged with other countries. By their very nature, bilateral agreements generally establish units of account for carrying out their operations and there is no reason to doubt that multilateral compensation formulae could be found. Herein there lies a vicious circle. One reason why reciprocal trade between a group of countries with potential commercial possibilities does not develop to a greater extent is the absence of a multilateral compensation system and the fact that no possibility exists for such a system while there is no reciprocal trade. The opportunities for concluding small agreements simultaneously and leaving experience to indicate how they should be amplified and improved might be envisaged. But for such a proposal it is indispensable to create an adequate framework which at present is non-existent for trade policy.

This problem has been of special concern to the Economic Commission for Latin America. In accordance with the recommendations made to its secretariat, a preliminary analysis of the possibilities for reciprocal trade in the southern zone of South America[27] was presented to the Fifth Session at Quitandinha in 1953. At present a further report is being prepared, to include the northern zone of South America as well as the rest of the region, which will be presented to the Sixth Session at Bogotá in 1955. Progress is also being made on a study of inter-Latin American maritime transport. Once again a vicious circle occurs. The means of transport are deficient because inadequate trade exists and there is a lack of trade owing to transport difficulties.

It is to be hoped that these reports may lead to construction measures that will encourage inter-Latin American trade. If at the forthcoming conference at Rio de Janeiro it is possible to reach agreements to facilitate the liberalization of trade in the manner suggested here, there appears to be no doubt that an adequate framework would be available shortly for the adoption of specific and concrete measures.

[27] See *Study of the Prospects of Inter-Latin American Trade (Southern Zone of the Region)*. (Document E/CN.12/304/Rev.2. United Nations publication, Sales No. 1953.II.G.4.)

Chapter V

THE EXTERNAL ECONOMIC VULNERABILITY OF THE LATIN AMERICAN COUNTRIES AND THE POSSIBILITY OF REDUCING IT

I. Possibilities of an internal anti-cyclical policy

1. Nature of the internal measures

The reasons for the high degree of economic vulnerability of the Latin American countries have been too well explained to require extensive repetition here. It is true that the relative importance of foreign trade has declined, since it has increased at a slower rate than income. Nevertheless, foreign trade and the other elements in the balance of payments continue to exert a strong influence on the economic stability of these countries and on their ability to develop.

Latin America's external vulnerability must be attacked with an adequate combination of domestic and international measures. It is recognized that, with very few exceptions, Latin American countries have not known how to take elementary safety precautions in times of plenty with which to meet periods of shortage. And there are no international measures which can replace individual improvidence with collective foresight. Suitable international action requires an adequate national framework within which to operate.

A beginning should be made by establishing the domestic measures required to decrease external economic vulnerability. These are of two kinds and their combination leads to a stronger united force. On the one hand are those measures of a structural nature which strengthen the basis of the national economy and make it less sensitive to external fluctuations and contingencies. On the other, are anti-cyclical measures.

The former measures are a mainspring of development policy. Indeed, the characteristic tendency of the Latin American countries to substitute imports by domestic production of goods essential for popular consumption and for the normal growth of their indispensable economic activities, strengthens the structure of the economy to meet such external fluctuations and contingencies. If, once these substitutions are made, a substantial share of all imports consists of durable capital and consumer goods, imports can be intensively restricted during periods of foreign exchange shortage. Such restrictions should begin, of course, with non-essential consumer goods, followed by durable goods which, however useful they may be, can be dispensed with temporarily, particularly if previous imports were substantial.[38] It would thus be possible to ensure continued imports of essential goods during periods of adverse external conditions, provided that certain limits are not exceeded.

[38] The purpose here is not to outline a policy, but simply emphasize that this possibility exists.

But this structural strengthening should be accompanied by the formation of reserves both to facilitate the transition from a period of plenty to one of stringency and to moderate the force of the restrictions. But if the nature and intensity of Latin America's external fluctuations are examined, they indicate the need for reserves which are beyond the means of the countries in the region. This occasions very serious difficulties, and the best intentions have frequently encountered such obstacles.

If this matter is viewed exclusively from the angle of stability, the desirability of accumulating large gold and foreign exchange reserves in times of prosperity is unquestionable. But to adhere too rigidly to this point of view would lead to immediate conflict with the requirements of a development policy. It would be difficult for such a policy to be reconciled with the accumulation of vast monetary reserves when an under-developed country has so many unsatisfied needs for capital. Investment could not be effected if such large reserves existed, unless it were possible to secure foreign loans, which again are of doubtful value during an external boom period. Furthermore, there is another point which must be taken into consideration. It is impossible to advise the responsible authorities exactly how far they should deliberately abstain during the boom from carrying out important development projects in order to build up reserves, the future use of which would not be at all certain.

All these reasons help to explain why—notwithstanding the clear idea which has frequently been held of the need for such a policy—a reserve policy has been satisfactorily implemented only in exceptional cases.

2. International co-operation with internal measures

Hence the desirability of international action to assist in carrying out a domestic policy to decrease external vulnerability is fully justified. Several proposals can be advanced to accomplish this aim, but instead of discussing them in detail, it would be more interesting to indicate their central theme.

It is well to recall first of all that external fluctuations are expressed in variations in the prices and volume of exports. Capital investments also tend to accentuate the intensity of such fluctuations instead of working to offset them.

Various solutions, to be discussed later, have been found to combat fluctuations in the prices and volume of the primary products exported by Latin America and other exporting countries. This section will be limited to domestic measures.

It is unnecessary to enumerate the disturbing effects of these price fluctuations. It is generally accepted that measures should be adopted to cushion the internal effects of these movements by absorbing an increasing share of the rise in prices, but without weakening the incentive which producers require to expand production. Nevertheless, no sooner is an attempt made to translate this principle into reality than the inevitable objections occur. A major objection is that the resources thus absorbed are devoted to other purposes far removed from the direct and immediate interests of the producers and that, when the time comes to compensate these producers for the results of a sharp drop in prices, there are no resources with which to do so. There is no doubt that if a procedure could be found to overcome objections of this nature, a solution to the problem would be far easier to obtain.

Before outlining ways in which the problem could be studied, it is advisable to explain that this absorption might be achieved either by establishing a tax on exports, once prices exceed a certain level, or by absorbing a part of the value of exports through loans. There are also other general ways of absorbing resources in the market which could be used with the same aim when income increases rapidly as a result of external factors. But they will not be dealt with here.

According to the point of view adopted, it is essential that the resources thus obtained should be invested advantageously and that these investments should, moreover, be easily liquidated when so required by the balance-of-payments situation or when the decline in internal economic activity makes it advisable to follow an expansive policy which will have unfavourable effects on that balance.

This liquidity of investments could only be achieved with the collaboration of the international credit institutions. For example, if the funds referred to are invested in the financing of certain development projects, it is clear that they will lose their liquidity. This could only be recovered if an international credit institution should undertake in advance to grant loans on these projects when the country concerned needed to liquidate the investment made with those funds.

For this purpose these projects would have to be presented for the prior approval of the credit institution just as if the loan were to be granted immediately. Nevertheless, the loan would be approved only in principle and its granting would be deferred until such time as the country concerned needed to recover the resources loaned in the first instance.

Meanwhile, the projects would be temporarily financed with these resources. Thus it would be a matter of a transitory investment, which would achieve the dual objective of applying the increase in international funds to economic development and at the same time of preserving their liquidity with a view to using them when the occasion arose.

Clearly these measures would require the introduction of an anti-cyclical policy by the international credit institutions. There are a series of considerations which indicate that this policy should be introduced independently of the measure mentioned above. This would have a favourable effect upon the economic activity both of the industrial centres and the countries in process of development. It is true that from the point of view of the International Bank — which is partly dependent on the money market for placing its bonds—certain limitations could arise in the obligations with interested countries regarding the eventual liquidation of this type of temporary investment, although a favourable market is generally available for bonds during slack periods of economic activity. But there is no risk in stating that there would be no insurmountable obstacles. Similarly, with adequate backing, the Export-Import Bank might be in a good position to take part in the operations under consideration. While awaiting the moment to effect longer-term operations, its resources, provided by the United States Treasury, might be applied to short-term credit for reasonable amounts. This appears to be very far from being a difficult matter.

It is evident that the obligation on the part of international financial institutions to assure the liquidity of investments, must be combined with correlative obligations of the interested countries. These measures must have a stabilizing purpose so that access to international resources to make investments liquid could only be resorted to when, for example, export prices drop below certain limits or when the volume of exports declines substantially. In this way, in addition to benefiting the balance of payments, the use of these international resources would permit a moderation in the effects on export activities of the drop in the prices or volume of exports.

A system of this nature would undoubtedly provide the reserve policy with a stimulus which it does not at present enjoy. But, for this policy to achieve its maximum efficacy, it would be desirable that, when investments are made liquid, resources granted by credit institutions be added to those which would be conceded if this policy were not in force. In the final analysis, it would represent only one of the means of transforming into reality the concept that the size of international investment, together with other conditions, should be in proportion to the responsibility and efficacy of a country's development policy and its ability to translate this policy into a programme.

II. Possibilities of an international anti-cyclical policy

1. The regulation of international prices

It should be clearly understood that however elaborate and prudent may be a stabilizing policy such as that outlined above, its efficacy will in any case be limited to those price fluctuations which are not of an extreme character. But if prices drop to a level which weakens the incentive to increase production, with the risk that the normal growth of world demand will not be satisfied, the resources accumulated in times of plenty will be insufficient to offset the consequences of such a sharp decline. It is in these circumstances that the measures of international co-operation referred to immediately below must supplement those of a domestic nature which have just been analysed.

But, before examining this possibility, certain preliminary considerations are necessary. This examination does not imply that the possibility or desirability of other types of international measures regarding prices should be in any way excluded. In this sense, consideration should primarily be given to the policy of certain countries in accumulating stocks for strategic purposes. The experience here has been enlightening and it is hoped that future fluctuations in the demand for such stocks will not be as sharp as those of the past.

Nevertheless, it cannot be anticipated that this policy will always exert a regulating effect. There will be times when strategic and economic conditions will coincide. It may be noted that Dr. Milton Eisenhower's report contains a recommendation to raise United States purchases of strategic materials during periods of falling prices. But in the event of a rise in prices, it will not be expected that strategic stocks considered essential should be liquidated with a view to regulating the market. Furthermore, although the operations of the United States Government on world markets have a considerable influence upon them, a regulating policy would obviously require the support of other countries if it were to achieve real efficiency. The orbit of this policy is thus of a broad international nature.

From the aspect of market stability the ideal would be a regulating policy through which an international body would alternately act upon the supply of and demand for primary products on world markets, in order to maintain price fluctuations within narrow limits. There are obvious complications attached to such a policy, however, desirable as it might be for producer countries. Leaving aside the financing of purchases, an important objection has frequently been cited. If the price level to be stabilized becomes very satisfactory for exporting countries, it might encourage exaggerated production and bring with it the need for a system of international quotas which is usually difficult to apply, especially in the case of some products.

Without overlooking these difficulties, it is interesting to verify the advance achieved in ways of thinking about this subject. For example, on the recommendation of the Economic and Social Council, a group of five experts was appointed in 1953 by the Secretary-General of the United Nations to recommend price stabilization measures for primary products.[29] They drew up a study of the different types of measures that might be applied. The experts indicate that they show no confidence that multilateral agreements on individual products can be concluded in sufficient numbers, and have a wide enough scope, to satisfy the general aspiration in the producer countries of achieving stability in their foreign revenue. They analyse the main advantages and drawbacks implicit in the creation of international buffer stocks, designed to prevent violent short-term price fluctuations. Anti-cyclical loans and measures for automatically compensating the losses suffered by variations in the terms of trade are referred to as types of solutions which do not directly attack the root of the problem, but which rather tend to compensate by other means the undesirable effects provoked by the instability of raw material prices. Ideas of such a nature are undoubtedly somewhat slow to penetrate, so it would therefore be advisable at present to select those measures which could be applied more easily under present circumstances although they might aim at much more modest objectives.[30]

2. The fixing of minimum prices

Such could be the concept underlying an agreement between the more important exporting and importing countries to establish reserves of the principal primary export products when their prices fall below a mini-

[29] See *Commodity Trade and Economic Development*, New York, 1953. United Nations publication (Sales No. 1954.II.8.1).

[30] In this connexion, it should be noted that the United Nations Economic and Social Council, at its eighteenth session in August 1954, adopted a resolution (557 F (XVIII)), establishing a Commission on International Commodity Trade. (See Annex.)

mum level. In fact, the character of the minimum price is the basic element in this policy and its determination will not be easy in actual practice. But it could be defined as the price that is sufficient for most producers to cover their costs, to obtain a reasonable profit, and to continue raising production to respond to the normal growth of demand through its cyclical or accidental fluctuations.

It is obvious that the establishment of a minimum price of this kind does not entail the same dangers as the stabilization of prices within narrow limits and at a relatively high level. The minimum price determined by the criterion referred to earlier, could turn out to be high in actual practice. A certain flexibility is therefore required. The minimum could be pegged for a reasonable period of a year or eighteen months and later readjusted according to circumstances. Otherwise this type of regulating policy might encounter complications that are analogous to the policy of stabilization, and export quotas and restrictions on output would have to be established. The object of a minimum price is not to oppose basic market trends which necessarily require price adjustments, but merely to ensure that transitory market factors do not provoke fluctuations of too violent a nature.

The question could be raised whether the establishment of minimum prices would also imply a need for maximum prices. The accumulation of stocks of a product to avoid an excessive decline would lessen the importance of the opposite price movement through the gradual sale of the buffer stocks. This would undoubtedly be the best way of moderating the extent of fluctuations. Nevertheless, the possibility of maximum prices should not be eliminated.[31]

Viewed from another aspect, it cannot be denied that an element of risk exists in the establishment of minimum prices, which is greater the higher the price is fixed. However, experience shows that a rise in prices generally follows a price decline, except in the case of products for which world demand tends to weaken persistently, or for which sales tend to increase with greater intensity than the growth of demand due either to technical improvements or particular conditions for production. But these are special cases which must be dealt with individually and it cannot be said that they are typical of Latin American experience. At all events, the losses that might occur if markets do not react sufficiently within a reasonable lapse of time, would have to be considered in the light of the advantages gained from this policy. Broadly speaking, except in the case of certain goods which are subject to their own particular movements owing to the long period required for their production, the fluctuations which concern the Latin American countries are of a cyclical nature.

A regulating policy of this type could contribute substantially to lessening the cyclical movement in producer countries and have favourable effects on the economy of industrial countries. In fact, not only are prices

[31] On the other hand, since the object of a minimum price is to encourage production, it is obvious that, as the volume or normal growth of output continues to increase, the rise in prices will also be weakened. For example, there is no doubt that if it had been possible to avoid the sharp drop in coffee prices in the thirties the present exceptional level would never have been reached.

prevented from falling below a certain limit, but the creation in producer countries of buffer stocks financed with international resources will contribute to maintaining the demand for industrial purchases.

3. Financing difficulties

When financing these operations, the necessary resources will, in the case of isolated commodities, be of relatively moderate proportions. But, if the commodities to which this policy would be applied are considered as a whole, the problem of financing could reach very substantial proportions. It cannot be denied that this is a major problem. If the needed volume of resources is large, it is because the threatened contraction of exports from the producer countries is also substantial. In view of the repercussions of this contraction, the reduction in world income as a result of this phenomenon would be several times greater.

The problem must therefore be considered from this angle and not merely as an expedient to assist producer countries. The fundamental aim of such a regulating policy is anti-cyclical and it is evident that an international financing system that is not sufficiently flexible to be adapted to the requirements of anti-cyclical policy, would offer very serious defects which should be given special attention.

These considerations would suffice to confirm that the price regulation policy appears to be outside the scope of the inter-American system. Excluding this feature, however, it is obvious that practically all Latin America's export products which might be subject to this policy are of interest to a large number of producer or consumer countries outside the region. Their collaboration would be an indispensable factor for ensuring the success of this policy. This does not signify that the Rio de Janeiro Conference is not a suitable occasion on which to discuss this extremely important problem. Price regulation must be an integral part of international collaboration within a Latin American development policy. And the positive recommendations which may be adopted at the Conference could notably contribute to a solution of this problem at the broader international level.

4. The case of strategic commodities

There are other aspects of price policy which are of interest to Latin America. For certain commodities considered of strategic importance, obligations have been contracted which restrict normal activities on the world market. It is not easy to estimate the extent to which purchases made for strategic purposes compensate the producer countries for market restrictions. The possibility of contributing to this compensation by other means has been mentioned on various occasions. This is a field in which political considerations coincide with those of an economic nature in possible concrete solutions. Therefore, this is not the appropriate place in which to discuss the problem.

5. The problem of surpluses

The considerations which favour a price regulation policy are of a permanent nature and are the result of the manner in which the international economic system operates. But this is not the sole object of concern in the matter. Some Latin American countries face, with understandable anxiety, certain events, which, although they appear to be of a transitory nature, at present have important international repercussions. The United States, by virtue of its agricultural price parity policy, has accumulated surpluses of products with a value amounting to the remarkable figure of 6,000 million dollars, of which it is envisaged to liquidate 1,000 millions on the world market during the next three years.

A consequence of the price parity policy has been to over-stimulate production and to discourage certain types of consumption, such as foodstuffs of animal origin, which could easily respond to the stimulus of lower prices. The Government of the United States has thus tended towards a more flexible price policy to facilitate the reaction of the domestic market. Competent experts indicate that a drop of approximately 10 per cent would be sufficient to cause an adjustment between supply and demand, except in the case of wheat where the required decrease is estimated at between 20 and 30 per cent. This policy would hinder the amassing of new surpluses, but would not solve the problem of those already accumulated. However, the decision to liquidate only 1,000 millions of the 6,000 millions total during the next three years, suggests that consideration is being given to the possibility that, as in the past, weather conditions may sharply reduce production and thus permit the liquidation of all the accumulated stocks.

Even though the practice of selling surpluses on the world market is a cautious one and a proportion of these surpluses is granted as a subsidy to promote consumption in countries where it is limited, it cannot be denied that the resultant greater supply will adversely affect prices. It is estimated that disposal of surpluses in the next three years may well exceed 1,000 million dollars annually, as was the case in the years prior to 1951 when the exports of agricultural products included in the foreign aid programmes of the United States constituted a large proportion of its total agricultural exports. One of the fundamental reasons for condemning multiple exchange rates and other similar practices has been the disturbing effect which external sales, at prices below the domestic level, have had on the world market and on international competition. Although this does not mean that all multiple rates have this effect, it is logical that measures of this nature have been placed within the sphere of action of international regulating bodies. The present case appears to be of a temporary nature, but there is no doubt that some consultative procedure between interested countries could greatly relieve the anxiety caused by such occurrences.[32]

This system of price parity and its consequences justify a cautious attitude to possible international measures with similar principles. This is a further reason for giving preference to the consideration of a minimum price policy over a stabilizing policy within relatively narrow margins. On the other hand, if the prices of certain products were to fall below critical levels in the world market, it might be necessary to combine a policy of minimum prices with one of disposal of surpluses.

[32] It should be noted that the Committee on Commodity Problems of the United Nations Food and Agriculture Organization has established a Consultative Sub-Committee on Surplus Disposal. Two Latin American countries are members of this Sub-Committee, and many others participated as observers at its first meeting which was held in Washington, D.C., in July 1954.

6. Flexibility of the international credit system

There is another aspect of international anti-cyclical action which must be underlined in this chapter. At the beginning, the suitability of encouraging a policy for the provident accumulation of international exchange reserves was noted. This, however, is not sufficient to prevent an investment programme from being adversely affected by international factors. It is advisable to explore the possibility of giving a broader anti-cyclical character to the activities of international bodies. Mention has already been made elsewhere of the desirability of increasing foreign loans when the depressive effect of such factors hinders a country in process of development from attaining the volume of domestic saving required to carry out a programme. In other words, an element of flexibility would have to be introduced into the credit system, which did not formerly exist in the international private banking system. This system had substantial advantages but also considerable defects which the new institutions have endeavoured to overcome. This is, undoubtedly, another field in which valuable service could be rendered to Latin American development.

As regards short-term credits, the International Monetary Fund is also in a position to co-operate in the efficient execution of an anti-cyclical policy. This institution has recently taken measures which notably improve the effectiveness of its policy. If it is possible to increase the loans and the terms of payment its efficacy would undoubtedly be even greater, not only as an element of anti-cyclical policy but also as a means of combating those sudden emergencies which have recently arisen in Latin America.

Chapter VI

THE ESSENTIAL PREREQUISITES FOR INTERNATIONAL CO-OPERATION IN A POLICY OF ECONOMIC DEVELOPMENT

This report, by its very nature, concerns the measures of international co-operation required by a vigorous Latin American development policy. The cardinal points of this policy have already been outlined. They refer primarily to the system of international investment and the need to adopt measures enabling advantage to be taken of its considerable potential. They also relate to the desirability of introducing anti-cyclical measures into international economic policy, the efficiency of which is seriously endangered without them. It is thought advisable that technical assistance should centre around the problem of productivity, without implying neglect of its other aspects. All these objectives must be expressed within the framework of a trade policy which permits and encourages the industrialization of countries in the course of development without reducing the volume of international trade.

For this policy of international co-operation to achieve adequate scope, it is indispensable for the Latin American countries to adopt a similar series of measures without which the desired results of international co-operation will be precarious or may be damaged beyond repair.

This need for harmony and complementarity between the domestic and international economic sectors has been an essential premise for the discussions in this report. The policy of international co-operation is thus no substitute for an internal development policy. It can only be fully justified when this policy exists. It is the complement to facilitate its execution and to give it greater effect, but not to take its place.

There are, of course, other forms of external collaboration. The desirability of subsidies might be envisaged, or of certain loans under special circumstances designed to assist a country in particular difficulties, regardless of any specific concern for economic development. But such measures are not within the scope of this report.

The ability of the Latin American countries to reap the benefits of a system of international co-operation requires, in addition to a clear understanding of the problems, a firm collective discipline for solving them. Without this determination, the basic objective of development, a rapid rise in the standard of living of the masses, will prove difficult if at all possible to attain. The masses, together with their political and union leaders, must play an integral part in formulating a development policy.

Without a firm basis of collective understanding and support, it would appear impossible to eliminate—or at least weaken—the obstacles hindering the effectiveness of such a policy.

Inflation is perhaps the principal barrier in many countries. Its corrosive effects are disturbing and, if it continues unabated, it will be impossible to achieve that degree of social cohesion without which economic development might be transformed into a merely ideological approach, with little practical significance.

Another serious obstacle is the absence of an adequate fiscal system that stimulates the entrepreneur while meeting urgent social demands. If this system is indispensable to encourage production, output in turn cannot expand steadily unless there is an increasing purchasing power among the masses.

Inadequate utilization of productive land also obstructs development. Similarly, inexcusable and out-of-date methods of conducting those public utilities indispensable for efficient economic activity are far from favouring development.

Finally, development policy demands a sincere diagnosis of these and other evils which hinder Latin American growth and weaken its social significance.

But this should not be interpreted as implying any association with restrictive formulae based on preventing international co-operation until Latin American countries have overcome these evils, prevented their recurrence, improved public administration and controlled the factors causing political instability. Such an extreme attitude would also be unrealistic. A country in process of development cannot be expected to show signs of the maturity and collective judgment which the more advanced countries, after centuries of effort, have still not fully achieved. Here again only a high degree of understanding will permit an escape from a negative attitude. International co-operation must embody strong and constructive incentives if the international flow of investment is to attain its maximum power.

In order to accomplish this, Latin America would be faced with one of the most serious responsibilities of its history, namely how to find measures to assist its rapid expansion in such a policy of co-operation. For it should be stressed that development—except during transitory periods—is not generally a spontaneous phenomenon, but rather the result of a conviction, a deliberate process, and a persistency of purpose.

If the course of a country's economy is left to chance and no serious effort is made to overcome the obstacles restraining it, the development will be uncertain and precarious. Moreover the progress of the international system will be weak and fragmentary in relation to a country's real capacity for development.

At the opposite extreme, a country which succeeds in defining its development policy in a considered programme of well-concerted measures, should receive full and uninterrupted support in the international system.

Clear and firm guidance of national development policy should give ample opportunity for international co-operation. This will be the decisive test in the future.

Furthermore, the concept of a development policy is still in its infancy, and requires the assistance of wide and varied experience. The formulae used by developed countries are insufficient, if not entirely inadequate, since the evolution of countries now in process of development is taking place under very different historic and institutional conditions.

It is therefore necessary to draw up a Latin American development policy, in which many efforts may be integrated. International credit agencies, with their increasing knowledge of Latin America's problems, provide most valuable assistance. At the sessions of the United Nations General Assembly, of the Economic and Social Council, and of the Economic Commission for Latin America as a regional organ of the latter, a growing interest is evident in these problems and in the techniques best suited to discover real solutions, and this interest is also spreading to other institutions.

A body of practical principles to guide a development policy is thus gradually coming into existence. Conferences such as the Rio de Janeiro meeting should know how to find in them the instruments of judgment which must not be overlooked at any stage of international co-operation. Since the leaders of the whole region's economic and financial policy meet at this conference, they can specify in agreements and recommendations those principles and standards which are progressively being formulated.

Thus Latin America has at its disposal the facilities for study and decision. All that would remain is to accommodate its economic life to a continuous and dynamic internal development policy and to appropriate measures of international economic co-operation.

II

EXPLANATORY STATEMENT AND RECOMMENDATIONS OF THE PREPARATORY GROUP APPOINTED BY THE COMMISSION'S SECRETARIAT

LETTER OF TRANSMITTAL

Santiago, Chile
25 August 1954

Sir,

We have the honour to present to you herewith the Report prepared by us in our capacity as members of the Preparatory Group appointed by the secretariat of the United Nations Economic Commission for Latin America to collaborate in preparing recommendations for the Rio de Janeiro Meeting.

The brief period of twenty-five days within which we were obliged to carry out our task was insufficient for us to cover every aspect of the subjects to be dealt with at the Meeting. For this reason we limited ourselves to formulating our recommendations, without enlarging on considerations of a theoretical nature, since these are generally well known. Moreover, the secretariat of the Economic Commission for Latin America has prepared a study which constitutes a very complete analysis of the principal problems for discussion at the Meeting, and we substantially share the views expressed therein and consider that they constitute an essential background paper to this Report.

We have been guided by the criterion of indicating specific objectives that can in practice be attained, taking into account actual conditions in Latin America, the diversity of individual situations, and the need to obtain positive results.

We have not endeavoured to find the ideal formula, but rather to indicate the stage that we believe can and should be attained.

We are very grateful to Messrs. Paul Rosenstein-Rodan and Jorge Sol Castellanos for the valuable assistance they gave us in their capacity as consultants to the Group.

Likewise we wish to emphasize our gratitude for your invaluable personal co-operation and of that lent by other secretariat members of the Economic Commission for Latin America.

We wish to take this opportunity to express our appreciation of the honour bestowed on us by being appointed for this task.

Sincerely yours,

(*Signed*)

Eduardo FREI
Evaristo ARAIZA
Cleantho DE PAIVA LEITE
Carlos LLERAS RESTREPO
Rodrigo FACIO
Francisco GARCÍA OLANO

Dr. Raúl Prebisch
Executive Secretary
Economic Commission for Latin America
Santiago, Chile

EXPLANATORY STATEMENT

INTRODUCTION

The forthcoming conference to be held at Rio de Janeiro is of exceptional importance. During the meeting the American system should prove itself capable of expanding the range of its agreements, which in the past were predominantly political, and of establishing more efficient and fuller economic co-operation in order to achieve an equitable balance in reciprocal obligations and advantages. In this way the scepticism with which public opinion in Latin America has often viewed Pan-American conferences may be overcome.

Public opinion is well aware that in other continents vast development plans are under way with the help of the United States and, in some cases, of other countries. It is not unaware of the causes influencing the adoption of such plans, and their relation to such important factors as the degree of a country's development, its culture, population and geographical position. Although the importance attached to other continents is explained by the destruction suffered and by the latent developments there and, in many cases, by the exceptionally low level of per capita income, public opinion cannot but regret the limited scope of the measures of co-operation tried thus far in Latin America.

Public opinion at the same time sees the emergence of disturbing situations in Latin America which tend to be intensified, while the exceptionally favourable economic circumstances existing in former years are deteriorating. On the other hand, it sees that in certain regions of the world high investment coefficients are obtained through the application of systems of economic organization based on a different set of values. It is not only a matter of economic values but also of the spiritual values upon which our civilization is based.

The spread of knowledge and the incentives of new inventions that make the common man aware of the standards of living of other peoples, have given the masses a clear understanding of their own needs, and have stimulated more pressing demands than the present rate of growth is capable of satisfying. It is not surprising that, combined with political instability, this situation had led to ever-increasing social tension which is frequently transformed into "a barren and disintegrating struggle to share a communal income which hardly increases at all".[1]

Latin America with its 167 million inhabitants, has the highest annual rate of population growth in the world, or 20.6 per thousand as compared with 10.1 per thousand in Asia, to cite only one example; moreover it is probable that before the end of the century Latin America's population will exceed 400 millions. This historical projection alone is worthy of reflection and, if combined with other basic factors presently influencing the development of our economies, the need to increase investment and incomes becomes clearly apparent and inevitable. Only then could the standard of living of the growing population progressively approach that of more advanced countries. Otherwise, a considerable part of this vast

[1] See page 12 above.

population would find itself forced along paths fraught with unpredictable social and political consequences.

If the economic inequality between the United States and Latin America becomes more pronounced instead of decreasing, greater lack of understanding will result and it will be very difficult to maintain a true continental system of co-operation and solidarity.

Attempts to modify this situation are fundamentally the responsibility of the Latin American countries. It is a dangerous illusion to believe that external assistance can represent the dominant factor in achieving a higher standard of living. This must essentially be the task of our own peoples. But to accomplish it, Latin America faces many serious obstacles: its present limited income; its low consumption level; social pressures that cannot easily be restrained and tend to be directed into an immediate demand for the transfer of a substantial share of income towards consumption; the exceptional vulnerability of an economy that depends largely upon the prices of a few export commodities; and deficiencies in technical training. An incontestable conclusion can be drawn from these facts: without effective international co-operation, the rate of development will be very slow and constantly threatened by dangerous inflationary pressures and difficult social processes which would constitute a serious risk to the continuance of democratic systems.

The following are essential aspects of international co-operation that our countries need and request: the participation of public international capital; agreement regarding action to mitigate the influence of external factors upon Latin American economies, principally regarding prices of the region's export commodities; a trade policy in accordance with the conditions actually prevailing in the continent; and greater technical assistance. Adequate organization of such co-operation is of fundamental interest to Latin America, but it is also—and this is very clearly evident—in the interests of the United States, as demonstrated in widely accepted documents, including *Resources for Freedom* prepared by the Paley Commission, *Partners in Progress*, by the Nelson Rockefeller Mission, and the report of the Capehart Commission. In this connexion the recent Report to the President of the United States by Milton S. Eisenhower contains the following relevant declarations:

> "As a market for our commercial exports, Latin America is as important to us as all of Europe and more important than Asia, Africa and Oceania combined. Our sales to Latin America encompass the entire range of our national production. As a source of United States imports, the Latin American republics have even greater relative importance, standing well ahead of Europe or the other continents.
>
> ". . . . Unfortunately, the people of the United States do not seem generally to comprehend the full significance to us of stable economic relations with Latin America; moreover, some of our actions have caused leaders in those countries to adopt the mistaken view that we turn our attention to them only in times of crisis".

Co-operation between the two Americas has encountered obstacles that must be removed, including the difficulty in understanding certain realities arising from our own peculiar historical evolution and our particular economic structure. At times there is a tendency to formulate dogmatic principles on the basis of mere impressions of other economies—theories developed from the study of conditions radically different from those in our countries. It is thus indispensable to consider with greater care the institutional forms and traditions of the countries in each continent, the differences of time and space, and human, geographic and economic realities. For example, when weighing the influence that private foreign investment could have on the development of the Latin American countries, the role that the State has been forced to assume in these countries cannot be overlooked, nor the fact that the State must necessarily create the bases upon which such development and the expansion of private enterprise can take place. Any policy of co-operation must accept these facts. To ignore them would only hinder the attainment of greater harmony in plans for hemisphere action. Latin America does not require help of a gratuitous character, which could be applied only in exceptional and specific cases. Nor need it run the risk that such measures might create a feeling of dependence in the minds of its peoples. What is needed is a vigorous economic development plan; a definite concept of the goals to be achieved and of the means to be used; improved organization; a firm continuity of purpose; and the decision to face certain sacrifices and restrictions.

A policy really intended to modify the principles upon which our national economies are based would involve weighing the means, establishing the needs, and fixing the targets to be attained, despite the risks and difficulties inherent when results can appear only very gradually.

It is unquestionable that the programming of economic development requires collaboration between the State, the entrepreneur and the worker, since its scope transcends the sphere of exclusively public or private activity, combining both. It is of fundamental importance that workers, especially through their organizations, should participate in formulating these programmes and should offer responsible assistance. Such collaboration constitutes the only real possibility of attaining a higher standard of living for the Latin American people.

But, we repeat, all this will not suffice. The need also exists for a high degree of economic co-operation and, as the decisive factor, a substantial inflow of capital in the form of private investment, and loans from international credit institutions.

For all these reasons the meeting of the Ministers of Finance or Economy at Rio de Janeiro represents a transcendent and historic opportunity to understand the concrete possibilities of reaching agreements that will promote the economic development required to transform the living conditions of our people and decrease the vulnerability of our economies.

Our peoples will find this meeting the best occasion to discover whether it is possible to extend the Good Neighbour Policy to the field of economics as well as to politics.

As stated earlier, Latin America must decide to make certain sacrifices and undergo certain restrictions in order to achieve such high objectives. This is not easy, but a task of such proportions cannot be successfully accomplished by arbitrary means directed merely at solving immediate difficulties. Instead a clear and persistent effort is required and this effort must be made now. Its postponement would constitute an error with incalculable repercussions.

The co-operation of the United States is a basic condition upon which not only the success of this effort depends, but also the possibility of undertaking it during our times. It may be that the United States economy is already heavily burdened with domestic and international problems. But even if this situation should prove to be difficult the means to overcome it must be found. Co-operation alone can create the possibility of an America whose fundamental unity is based on a firm dedication to its democratic ways of life.

The strength of the inter-American system will depend upon the convictions arising from the people themselves, who understand and foresee its desirability and its ultimate results. And to preserve the values that uphold it, this system must show that it has undertaken the enormous task of overcoming the profound contradictions and differences in the conditions of those who dwell in one part of the continent or the other.

America will eventually provide an example that mankind can live in dignity, freedom and peace. But to achieve these ends continental solidarity must be firmly based upon an increasingly effective degree of economic co-operation.

Chapter I

HEMISPHERE DEVELOPMENT POLICY AND INTERNATIONAL CO-OPERATION

The secretariat of the Economic Commission for Latin America has requested us to explore the means of strengthening Latin America's economic development within a policy of economic co-operation of the Americas in preparation for the forthcoming Meeting of Ministers of Finance or Economy at Rio de Janeiro. For this purpose, the secretariat placed at our disposal a study which analyses and explains its own suggestions on this subject. We have considered these suggestions with care and this report is mainly based upon them, in some respects supplements them, and also indicates our opinion of the way in which they could be implemented.

Although many differences are apparent between the countries of Latin America with respect to degrees of development and economic structure, there exist characteristics common to all or practically all of them that fully justify reference to a hemisphere development policy based on internal action and international co-operation. Such characteristics, sufficiently well known, can be synthesized as follows:

(*a*) The accelerated demographic growth and the fact that a large part of the active population is employed in primary activities, especially agriculture. In general there is an excess of agricultural labour and a very low per capita productivity;

(*b*) The high proportion of total income that is still represented by the value of exports, mainly composed of a very limited number of raw materials and foodstuffs whose prices generally vary with greater intensity and frequency than those of manufactured goods;

(*c*) The low level of consumption that, in large sectors of the population, assumes the characteristics of chronic under-consumption. Consequently, there is an exceptional tendency to increase consumption, and with it imports, when an increase in per capita income takes place. This occasions—except in unusual periods—very serious obstacles to an increased rate of investment.

(*d*) The relatively small importance of the inflow of foreign capital, and the considerable burden that remittances of foreign investments impose on foreign exchange availabilities;

(*e*) The need for very large basic investments not only to finance indispensable services, but also to permit the development of directly reproductive investments;

(*f*) The considerable deficiencies in general education, and particularly in technical training.

These characteristics in themselves indicate the type of measures that a development policy should envisage and the role which corresponds to international co-operation. Thus, for example, to attain a rate of investment sufficient to raise income to keep pace with the growth of population and to permit a reasonable improvement in the standard of living, domestic investment must be intensified and better oriented. Except during exceptional periods, however, these measures would not be sufficient. The rate of domestic capital formation can increase substantially only if for a sufficient period of time investments are considerably larger than normally permitted by limited domestic investable funds. New investments generate additional income out of which a larger proportion may be saved than formerly. The role of foreign capital is therefore not only to permit the execution of a larger number of projects within a given period, but also to make it possible to attain a new and higher rate of national saving and capital formation within such a period. The importance of financial co-operation is thus clearly evident.

The decline in the price of export commodities that causes a deterioration in the terms of trade obviously exerts a profoundly disturbing effect on investment. Consequently, not only does real income decline for as long as that deterioration continues, but by affecting the rate of internal capital formation, it prolongs its effects on the growth of income into the future. Due to the very nature of the problem, international co-operation in this field is absolutely indispensable.

The modifications that may be introduced in the economy to increase productivity and cushion the effect of external influences also require the combination of internal action with a trade policy that takes into account and accepts the need for those modifications.

Finally, it is evident that without the co-operation of foreign technical knowledge it is not only difficult but well-nigh impossible to undertake certain activities or the establishment of certain enterprises, as well as to give the desired scope to the efforts towards improving the knowledge and experience of the national labour force.

There are therefore four principal fields which should be covered by economic development policy and international co-operation: investment, the problems related to the external fluctuations, trade policy, and technical training. Important steps have already been taken concerning each of these points and they have been the object of repeated discussions during the conferences held on global and regional levels. But, as the report of the ECLA secretariat has opportunely pointed out, it is necessary to organize more fully, amplify and supplement within the framework of a specific regional development policy the fragmentary solutions proposed up to the present.

The first principle that must be acknowledged as fundamental in the policy being recommended is that fiscal and economic actions of the government must be co-ordinated and united with the aim of development by eliminating the contradictions that so frequently lessen their efficacy. Monetary and fiscal policy, credit systems and government expenditures, must take into account that the entire process of economic development depends upon increasing productivity and investment, not only on the part of the public sector, but also in the private sector.

It is equally important that domestic measures should be duly co-ordinated with international co-operation. The former should facilitate financial co-operation and direct it so as to obtain the maximum effect on economic development. That co-operation should be considered as supplemental and not as a substitute for domestic investment, adequately stimulated during normal periods. An example may be given to illustrate this aspect of the problem. If international funds are diverted towards current government expenditures instead of contributing to an investment programme, or if they are used to expand non-essential imports of the private sector, external financial co-operation would be to a great extent frustrated.

In the light of these principles, we recommend the following series of domestic measures.

1. National development programmes

There is a need for Latin American countries to formulate national development programmes. It is only by means of such programmes that economic action can be rationalized and given continuity, and that adequate priorities can be assigned in the allocation of available resources. Such programmes are equally important with regard to external financial co-operation, in that international credit institutions are able to estimate loan requirements over relatively long periods of time and to make commitments in principle, thus giving the interested country a more solid foundation on which to base its economic and fiscal policy.

The preparation of national programmes should be entrusted to specialized groups, which in many cases could advantageously utilize foreign technical co-operation. These entities should subsequently be permanently responsible for studying the modifications suggested by experience and for supervising the execution of the plans. Some advancement has been made in tasks of this nature in recent years; but, generally speaking, the Latin American countries are still far from being able to utilize the tools and methods of programming in a satisfactory manner. Above all, programming bodies do not exert effective influence on administrative and political procedures.

Of no less importance is the careful preparation of the plans and estimates for specific projects which fulfil the technical requirements of international credit institutions. This should be done systematically, even in the event that the immediate execution of such plans is not foreseen or is not considered possible, and the necessary technical personnel and resources should be allocated to them. The existence of projects that comply with those requirements naturally conditions the capacity to absorb further capital. It must be recognized that on occasions the procurement of external funds to finance development enterprises is obstructed by the inability to supply the corresponding technical data and financial and economic calculations. Although this is not the principal reason why financial co-operation to Latin America has been so reduced, it is advisable that it should be clearly pointed out.

On the other hand, when factors other than capital inflow cause a rapid increase in government receipts, the lack of well-prepared plans tends to produce a diversion of available funds towards less productive investments or towards current expenditures, or else it leads to hasty improvizations that are undesirable from all points of view. Furthermore, the implementation of anti-cyclical policy requires that the government be prepared to undertake the timely execution of new investments.

It is of equal importance to emphasize the urgent need for a systematic study of the natural resources of each country and the methods employed for their conservation and renovation. In many respects, Latin America is an unknown continent. There is need to improve and expand geographical, hydrological, agrological, geological and other services, as well as technological research, in all of which international co-operation can and should be increased. The systematic and extensive study of natural resources is a prerequisite for good planning.

2. General principles of programming

When mention is made of programming in the Latin American countries, where private enterprise predominates, the plans of the public sector are mainly referred to. But a programme cannot fail to relate public to private investment and take into account their inter-dependence. As previously indicated, fiscal, monetary and trade policies should be closely related to and co-ordinated with the programme, and they should be utilized to obtain its fulfilment.

All programmes deal essentially with the allocation of resources and the establishment of priorities. With regard to public expenditures, first of all a general principle may be stated that has no other purpose than to offer general guidance. In countries in an early stage of development, where the needs for basic investment are considerable, an effort should be made to ensure that investments absorb an important part of total public expenditure, if possible avoiding an exaggerated increase in current expenses that have less influence on increasing productivity. An excessive proportion of the latter adversely affects the rate of investment not only of the public sector, but of the entire country, as taxes reduce the margin of private income available for savings. The problem acquires special importance when as a result of transitory events—such as, for example, an improvement in the terms of trade—public resources increase abnormally. If current government expenditures likewise expand to an exaggerated degree, this means that the possibility of increasing the future income of the country through a higher investment rate is being sacrificed, and also that the way is being paved for serious difficulties once the temporary improvement diminishes or disappears. It is then easy to drift towards inflationary financing, or an increase in taxation, reducing the prospects of private investment. With regard to public consumption, the same thing occurs as with total consumption: if the rate of development is to be accelerated, a certain degree of sacrifice is inevitable.

It is exceedingly important that public investment be based on a set of priorities which principally take into consideration the objective of maximum direct or indirect productivity. It is impossible to evaluate indirect productivity in exact terms; but in practice it is easy to point out when a specific investment does not correspond to the criterion indicated. In each specific case the projected investment should be examined to see if it stimulates the reproductive investments of the private sector, gives access to new resources, or contributes to reduce production and transport costs. Naturally, this cannot be an exclusive criterion. There are investments that are indispensable for attaining a higher standard of living or for human well-being, among which certain public services and the construction of dwellings occupy a predominant position. But even in these cases the amount invested should not be disproportionate with regard to the total volume required by the development policy. As we have already indicated, any process of accumulation of productive capital necessarily imposes a certain limitation on the immediate improvement of the standard of living. But to compensate for this, a solid and stable foundation can thus be built to guarantee gradual, continuous progress.

3. Public investments in industry

In Latin America the government not only has to carry out research on the concrete possibilities of industrial development and very often undertake the direct promotion of certain enterprises, but on occasions it is also obliged to invest its own funds in such concerns or guarantee the loans necessary to develop them. Nevertheless, it would be advisable to take note of certain principles regarding this type of investment. As a general rule, they should be made only when private initiative cannot or does not wish to develop the industry concerned, when this industry is really of fundamental importance for the economic development of the country, when the employment of the resources required is not detrimental to certain basic investments required for the normal development of private investment in other fields, or when the exceptional importance of an industry in private hands makes public operation advisable. In this respect, it is desirable to recall the retarding effect on industrialization in many sectors of Latin America that is being exerted for example by the lack of electric power installations, to say nothing of means of communication and transport. It is evident that in such situations these basic investments should be given effective priority.

It is worthwhile to review other aspects of the problem of government investment. As from all angles public resources are very limited in comparison with needs, and as basic investments of indirect productivity are rarely financed privately, it would be advisable to establish or improve methods that permit the transfer to private ownership of industrial enterprises created by public agencies, thus freeing funds that could be re-employed either in basic investments or in the establishment of new enterprises. An increasing degree of nationalization in industry does not appear to be very advisable considering the present situation of Latin America's economy, with the obvious exception of those extraordinary circumstances in which a greater public interest intervenes.

Moreover, it is possible that those enterprises that are not normally undertaken by private interests on their own initiative may be promoted by making them especially attractive through tax concessions, profit guarantees, etc., or by means of obligatory savings, of which there are some examples in the region. These methods definitely result in part of private savings being forcibly channelled towards a certain type of reproductive investment that is considered of fundamental importance for the economic integration of the country and, in certain circumstances, present unquestionable advantages over the simple taxation procedures. In this way it is possible to fill important gaps in the industrialization process without nationalizing the economy to an exaggerated extent but by channelling a considerable part of the savings in accordance with over-all plans. The public sector would at the same time have larger resources for basic research for increasing indirect productivity, where backwardness seriously hinders development and affects the standard of living of the Latin American peoples.

Nevertheless, it is evident that nothing that has been stated in this report denies the fact that the government must at all times have sufficient power not only to exert a positive influence on the general trends of the national economy, but to guide the latter in a way that will impede the increasing concentration of income and wealth. This concentration is by no means favourable to the future of Latin America, and how to avoid this without prejudice to increasing capital formation constitutes one of the problems that has been least studied but is in need of most urgent solution in development policy.

Once again we repeat that a system of priorities is essential to obtain the maximum productivity from resources that generally prove to be very limited in comparison with the multiplicity and magnitude of the needs.

4. The utilization of foreign exchange resources

Foreign exchange availabilities have a considerable effect on the possible volume of investments. It is essential to utilize these resources in accordance witth development plans, which should take into account—together with other factors—the exchange effects of all new investments due to the value of the capital goods that have to be purchased abroad and to the increased propensity to import resulting from the increase in investment and income.

It is impossible here to examine in detail the systems that can be used to achieve the most economic utilization of exchange resources. We shall have to be satisfied with indicating some general guiding principles.

In the first place, it is clear that when facing a situation of foreign exchange shortages, it is necessary to discourage less essential imports. As a general rule these should never be unduly increased out of relation with the average standard of living of a country that is in the early stages of development. But this problem acquires particular significance when, as a result of an important improvement in the terms of trade, a considerable increase in the availabilities of foreign exchange takes place and a surplus is produced in the balance of payments. Strict rules cannot be given regarding the policy to be followed in an event of this type. Circumstances may indicate the desirability of revaluing the national currency or facilitating an expansion of imports to satisfy pent-up demand. The solution will depend on the nature of the payments surplus and its causes. However, it should be stated that the new exchange resources should not, as a general rule, be employed to increase consumption to an exaggerated extent that could not be maintained later on and that would utilize resources that are indispensable for the purchase of productive equipment. If the demand for capital goods does not promptly correspond to increased foreign exchange availabilities, the best move would be to accumulate reserves, at the same time establishing measures to ensure that the new resources do not affect domestic prices but rather increase savings. It is possible that a delay may take place in the demand for productive equipment as a result of the lack of carefully considered projects, due to the delivery terms of the manufacturers, or else because the domestic capital market does not react rapidly to increased demand. It is advisable to reserve surplus foreign exchange as much as possible for the time when demand will expand in accordance with development plans.

The point we are referring to is closely connected with anti-cyclical policy and international economic co-operation, and we shall return to this subject in other chapter of this report.

5. The increase of domestic capital formation

As an increase in income is principally the result of the rate of investment, it is essential not only to select carefully the investments themselves, endeavouring to obtain maximum productivity, but also to obtain as high a rate of investment as possible. To obtain a high rate of capital formation in Latin America the contribution of foreign capital is indispensable. The magnitude of that contribution and the means of obtaining it are referred to in another section of this report. But for the time being it is necessary to call attention once again to two very important facts: (*a*) that in order that the inflow of external funds may produce the indicated effect—that is, the stable increase of the rate of investment—it is necessary that they be accompanied by measures to stimulate and channel domestic savings towards more productive investments, and (*b*) that it is also possible, although on a limited scale, to increase the rate of internal capitalization by means of incentives and restrictions.

We have already referred to capitalization in the public sector. With regard to the private sector, we shall not discuss here the many ways by which investment may be increased and directed, as these have already been examined in various international reports. We shall merely indicate the importance of tax policy in achieving these ends through influencing the level and nature of consumption and stimulating or discouraging savings. In general, we can point out by way of example the advisability of discouraging unnecessary consumption and luxury investments, both by means of customs duties and domestic taxes. Taxes can also be used to encourage better utilization of the land, and that part of individual incomes which is re-invested can receive more favourable treatment than the part that is consumed.

Re-investment of private enterprises is of singular importance, since it forms a very substantial part of the total savings and is not subject to leakage in consumption, as occurs in the case of private savings. A specific indication should be made of the desirability of stimulating depreciation reserves by means of adequate tax treatment. This problem takes on added importance considering that, as a result of monetary depreciations and the general rise in prices on the world market, such equipment very often appears on the books of the enterprises as having a considerably lower value than the actual cost of replacement. Since income tax exemptions in respect of depreciation reserves are usually calculated on the basis of original costs, there is in fact an unjustified fiscal burden which constitutes a negative stimulus to investment.

In general, the re-investment of profits should be encouraged by tax reductions or offsets. It also appears advisable for certain government enterprises, such as the railways and other public services, to maintain a price policy that not only avoids losses and covers costs, but that also permits the formation of adequate depreciation reserves whose re-investment would contribute to the attainment of the rate of investment that has been indicated as the target of the development policy.

The measures adopted to increase the rate of internal capital formation must take into account the economic structure of the respective country and the sectors in which it seems most possible to obtain that increase.

We believe that the suggestions given can produce an increase in the rate of domestic capital formation and consequently income. Nevertheless, it should not be thought that they alone would be sufficient. As has already been pointed out, consumption cannot be reduced except in exceptional cases and for relatively small sectors of the population. The co-operation of foreign capital extended for a sufficient period of time is an indispensable factor. But it is moreover logical that such co-operation should be strengthened as much as possible by means of improved and more efficient utilization of domestic resources.

Chapter II

INTERNATIONAL FINANCIAL CO-OPERATION

The need for an accelerated increase in Latin America's income is the natural consequence of certain factors discussed in the previous chapter, such as the growth in population and in consumption. Income in turn is mainly dependent upon the rate of investment. Accordingly if income is to be accelerated, investments must be maintained for some pre-determined period at a level substantially higher than the present one. Nevertheless, except in unusual circumstances such as the postwar period—when countries of the region enjoyed very favourable terms of trade and furthermore were utilizing foreign exchange accumulated during the war, it is inconceivable that the countries will be able to achieve an adequate rate of capital formation from their own domestic resources. Since political and social considerations make further reductions in consumption very difficult, foreign capital becomes an indispensable prerequisite. Its principal role will be to increase the rate of internal capital formation until income rises to a level that will then permit the continuation of development with the country's own resources. For that reason continuity in the inflow of that capital is of extraordinary importance.

Another essential condition is that the financial servicing of foreign investments should not represent a disproportionate burden for the national economy. This condition is even more necessary when it is considered that Latin American countries, like all such in the initial stages of development, must make large investments with a long gestation period or which are only indirectly productive.

There are thus three outstanding requirements for new foreign investments: adequate amounts received, a continuity in their inflow, and a level of servicing repayments that is not excessively burdensome.

The problem submitted for our consideration is to determine precisely what practical measures could attain the above-mentioned objectives. In examining this problem we have given due consideration to the suggestions contained in the secretariat's report, taking into account the prevailing system of international credit, its special characteristics and the deficiencies that it entails. As a result, a series of recommendations are presented under the following headings: (1) the foreign investment target in Latin America; (2) participation of international credit institutions in achieving the investment target; (3) creation of an inter-American Fund for Industrial, Agricultural and Mining Development; (4) technical and financial collaboration between foreign private enterprise and domestic concerns; (5) internal measures to promote economic development and to encourage international co-operation; (6) measures for co-operation of the United States Government; (7) periodic revision of economic development policy and measures of international co-operation; and (8) creation of a Consultative Group on Economic Development. It is desirable to give a brief explanation of the principles underlying these recommendations.

1. The foreign investment target in Latin America

Immense and immediate investments are urgently needed in Latin America, from the viewpoint of the requirements to be met and the present living standards of its inhabitants. It is easy to state in principle those fields in which investments should be made, but conversely it is impossible, from available data, to appraise the amounts required and the total absorptive capacity for any given period. Considering Latin America as a whole, therefore, we do not find any definitive investment programme involving a more or less fixed amount of funds over a specific period of time. National programmes are being put into effect at different rates in different countries, the same being true for specific projects and plans. Therefore the problem of financial co-operation within the hemisphere cannot be based upon an over-all contribution to an established investment programme.

A special financial programme such as that put into force by the Marshall Plan, does not appear to be indispensable at present, since the external resources that Latin America is capable of absorbing may be obtained through existing international credit mechanisms, complemented in the manner indicated later in this report. Nevertheless, if investments are to be increased and maintained at a relatively high level for an adequate period of time, it is essential that the countries of the region and the international credit agencies should recognize this need, express their decision to satisfy it, take the measures required, and give this policy their continuous support.

To what extent should foreign investments be increased? The ECLA secretariat report contains some calculations based on the rate of savings necessary to achieve a rate of increase in the gross product similar to that obtained during recent years. Taking into account such calculations, the amount of foreign investments in different periods, the difficulties still limiting the absorption of foreign capital, and other factors, we agree in establishing 1,000 million dollars annually as the provisional target for foreign investment. This quantity does not seem at all disproportionate with Latin America's absorption capacity, since the latter is gradually increasing and will improve still further as a result of the knowledge gained through recent policies and experiences. Although this amount exceeds the average of the past five years, the difference only partly compensates for the deterioration in terms of trade that has already occurred in many of our countries.

Furthermore, if the current demographic growth and other fundamental changes in Latin America are considered in relation to past periods, when substantial foreign investments took place, it seems likely that the established target is barely adequate, and may indeed prove lower than the actual requirements. A comparison of this sum with the over-all estimate of 2,800 million dollars given by the ECLA secretariat as the amount required to maintain the post-war rate of capital formation, confirms our opinion.

In the final analysis, we consider it both necessary and advantageous to acknowledge that the minimum level of foreign investment indicated above should be reached and maintained. Establishing this target will provide a clear objective for credit policies of international institutions, will permit a comparison to be made between the volume of their operations and the total estimated foreign investment requirements, and will facilitate the adoption of whatever measures are necessary to attain such a target. Its acceptance will also exert a strong influence on the conduct of the countries actually receiving credits as well as on the attitude with which development programmes and requests for international credit are based and examined. At present, the uncertainties underlying the ability to obtain adequate loans seriously limit the formulation of programmes and specific projects. Only by overcoming these uncertainties will there be sufficient inducement to undertake the effort and costs of development programming. Moreover, only by such essential steps will it be possible for financial and monetary policies of the Latin American countries to be projected on long-term and stable bases.

It is evident that the investment target previously indicated represents only an annual average. Accordingly it may decline or increase, depending upon fluctuations in the terms of trade, and upon different aspects of the anti-cyclical policy to be discussed in another chapter of this report.

Out of the total 1,000 million-dollar target, it is assumed that private capital investments will provide between 300 and 350 millions. It is obviously impossible to estimate the exact volume of these investments; but judging by the data of former years, it seems unlikely that such an annual range will be surpassed in a short time. Thus, international credit institutions should supply the remaining 650 to 700 million dollars annually. These amounts would likewise have to be increased if, despite the stimulating measures recommended, private investments should not attain their previously mentioned goals.

Great stress has been placed on the fact that economic development in Latin America should be facilitated by means of private foreign capital investments, and it is contended that this is perfectly possible. However, experience has not shown this to be the case, nor is it evident from an analysis of present trends. Latin America's situation differs in many ways from that of the United States years ago, and the capital market has also changed. The factors that initiated a large and steady inflow of private foreign investments in former times no longer exist. On the contrary, the world depression beginning in 1929 exerted effects that have still not disappeared, and which are major reasons accounting for the establishment of the International Bank for Reconstruction and Development. Moreover, since private United States investments have given priority to the exploitation of certain natural resources, they have been distributed very unequally in different areas of Latin America and have varied substantially from one period to another, depending upon the investment decisions of a few large enterprises. It would be illusory to establish an economic development programme with specific targets for investment and income based upon the uncertain prospects of a substantial increase in private foreign investment.

Three aspects of this problem must not be overlooked. Many factors, including the rapidity of technical changes and existing high profit levels, create new outlets for foreign capital in their own countries. This is particularly true of the United States. Due to reasons of geographic proximity, as in the case of Canada, or special circumstances related to colonial possessions in other regions, United States capital finds greater incentives in these areas than are generally available in Latin America. Furthermore, if private investments should expand very substantially in relation to the region's income, and its payments capacity, the transfer of financial services could increase to such an extent that any subsequent reduction in the flow of foreign capital would seriously affect the balance of payments. Over and above this essential point, the high profit rate of direct foreign investment immobilizes an excessive amount of national resources in remittances, with subsequent and unfavourable repercussions on the gross product and domestic capital formation. Finally, since United States investments have given preference to activities supplying raw materials or fuel to the world market, they have generally not been directed toward services or other industries that our countries urgently require to satisfy domestic demand.

In support of our view that loans granted by international institutions should play the dominant role in matters of foreign capital investment, it is sufficient to reiterate two previously-mentioned facts. First, there is a need for large basic investments, upon which the entire process of economic development is dependent and which, by their very nature, are outside the radius of private initiative. Secondly, there is the problem that an excessively heavy service burden on private investments, especially as carried out at present, could impose on the Latin American economy. Various reports of international technical committees have recognized the significance of these two facts, and the consequence they entail.

Within the estimated 650 to 700 million dollars to be supplied by international credit institutions are included between 50 and 100 millions annually in loans to private firms in Latin America. These could be granted by a new organization, whose creation is proposed in this report to fill a serious gap in the existing international credit set-up. As a result, from 600 to 650 millions would have to be covered by the International Bank for Reconstruction and Development, and by the Export-Import Bank.

This volume of credit would give a strong impetus to basic investments. Furthermore, it would have the virtue of considerably relieving inflationary pressure in countries which, due to lack of adequate resources, frequently resort to bank credit expansion for financing their investments.

2. Credit policy of international organizations

Proper attainment of the investment target would require two types of measures; first, those necessary to complete and perfect the system of international loans; and second, those required by Latin American countries in order to increase their technical and economic capacity to absorb foreign capital.

Regarding the first, mention has already been made of the proposed Inter-American Fund, which will supply loans to private concerns in Latin America. Resources of international credit institutions have reached private entrepreneurs only in exceptional cases, since both the International Bank and the Export-Import Bank have preferentially granted loans to governments and always require government guarantees when financing private projects. Here is an evident contradiction: on the one hand, the role of the private entrepreneur in economic development is highly exalted, and, on the other, conditions are demanded of him which often cannot be fulfilled and which tend to limit his initiative and freedom. The situation created for the private entrepreneur is therefore inferior to that of the entrepreneur in large foreign countries, who has ready access to sources of credit and to international techniques. The new Fund would help in correcting these conditions, and would strengthen the role which the private entrepreneur must play within Latin America's economy.

Experience also indicates the need to reduce certain existing loan restrictions, particularly those limiting the amounts required to cover imports of capital goods, without leaving a certain margin to defray at least a part of domestic expenditures. This practice may result in adopting inflationary means to cover such expenditures, and certainly it does not take into account the balance-of-payments pressures which are a consequence of the new investments and the resulting growth in gross product and consumption. From all points of view therefore a change of policy is desirable that will permit more complete and flexible financing of investment programes, always taking into account the particular conditions within each country requesting a loan.

With regard to the type of loans, greater emphasis should be given to investments in public municipal services, and to the granting of medium-term agricultural credits, expanding operations of this type where they are already being carried out.

It is also advisable that loans should not be subject to the condition that imported capital goods be purchased in a prescribed market. This condition may unduly deprive the loan recipient from reaping the advantages of international competition.

Undoubtedly not all Latin American countries are sufficiently prepared so that foreign investments can immediately reach the target we have recommended. However, many efforts are now being made for the programming and preparation of specific development plans. Such efforts would be intensified if greater prospects existed for obtaining the necessary financial resources, and we are therefore of the opinion that the fixed target could be attained after a relatively short period of transition.

3. Creation of an Inter-American Fund to stimulate private enterprise in Latin America

The recommendation concerning the creation of an Inter-American Fund to support private enterprise in our countries requires special explanation.

First of all, the reasons should be given which have influenced our decision to propose a new agency rather than to utilize the services of existing ones. In actual practice, existing entities are not adequately organized to carry out operations of the type now under consideration. Their loans have been utilized for different purposes, and in order to perform this new function they would therefore be obliged to create new mechanisms and develop a different type of experience than has been accumulated up to the present. Thus it is not a question of deciding whether to create a new organization, since this would have to be done in any case, but rather whether it should operate in an independent manner. Many practical reasons favour this latter solution, principally the degree of specialization and the knowledge of local conditions that would be indispensable for handling this special type of credit to industrial, agricultural or mining concerns. This would be true despite the fact that the new agency would generally operate through the banking systems of our countries, and through its financing or development institutions.

Certainly this is not an innovation. Financial co-operation with Europe has been carried out on a similar basis, and, if this precedent is followed, Latin American countries should play an active part in the new entity and share the serious responsibility of its operation.

No previous experience exists which would permit a calculation of the volume of resources required by the Fund. Nevertheless, it does not seem unlikely to estimate that, after a given initial period, its loans could easily fall between the limits of 50 and 100 million dollars annually.

A capital of 250 millions is proposed, with half to be contributed by the United States and half by the remaining countries of the continent. Following the same system as the International Bank for Reconstruction and Development, only 20 per cent of the subscribed capital, that is, the amount of 50 million dollars, would be paid immediately. The unpaid balance of the capital would merely indicate the limit of responsibility for each subscriber with regard to subsequent Fund operations. It is considered that the cash contributions could be made without difficulty.

Obviously the amount of paid-in capital alone would not permit the development of a loan programme as previously outlined. Other resources would be necessary, which we propose should be obtained as follows: (*a*) by a special contribution of 50 million dollars annually to be made by the United States to the Fund, under conditions to be indicated later, and (*b*) by having the Fund place, on the market, its own securities or those it acquires or to which it gives its guarantee.

The tax which the United States at present levies on investment returns of its nationals in Latin America very nearly equals that of the suggested contribution. In the spirit of effective co-operation, it seems appropriate to dedicate those resources, or an equivalent amount, towards the economic development of the countries from which such returns are forthcoming. It is certainly not our intention to condition the United States contribution upon the continued receipt of these tax resources. Nothing would be more desirable than the progressive elimination of multiple taxation. But, even if new legislation should reduce or eliminate the indicated income, the annual sum of 50 million dollars contemplated in our recommendation is still a very small sacrifice, particularly since the special contribution will continue belonging to the United States, which will participate in the profits and will be refunded by the entire amount together with accrued profits in the event that the Fund is liquidated.

The Fund may place its own securities on the market, with a guarantee of not only the paid-in capital and reserves of the organization, but also the amount of unpaid capital. In addition it may, in relation with specific operations, arrange for the special guarantee of one or more member countries.

The Fund may also place on the market securities obtained from other entities or to which it gives its guarantee. In this way it is hoped to arouse the interest of the financial markets in fixed-income obligations of the Latin American countries. Revival of portfolio investments, whose virtual disappearance has been a basic defect of the international financial system since the 1930's, would prove more economical to the debtor countries than direct investments.

If necessary, there is also the possibility of obtaining additional funds from the International Bank for Reconstruction and Development and the Export-Import Bank. These institutions could thus contribute to the financing of private enterprise without the difficulties they encounter at the present time.

In order that the Fund can best develop its operations, its character should be sufficiently broad to permit the most diverse forms of financing that experience may later indicate. In general, it is proposed that the new entity operate through banks, finance corporations and development institutions in the member countries, which in addition to acting as agents, will extend their own guarantees. But other forms of operation and different guarantees can be conceived. For example, direct loans to the abovementioned corporations might be considered, which in turn would be utilized for opening credits to private concerns. The purchase of obligations issued by the concerns and duly guaranteed, which the Fund could sell on the open market, is another interesting possibility.

The opportunity which the Fund would have of guaranteeing loans or securities would also increase the possibility of obtaining external financing for Latin American concerns.

It is obvious that the Fund must not assume exchange risks. These should be borne in the manner which each country considers most advisable. But there are well-founded reasons of equity for arguing that governments should bear part of such risks, since among other reasons they earn a profit through the revaluation of their gold and foreign exchange reserves when they devalue their currencies. The Central Bank could of course charge a premium for assuming the risks indicated.

The interest rates on loans should be similar to those levied by the International Bank and the Export-Import Bank, for operations with equal terms. The interest received by these institutions is relatively moderate, being mainly based upon the rate of interest in the United States market, and it includes the surcharge for exchange risks, as well as the commission for intermediary institutions.

The Fund is primarily intended to assist industry, but it should also be authorized to extend loans to agricultural and mining concerns. This may be of considerable importance in cases where it is impossible to resort to other sources of international credit.

In view of the Fund's preferential interest in industry, it is proposed to entrust it with specific technical assistance functions, especially so that it can promote increased productivity, and facilitate contact between private entrepreneurs and foreign techniques. It is evident that the cost of these functions will require special financing, which could at least partially be charged to the interested parties. Such technical assistance functions should be fully co-ordinated with the United Nations and other technical assistance activities.

The administrative system has been planned along simple lines. Governments would subscribe their shares of stock either directly, or preferably, through their central banks, or finance and development corporations. The shareholders' meeting would elect four members to the Board of Directors. The Board would then appoint a fifth, who would act as Chairman, and these five members together would direct the Fund in accordance with the statutes. Nothing has been established in the project regarding the nationality of the four members elected by the stockholders. However, in view of the distribution of capital, it is assumed that two members should be from the United States, and the other two from Latin American countries. With regard to the President, his election will be primarily dependent upon personal qualifications, without considerations of nationality.

It is suggested that the headquarters of this institution be situated in New York, since the conditions offered by that great financial centre would facilitate contact with United States enterprises and make use of existing connexions with Latin American businessmen.

It has been decided to present this recommendation in the form of a draft agreement, in case the governments should wish to approve it at the Rio de Janeiro Conference. In such an event, the formulation of statutes could be entrusted to a special commission appointed by the Conference, to present its report at the first stockholders' meeting, after the necessary ratification by participating countries has taken place.

4. Measures to stimulate private foreign investments

A detailed analysis of this subject will not be presented here, since it has been the object of innumerable international studies and recommendations. The United States, on the one hand, and various Latin American countries on the other, have adopted domestic legislation aimed at eliminating some obstacles to the growth of foreign investments in Latin America, as previously pointed out. It is to be hoped that such measures will be amplified and perfected.

The development of private foreign investment is closely related to general economic development trends in each country. Large basic investments, for example, greatly stimulate development, since they create increasingly favourable technical conditions and larger markets. In other words, the problem of private investments cannot be separated from development programmes and policies. The progress of a soundly conceived programme, and the international credit measures we have recommended will undoubtedly be more effective than any other measures in arousing the interest of foreign investors.

It is advisable that in development programmes, attention be especially drawn to the fields considered most advantageous for foreign investment. This does not mean that other activities will be excluded, except when the public interest so warrants. The considerable disadvantages of a restrictive policy in this matter must be compared with the advantages of an equitable and liberal system. Furthermore, if the proposed Inter-American Fund provides Latin American business men with greater access to international sources of capital and techniques, the case for specific restrictions would be considerably weakened or eliminated.

Moreover certain types of investments are naturally considered more desirable and profitable than others, in the same way as Latin American countries prefer certain forms of co-operation between domestic and foreign capital. The incorporation of new techniques in new fields into our countries is more desirable than activities in fields where entrepreneurs are already well versed. A new industry represents a more positive contribution than that which merely competes with already established domestic concerns; and the formation of corporations in which domestic capital participates offers many advantages over those which operate entirely with foreign capital.

We have already recommended that private investment, which at present is predominantly equity in type, should assume other forms, preferably the purchase of bonds or Latin American securities in the large financing centres. In order to achieve this objective, we place special importance on the activities of the Inter-American Fund whose creation we have recommended. It might be added that such a Fund could be an excellent form of contact between Latin American entrepreneurs, who are interested in associating themselves with foreign capital, and potential foreign investors.

There are other forms of co-operation, relating to techniques and foreign capital, that we wish to recommend. One of them is the management contract. Because of the nature of a specific industry, or the key position it holds, certain countries may prefer to remove it from the control of foreign capital. On the other hand, international credit institutions are apt to refrain from granting loans in competition with private enterprise. Since private national initiative frequently lacks the technical or financial prerequisite for making certain investments, difficulties arise that could be eliminated by procedures such as management contracts.

By means of these contracts, foreign concerns undertake the establishment and management of a local enterprise during a period sufficient to train national personnel or to permit the liquidation of loans granted by them or by other institutions. Once this period is over, the concern may be transferred to private domestic interests, if there are no special reasons for maintaining public operation.

As may be seen, administrative contracts, of which there are already important examples, offer great possibilities for technical and financial co-operation. It would be convenient if they could receive a stimulus not only from the investor and debtor countries, but also from international credit institutions. They should not be confused with concession contracts, in which Latin American countries have not always had fortunate experiences. In the management contracts, governments own the concern and the rights of the managing concern are correspondingly limited.

There is no need to refer to other well-known forms of co-operation, such as the authorization to use certain technical procedures or patents in return for payment of fees or other compensations. But it would be useful to stimulate the use of technical assistance contracts between foreign enterprises and Latin American countries to aid the establishment of activities in which we have limited or no experience. Such assistance, covering the installation and initial organization of the plant as well as its more advanced and technological operations, could offer great advantages for recruiting technicians by personal contracts. By using this system and management contracts, foreign techniques may be incorporated into a country with relative ease, contributing moreover to the training of Latin American technical personnel.

Finally, we wish to refer to a measure of a different nature. Without in any way denying all that needs to be done by Latin America to eliminate the obstacles that still restrict foreign investment, it must be acknowledged that one factor arousing many misgivings and criticisms is the monopolistic nature of certain foreign activities. The report of the ECLA secretariat draws attention to this point. We also believe that collaboration between the United States Government and Latin American countries, extending the spirit of United States anti-monopolistic legislation to its concerns in Latin America, would greatly facilitate the efficient role which foreign initiative, when exercised in free competition, can play in our economic activities.

5. Examination and periodic revision of development policy and of the measures of international co-operation

Our recommendation regarding this point proposes the creation of effective means to facilitate the execution and revision of economic development policy based on international collaboration. To this effect we propose that periodic meetings of Ministers of Finance or Economy be held within the inter-American system. Such meetings could, for example, be held every two years, to examine the manner in which development policy and measures of international co-operation are being carried out, and especially to revise the investment policy and the objectives to be attained.

It is also recommended that the secretariat of the United Nations Economic Commission for Latin America present a basic report to these meetings.

Convoked as special meetings of the Inter-American Economic and Social Council, the periodic conferences of Ministers would permit considerable importance to be given to this body, and would exert a decisive influence on the orientation of Latin America's economic policy. These meetings could alternate with those of the Economic Commission for Latin America, and the participation of the ECLA secretariat in preparing the basic documents would ensure close co-ordination between both organizations. This would be in accordance with the recommendations that their member governments have already formulated.

As previously indicated, the conferences of Ministers would periodically revise the manner in which international co-operation is being carried out, in order to draw up appropriate recommendations or agreements. As a result, it has been considered advisable not to insist at this time on more ambitious projects, which may be presented for consideration on some other occasion. Under the measures proposed, the international credit system will, for the present, be in a position to carry out its task efficiently. If this opinion is not justified by experience, the problem could again be examined, with a more precise knowledge of the obstacles which hinder the attainment of the original objectives.

Finally, we wish to add a few comments on the suggestion to create a Consultative Group on Economic Development. The proposed Group has two closely-connected aims. The first is to give advice regarding development policy to such governments as may request it. The second is to co-operate in the solution of specific problems, and to facilitate relations between Latin American countries and international credit institutions.

It is not a matter of creating new institutions. The Group of five independent experts will make use of the already existing ECLA secretariat. An international secretariat can perform an efficient job by analysing development policies and presenting its conclusions. But it understandably must restrict its functions so that it does not formulate opinions or recommendations which are incompatible with the objective nature of its analytical task or its position in relation to other international entities. Thus it is advisable to form a group of experts who can carry out activities independently, and in a personal capacity, without compromising the opinions of those institutions appointing them.

It is probable that Latin American governments will repeatedly request the advice of such experts, if the recommendations contained in this report are put into practice. In fact, the expansion and continuity of international financial co-operation depends to a great extent on the firmness and efficiency of the development policy of each Latin American country. Nevertheless, experience shows that Latin American governments do not always share the viewpoint of international credit institutions with regard to measures taken before loans are granted to them. It is obvious that, before any specific project is approved, the opinion of the credit institutions must necessarily prevail. In regard to the more general measures involving development policy, however, the close contact which the group of experts would have with both sides, and its search for solutions that are acceptable to both could be of substantial practical importance.

Chapter III

MEASURES TO REDUCE THE EXTERNAL ECONOMIC VULNERABILITY OF THE LATIN AMERICAN COUNTRIES

The secretariat report clearly indicates Latin America's marked vulnerability to the effects of economic fluctuations originating from abroad. Further analytical proof supporting this point need not be stressed. Rather there is the necessity of curtailing this serious vulnerability, and of moderating the extent to which external stimuli can affect domestic economies.

It has already been observed that the limited number of raw materials and foodstuffs which form the bulk of the exports from Latin American countries, and the sharp fluctuations in world prices to which these products are subject, are characteristic features of our economies and are the primary cause of this excessive vulnerability.

Latin America's dependence on the production of raw materials is obvious and in some cases extreme, due to the high proportion they represent in total exports. This dependence is even greater on account of the constant increase in domestic demand, which brings about a rising import volume of essential consumer and capital goods. The vulnerability of our economic systems is still very dangerous, and its social consequences are undoubtedly more serious than ever.

Prices of raw materials and other basic products undergo variations which on the average fluctuate between 27 and 32 per cent, whereas variations in the prices of manufactured goods do not amount to more than 4 per cent. If it is borne in mind that a fall in prices generally coincides with a slump in market demand, magnified repercussions take place in real income and consumption, thereby hampering the planning and execution of economic development programmes.

In a number of resolutions by international organizations, attention has been drawn to the problem of raw materials, and general principles have been formulated to guide the search for satisfactory solutions. Especially noteworthy is the resolution (623 (VII)) approved by the General Assembly of the United Nations in 1952, which provides a detailed presentation of all aspects of this complex question.

In general, the resolution aims at maintaining comparatively stable, just and remunerative prices for basic products in order that exporting nations can attain satisfactory terms of trade. In the definition of just prices it is stated that these must stimulate a rise in the standard of living, still very low, in the raw-materials-producing countries.

It is understandable that in considering such questions, emphasis has been given to measures of an international character rather than being confined to Latin America. In general we accept this position, since it is the inevitable result of world economic realities. However, we cannot ignore the fact that efforts by the Latin American countries themselves are just as essential as those required on the international level. Certain measures of inter-American co-operation could undoubtedly make a positive contribution towards preventing sharp reductions in the prices of export products, or at least partially offsetting their effects.

During the 17th and 18th sessions of the United Nations Economic and Social Council, which took place in New York (April 1954) and Geneva (July-August 1954), a resolution was adopted to create a Commission on International Commodity Trade.[a] This Commission is to meet early next year, and the following points will appear on its agenda: (*a*) Survey of the situation on international trade in basic products, and (*b*) Review of government proposals relating to the international problems that still confront such products.

This Commission was voted upon in August 1954, when our Group was also beginning its tasks. It has been viewed by us with special satisfaction, and with the hope that positive results will be achieved in the difficult task entrusted to it.

1. Domestic measures

With an appropriate economic development policy, most of our countries could put their economies on more solid foundations than now exist, to face the consequences of external instability. It is obviously desirable to press for the diversification of exports, and to attempt the production of new goods for which openings may exist in world markets. These are possible up to a point, and may become more possible if due importance is given to the study of natural resources. In addition, special efforts should be made to improve productivity in the export industries, and to reduce costs by the rationalization of production.

However, even greater possibilities exist, by making structural changes through the diversification and broadening of manufacturing or agricultural activities. The creation and expansion of such activities would soon enable domestic products to be substituted for goods now being imported. During periods of balance-of-payments disequilibria, therefore, domestic consumption and production need not fall because of restrictions on imports of raw materials. During normal periods, moreover, greater amounts of foreign exchange would be made available for imports of productive goods.

The availability of international credit, discussed in the preceding chapter, could have an important influence upon the attainment of all these objectives.

2. Anti-cyclical policy

Apart from the above-mentioned measures, which must form part of their development programme, the Latin American countries could follow an anti-cyclical policy to mitigate the consequences of fluctuations abroad. This would be done more effectively if the support of international credit institutions were received.

[a] See resolution 557 F (XVIII) of the Economic and Social Council, reproduced in the annex below.

An anti-cyclical policy would comprise many different kinds of measures, but their common characteristic would entail the absorption of resources in times of prosperity for use in periods of decline. However, except when there is a time-lag in the demand for capital goods, as discussed in the first chapter of this Report, it is highly probable that a developing country would not typically show a notably favourable balance of payments. The urgency with which capital goods must be imported, and this high propensity to import resulting from previously low levels of consumption, combine to exert sharp pressures on foreign exchange availabilities. The situation is even more serious in so far as labour is not usually a limiting factor, given the large amount of disguised unemployment characteristic of many agricultural areas. Thus, an anti-cyclical policy in Latin American countries must be of a special nature.

As already pointed out in the first chapter, it is inadvisable to permit an exaggerated increase in non-essential consumption, which would absorb resources otherwise available for capital goods imports, when the balance of payments becomes favourable. In general, so long as there is a demand for capital equipment, an increase in foreign exchange reserves would have to be ensured by measures to prevent the growth of domestic means of payment from raising the general price level and with it the level of non-essential imports. Naturally, the exact measures utilized would depend on the conditions peculiar to each country. At times it is neither possible nor desirable to avoid an increase in consumption and imports, when both have previously been kept down to exceptionally low levels. Furthermore, in determining the type of measure designed to absorb part of the new resources, many considerations would have to be weighed; the requirements for the expansion and improvement of export industries themselves, the degree of concentration or dispersion of the export sector, the previous level of profits, etc.

In practice, such measures could take many forms, including different types of tax policies. For example, a duty could be imposed to directly regain part of the increased value of exported goods, or an income tax system might be adopted. If it proves inexpedient to resort to taxation, recourse might be had to public credit operations, by open market operations or by establishing compulsory subscriptions for exporters or others whose incomes reach a prescribed level. It would be possible to devise still other means of building up special reserves in the public or the private sectors of the economy, such as the sterilization of part of the income of certain types of entities or groups of individuals, etc.

However, all these are temporary in nature. Except when there is a risk of intensifying inflationary conditions, Latin American countries cannot postpone making the investments necessary for their development. The problem which then arises is whether any method exists that will enable advantage to be taken of periods of prosperity to acquire the capital goods needed for an investment programme, without running the risk that a subsequent balance-of-payments deterioration may compel drastic restrictions on imports, affecting both the programme and the level of consumption.

Before considering this point, some additional recommendations may be made. Under no circumstances should the resources obtained from the foregoing procedures be merged with regular public funds. Otherwise they could be used for an undue expansion of current expenditures, which would contradict the essence of the policy and vitiate the objectives we have been outlining. What is indicated is the setting-up of special development funds, or the reinforcement of institutions already in existence, for the implementation of clearly defined programmes. The strengthening or setting-up of bodies designed to regulate the market for export products may also be appropriate depending upon the special circumstances surrounding these markets.

3. The use of foreign exchange for development programmes

Funds derived from an improvement in the balance of payments should be earmarked as soon as possible for development programmes. Such resources may be used to finance the proposed projects, after the latter have been submitted for approval to the international credit institutions in the same way as ordinary loan applications. Once a project is approved, the institution concerned would be bound to lend an equivalent amount within a certain period of time, conservatively fixed at five years. In other words, the country would finance projects out of its own resources, but it would have the assurance of financial assistance should a deterioration in the terms of trade or any other circumstances exert undue balance-of-payments pressures.

There can be no doubt that a plan of this kind, of which only the general outlines are sketched here, could supply the Latin American countries with a strong incentive to pursue an anti-cyclical policy without prejudice to the acceleration of their economic development.

Such a policy requires a recognition of the importance of anti-cyclical measures on the part of international credit institutions. The latter should gear the volume of their loans to the need for counteracting the effect, upon domestic savings, of international factors which are beyond the control of the country concerned. Stress is laid upon this point of view in the conviction that if it is adequately applied, the efficacy of international loans will be substantially increased, not only for those countries in an early stage of development, but also for others.

4. The role of the International Monetary Fund

The International Monetary Fund should play a role of the greatest importance in an anti-cyclical policy. In order that it may do this more effectively, it is recommended that credit quotas of member countries be increased. Experience has shown that they are extremely small not only from the anti-cyclical point of view but even for dealing successfully with other situations frequently encountered in the Latin American countries. The insufficiency of these quotas is explained by the rise of world price levels, in the volume of international trade and in the amount of national currency in circulation.

5. Measures to reduce fluctuations in the prices of basic products

The measures previously mentioned do not eliminate the serious problem of price instability of basic products, but they would help to alleviate its consequences. In any case, they will have to be used, since no satisfactory formulae have yet been discovered to attain completely the desired objective.

However, recourse can be had to measures involving domestic action and international co-operation in order to prevent abrupt price declines, and some of these measures may prove effective even in the limited sphere of the Latin American continent.

One aspect of the problem is of fundamental importance. This is the need to prevent prices of basic products from falling below a critical level, beyond which a serious situation would be created for the exporting countries, and in addition production might be so discouraged that it would be impossible later on to satisfy the normal levels of demand. Many examples of this kind have already been recorded, and the problem is especially important in relation to those products such as coffee where the crop is long delayed after planting and whose output therefore does not respond quickly to changes in demand. The issue must be faced, not necessarily of achieving a high degree of stability, but at least of defending a minimum price level. In this way the magnitude of the problem and the difficulty of solving it are greatly reduced.

A system for defending minimum prices would necessarily require the accumulation of stocks in the producing or consuming countries, and also the resources for financing them. Experience has often demonstrated the feasibility for Latin American countries of setting up funds and creating their own domestically financed systems for successfully defending minimum prices. This is especially true when their production represents an important share of total world supply or if there is concerted action on the part of several producers. This presumes of course that no attempt is made to fix prices far above the critical level and that a comparatively rapid readjustment of demand to supply can be expected. If the policy of development loans plays the anti-cyclical role we have recommended, recourse to procedures of this kind would be greatly facilitated by alleviating their inflationary dangers and their effects on foreign exchange reserves.

Some other forms of co-operation in Latin America could be devised, which even if not representing complete solutions, would at least be partly efficacious in certain cases. Their nature would depend upon the characteristics of any particular crisis, its cause, and its relationship to international economic events. What logically emerges from the inter-American system is that in such an event, the principal consumer and producer countries concerned should be prepared to consult each other. Such a joint examination could determine the means and the extent of defending a critical price level by co-operative effort, or whether it would be appropriate to seek solutions involving producers and consumers outside the hemisphere.[3] This consultative procedure has certain important precedents, and could be used not only in situations like the one under review, but also for problems of inadequate production or the disposal of surpluses.[4]

[3] Note by the ECLA secretariat: the United Nations Economic and Social Council has provided machinery to deal with international commodity arrangements of broader than regional importance.

[4] Note by the ECLA secretariat: see footnote on page 82 regarding the FAO Consultative Sub-Committee on Surplus Disposal.

6. Disposal of surpluses

In connexion with the disposal of surpluses, a special situation exists which, it is to be hoped, may not last too long. Surpluses of agricultural and dairy products have accumulated in the United States, and, in spite of a declared intention to dispose of only part of them, and with considerable precautions, are of natural concern to other producer countries.[4] It is therefore appropriate to envisage that the consultative procedure be used in this case, so as to clarify the various aspects of the problem and to reach agreements which prove to be mutually advisable.

Finally, it is worth pointing out that an honest spirit of international co-operation would help to produce the right atmosphere for increased consumption of certain Latin American products in the United States market and as in the case of coffee it would be necessary to prevent the creation of unfavourable impressions, and also to reaffirm in the public mind that it is in everybody's interest for the producer in our countries —who is also the principal consumer of United States goods—to raise his living standards and his purchasing capacity by means of fair and reasonable prices.

[4] Note by the ECLA secretariat: see footnote on page 82 regarding the FAO Consultative Sub-Committee on Surplus Disposal.

Chapter IV

TRADE POLICY AND ECONOMIC DEVELOPMENT

1. Industrialization and agriculture

It should be reiterated that industrialization is an inevitable necessity of Latin American economic development. To disregard this fact obscures the real characteristics of economic problems in the region, and hinders their solution by the methods of international co-operation. There is no need to repeat the reasons which initiated and which continue to intensify the trend towards industrialization, whereby our countries are seeking to modify their internal economic structures, improve the occupational distribution of the active population, increase productivity and make themselves less vulnerable to external influences. Solid and widespread support exists for this trend, and there is a firm conviction that a steady improvement in the standard of living of our peoples will not be possible without such profound structural changes. The results hitherto have brought forth the renewed demand that this effort be intensified and amplified.

At the same time, however, development policy should concern itself with the maintenance of a proper equilibrium between agriculture on the one hand and industry and services on the other. It is obvious that agriculture and industry are closely interdependent, which means that they are not only complementary, but also that a large-scale improvement in agriculture will not be possible without industrialization. Otherwise, adequate effective demand would not be created to absorb increased agricultural production, nor would employment be available for the rural labour displaced by improved productivity. Nevertheless industrialization cannot be successful without a simultaneous increase in agricultural productivity to open additional markets for industrial goods and assure the industrial workers of an adequate supply of moderately priced foodstuffs. It is a mistake, therefore, to think that the two activities are opposed to each other; rather their respective development involves different phases of the same process.

The proportions by which agriculture and industry should be increased will vary from one country to another. Industrialization, however, must in principle be looked upon as an indispensable instrument for the development of agriculture, and the latter as an equally indispensable instrument for successful industrial growth.

In connexion with the problem of agriculture, there are two points to which special attention must be drawn. The first refers to the low educational and social levels which commonly prevail among the rural populations in Latin American countries, and which at times are in marked contrast with those of the urban workers. This constitutes an important obstacle to the improvement of agricultural skills and at the same time to the ready absorption of the surplus rural population in industry and services. Persistent and intensive action to rectify this situation is of immense importance for the achievement of balanced development. In many cases such action would be predicated upon a basic reform of land tenancy and of certain aspects of the relationship between landowners and rural workers, which presently offer no stimulus to labour and discourage investment and the introduction of new techniques.

In the second place, it should be pointed out that very often a considerable increase in agricultural productivity can be effected by means of comparatively modest investments. In view of the shortage of new capital, great importance must be attached to this type of action, intimately associated as it is with technical research and extension services.

While taken for granted that industrialization is an essential prerequisite of Latin America's economic development, it must also be recognized that it cannot be achieved without reasonable tariff protection. There is no reason to proffer new arguments in favour of this thesis, which is vigorously expounded in the report of the ECLA secretariat.

2. Tariff policy

Latin American opinion, which followed with marked anxiety United States proposals to raise duties on some of our exports to that market, has viewed with satisfaction both the abandonment of these proposals and the recent declaration that the Government intends to press for certain tariff reductions. It is clearly demonstrated in the ECLA secretariat's report that the raising of United States customs duties reduces the volume of international trade. In the Latin American countries conversely the major effect of protective duties is to modify the composition of their imports, so long as export activities are not unduly deprived of the factors of production.

This fundamental difference must not be forgotten, and it must also be recognized that every increase in Latin American exports automatically widens the market for United States sales abroad. This type of reciprocity is of much greater scope and efficacity than that which could arise from reductions in Latin American tariffs, sought as compensation for reductions made by the United States and which could cause serious damage to the economies of Latin American countries. The principle of mutual concessions, manifested in recent bilateral and multilateral agreements, assumes a different aspect in the light of these considerations.

We do not overlook the fact that in certain cases, and under special circumstances, the United States may not be in a position to introduce further reductions in some of its tariffs. This fact in itself, however, would make the liberal application of other measures of economic cooperation all the more indispensable.

3. Strategic raw materials

The problem of materials considered of strategic importance requires special consideration. As clearly demonstrated during the Second World War, the American continents formed a common supply base. Natural advantages of geographical proximity and the reduced vulnerability to attack from abroad need no explanation. In any event, the reciprocal advantages and responsibilities of the two continents have traditionally been accepted in official public declarations.

However, events have shown that after the war this acceptance did not bring with it all the consequences which might have been expected. Many projects to promote Latin American production in certain fields were given up, or are languishing for want of sufficient resources.

Other manifestations of United States economic policy, closely related with the same subject, are not in harmony with the principles mentioned. The flexible tariff system governing the imports of certain mineral products involves the raising of duties when market prices fall below a stated level. Such actions can have a serious impact on Latin American exports, and may increase the disturbing effects initially caused by the original decline in prices. It would be desirable to modify this situation. Where modifications were difficult, for strategic or other reasons, other measures should be taken to offset its unfavourable repercussions on the economic systems of our countries.

The above considerations also require that greater encouragement be given to the production of minerals hitherto unexploited in Latin America, or exploited on an inadequate scale. Furthermore, when other countries of the region can produce these materials economically, the development of their marginal production in the United States at high cost should be discouraged.

It may be observed that when a material is classified as strategic, the economies of the exporting countries are affected by the restricted markets and the consequent effects on prices. It is natural that in such cases adequate compensation should be granted.

4. Liberalization of Latin American trading relations

A basic factor curtailing the development of certain industries in Latin America is the restricted nature of the domestic market in each country. Very valuable changes could be made in the present situation by forming a single market free of customs duties for given products in two or more countries, especially where geographic circumstances are appropriate. A proposal of this kind would have the advantage of complementing the domestic economies of Latin American countries and would increase the degree of specialization possible.

Despite the fact that preferential agreements continue to flourish in other parts of the world, this proposal has conflicted with certain principles and practices of trade policy, especially with problems arising from the application of the "most favoured nation" clause. It is obvious that at present this clause could not be applied—save in exceptional circumstances—without reducing the effectiveness of the proposal, and endangering the production that is envisaged. Unfortunately, a general customs union can hardly be contemplated in Latin America at the present state of its development.

To overcome existing difficulties, other procedures have occasionally been used, such as direct barter agreements. These, however, do not offer the same advantages as the total or partial abolition of customs duties between different countries of the region. It would be much more effective to acknowledge and apply this basic requirement of our economic systems, when considering the reforms that should be introduced into the principles governing the General Agreement on Tariffs and Trade (GATT).[5]

The tendency to seek the advantages of greater integration has become increasingly evident among different domestic economies throughout the world. The time has come for this tendency to acquire vigorous impetus in Latin America, where the distribution of territory and population among so many different nations makes the application of such a policy a matter of the greatest urgency.

[5] Note by the ECLA secretariat: The ninth session of the Contracting Parties to GATT will meet in Geneva, Switzerland, in October 1954, when they will undertake a review of the Agreement.

Chapter V

TECHNICAL ASSISTANCE POLICY IN RELATION TO ECONOMIC DEVELOPMENT

The growth of international technical assistance has been an experiment with far-reaching implications. For obvious reasons, we shall limit ourselves here to technical assistance relating to economic development, which is still in its initial stages.

Nevertheless, this initial stage is sufficiently advanced to permit of several conclusions. Firstly, technical assistance must follow an established programme, with clearly defined objectives and priorities for their accomplishment. Secondly, although certain objectives are so obvious because of their urgency and importance that they do not require further study, many others must be evaluated and assigned priorities in relation to existing development programmes. Thirdly, the formulation of these programmes also requires technical assistance, both as regards the programme itself and the specific projects of which it is composed.

Let us look at the first conclusion. In Latin America, as in many other regions, there are insufficient economists trained in the problems and techniques of programming. It is generally accepted that certain Latin American countries have experienced great difficulty in obtaining the co-operation of this type of economist. Unfortunately a permanent cadre of such experts has yet to be formed. In general, existing consultants act for relatively brief periods and then return to their customary occupations, which are usually far removed from development problems. Thus, experience is wasted which, if duly systematized and given the continuity it now lacks, could prove invaluable for the Latin American countries.

Furthermore, the effort being made to train such economists is still inadequate. To overcome this deficiency, the Economic Commission for Latin America and the Technical Assistance Administration of the United Nations, upon the recommendation of member governments of the former, have initiated a training course in economic development for Latin American economists. This initiative is highly commendable, and the enthusiasm and efficiency with which this course has been carried out in Santiago has been clearly evident. Nevertheless the effort is still a modest one. The training programme should be enlarged, and the relatively small number of Latin American economists benefiting from the course, namely some ten to fifteen annually, should be increased.

It is obvious that a development programme requires, apart from economists, other highly specialized experts. This need presents fewer difficulties since many first-class specialists may be found within Latin America itself. Their knowledge must be used more profitably and they should be given the opportunity to participate more actively in technical assistance. However, since such specialists are not generally known outside of their own countries, it would be advisable to prepare detailed and classified lists of such qualified personnel, following the system used in the United States during the Second World War.

In addition to experts required for development programming and the preparation of specific projects, there is the additional and often urgent need for training experts in the fields of agriculture, industry, power and transport. National efforts to provide such specialists are often insufficient, and foreign collaboration can therefore prove of singular value. In this respect the technical training programme of the United States Government, as well as the action taken by international organizations and private enterprise, have grown appreciably. The annual number of fellowships is estimated at approximately 3,300, distributed in the following manner:

(*a*) 1,500 fellowships granted by Latin American countries themselves;

(*b*) 727 fellowships by the Technical Co-operation Programme of the United States Government;

(*c*) 473 fellowships of the Technical Assistance Programme of the United Nations and its specialized agencies;

(*d*) 200 fellowships offered by the Organization of American States in various centres that it is establishing with the co-operation of the member countries concerned;

(*e*) Approximately 500 fellowships granted by private enterprise, mainly petroleum, electric power, agricultural machinery companies, and so on.

We consider that although these efforts are most praiseworthy, they are still far short of satisfying the existing needs. Experience has shown that, for each fellowship granted, three or four able candidates must be eliminated. As a result, it has been estimated that the desirable number of fellowships should reach some 10,000 per year, within a reasonable period of time. This figure, together with the investment target, should be periodically revised, in order to make adjustments for current needs and circumstances.

One other point should be considered here. To date, fellowships granted for study in Latin American countries have been relatively limited. Accordingly special attention should be devoted to this problem, and adequate assistance given to appropriate Latin American institutions so that they may carry out efficient and reciprocal efforts of co-operation.

1. Technical assistance and productivity

It is impracticable, however, to wait for personnel training plans to be concluded and put into effect. Immediate solutions must be sought.

An exceptional opportunity in this field can be provided through the co-operation of foreign experts, or of foreign firms and organizations with qualified staff and experience. This technical co-operation could be effected through multilateral programmes of international agencies, intergovernmental agreements or direct contracts between interested firms. The results of such co-operation, already being given to the Latin American countries by experts of the United Nations, the specialized agencies, the Organization of American States, the Government of the United States and private concerns, are already known.

As explained in the ECLA secretariat report, in order to increase the rate of economic growth, a co-ordinated campaign to disseminate technical procedures should be permanently carried out through a well-defined policy of productivity. The execution of such a policy does not depend upon the completion of development plans—although proper co-ordination should exist—but can be put into immediate operation with respect to existing activities.

The execution of a broad policy of productivity must encompass three large groups of activities, namely industry, agriculture and services. The latter in turn should include not only those comprising the direct responsibility of the government, but also those relating to private enterprises. The ECLA secretariat report contains a most satisfactory analysis of the problems connected with the systematic application of a Latin American productivity campaign in these three groups. It is unnecessary to repeat the analysis here. It is sufficient to point out that personnel training programmes, as well as other types of technical assistance which have mainly long-term results, should be co-ordinated with productivity campaigns that often provide immediate or short-term results.

In any event, as indicated by the ECLA secretariat's report, a careful examination of the situation presently existing in Latin America should be started, in order to establish priorities and determine the intensity with which technical assistance should be carried out and the type of assistance justified by the circumstances.

2. Technical assistance of the Inter-American Fund

Mention was previously made of the desirability of allowing the Inter-American Fund for Industrial, Agricultural and Mining Development to extend technical assistance on loan projects that it receives. Such assistance would be in addition to the financial activities of the Inter-American Fund, and could take such forms as co-operating in the preparation of new projects, or of expanding and modernizing existing plant and facilities.

This aspect of the Fund's functions may acquire considerable importance and could be organized directly by means of a special service, or through the granting of technical assistance by national entities, international bodies and specialized private concerns.

Requests for this type of technical assistance by medium and small Latin American enterprises could reach considerable proportions, and it would be advisable to examine both the sources and practical uses of the funds to be provided. The Inter-American Fund itself might provide some assistance from its own resources, these outlays being absorbed into the cost of the analysis and approval of the financed projects. In this way the resources would be returned with the regular amortization, following the general practice already used by other development institutions.

In addition to the above expenditures for technical assistance, there may be others for projects unconnected with the Inter-American Fund's general loan activities. If such expenditures were to exceed certain limits, the Fund would not be able to absorb them and would have to seek new resources and co-operation from other agencies.

For these reasons, means should be provided whereby the Inter-American Fund could obtain the collaboration of international organizations and of American governments in rendering technical assistance. It might also be advisable to establish a special and permanent account, administered by the Fund, to which the countries of the hemisphere might contribute voluntarily. Such special resources could be granted to private entrepreneurs in the form of small loans, for technical assistance obtained directly from specialized firms. A system of direct negotiation between individual firms financed by the special account would undoubtedly yield increased productivity for a large number of private activities.

To avoid the creation of a new international organization, the operations of the technical assistance account could be administered through the Fund. This would simultaneously ensure a close co-ordination between technical assistance grants, and credits for industrial or other projects.

3. Technological research

Elsewhere in this report attention was drawn to the importance of organizing services for systematic surveys of physical conditions and natural resources in each country. This task is indispensable not only for the efficient use of raw materials, fuels and sources of power, but in general for all aspects of economic development programming. Cases in which the lack of meteorological records, for example, delays the accomplishment of irrigation projects or the installation of hydro-electric plants, are not exceptional ones. Systematic agrological studies are also of fundamental importance for the success of agricultural mechanization campaigns.

This field is one in which technical co-operation could give most fruitful results. The United States Government has considerable experience in these matters, while the United Nations Food and Agriculture Organization has already carried out very interesting work in Latin America, particularly with regard to the study of marine life and forestry. These activities could be substantially increased.

Technological research is intimately related to the study of natural resources and could provide a more profitable utilization of Latin America's raw materials and the methods of transforming them. It has generally been advisable and economical to adopt systems permitting Latin American countries to use results obtained in other countries. Nevertheless there is also a field of research on domestic raw materials that justifies the organization of technological institutes, at least in some countries or groups of countries.

At present technical co-operation is given by many different institutions. It is difficult to know the exact range of their activities, and no attempt has been made to co-ordinate them with the needs arising from general development programmes. For this reason it would be extremely valuable to prepare a complete report on the present organization of technical assistance for natural resources and productivity. For Latin American countries, the report would serve as a basis for determining the extent to which technical assistance can be utilized in development planning and the specific fields in which this assistance must be supplemented. We suggest that the secretariat of the Inter-American Economic and Social Council of the Organization of American States, the secretariat of the United Nations Economic Commission for Latin America and the United Nations Technical Assistance Administration, with the collaboration of the other international agencies concerned as well as of the United States Government, should accept the task of preparing such a report, leaving to their joint decision the future procedures to be followed.

RECOMMENDATIONS

I. FINANCING THE ECONOMIC DEVELOPMENT OF LATIN AMERICA

International co-operation and internal measures

1. THE FOREIGN INVESTMENT TARGET IN LATIN AMERICA

Considering

That it is necessary to increase foreign investment in Latin American countries in order to accelerate their economic development and to permit a progressive improvement in their rate of savings, until a level of domestic investment has been attained that will ensure the maintenance of a high rate of growth;

That the need for foreign capital to supplement domestic savings might be established at 1,000 million dollars annually, of which between 650 to 700 millions would consist of public resources to be invested by international credit institutions, provided that private foreign investments are not below 300 to 350 million dollars annually;

That these foreign capital requirements must be periodically revised in the light of experience.

The recommendation is made:

(1) To concert international measures aimed at increasing the volume of foreign investment in Latin American countries to a minimum of 1,000 million dollars annually, and for a period of not less than ten years;

(2) To take measures of a domestic nature to raise the technical and economic capacity to absorb foreign investments, and to facilitate their servicing in such a way that the proposed target of investment may be attained in the shortest possible period;

(3) To consider that the target thus established is of a provisional character, and to revise it in accordance with investment programmes drawn up by governments and with periodic analyses of the domestic and foreign investment requirements.

2. PARTICIPATION OF INTERNATIONAL CREDIT INSTITUTIONS IN ACHIEVING THE INVESTMENT TARGET

Considering

That although the International Bank for Reconstruction and Development and the Export-Import Bank have contributed to the economic development of the Latin American countries, their loans are still inadequate for the volume indispensable to meet the requirements of these countries, particularly in regard to basic investments;

That apart from measures adopted by these countries to increase their technical and economic capacity to absorb foreign capital, it is of fundamental importance that the above-mentioned credit institutions make use of every means at their disposal to cover their contribution to the minimum investment target;

That other special resources, moreover, should be devoted to encouraging investment in private enterprises in Latin America and to providing them with the technical assistance they require;

That apart from increasing the volume of operations it is indispensable to give continuity to these loans for a reasonable period of time, thus ensuring one of the essential conditions for establishing and implementing development programmes;

That the activities of the above-mentioned international credit institutions should be adequately co-ordinated in analysing such programmes;

That to facilitate international competition it is inadvisable to establish restrictions as to the countries where the resources obtained from international credit institutions could be spent; and that such restrictions are not required by the regulations of such institutions.

The recommendation is made:

(1) To indicate to the International Bank for Reconstruction and Development the urgency of using every means within its power to contribute to the attainment of the minimum investment target;

(2) To endow the Export-Import Bank—and the proposed Inter-American Fund for Industrial, Agricultural and Mining Development—with such necessary resources that the aggregate loans of the three international credit institutions can total 650 to 700 million dollars annually, and meet the deficiency in private foreign capital investment until the minimum investment target has been attained;

(3) To introduce modifications in the operating methods of the International Bank for Reconstruction and Development and the Export-Import Bank so that,

(*a*) In addition to loans required for imports of capital goods, sufficient resources are granted to offset the indirect effects of investment upon the balance of payments, with the object of preventing disequilibrium; provided that the interested country demonstrates a need for these supplementary loans and states its intention of adopting measures to avoid further balance-of-payments disequilibria of domestic origin;

(*b*) Loans are granted to finance municipal investments of acknowledged public benefit and with a sound economic basis; and

(*c*) Loans will be granted to agricultural banks and development institutions which are clearly solvent and well administered, in order that they may grant medium- and long-term credit to the producers. These loans need not strictly be related to imports of capital goods, but will take account of the indirect effects of investment upon the balance of payments, under the conditions referred to in point (*a*) of this recommendation;

(4) To reach an agreement whereby the United States Government would devote the proceeds of taxes levied on investments made by its nationals in Latin American countries—or an equivalent amount—for the granting of loans to private enterprises in these countries and for providing technical assistance, without prejudice to resources already employed for these purposes;

(5) To give the greatest possible continuity to the policy of international credit institutions, so that, in principle, they may commit themselves to lend the total international resources which they agree to participate in financing and to confirm the corresponding commitment for subsequent approval of individual projects in economic development programmes.

3. Creation of an Inter-American Fund for Industrial, Agricultural and Mining Development

Considering

That in addition to measures aimed at encouraging basic investment, it is necessary to facilitate the access of Latin America's private enterprises to international sources of capital and techniques;

That existing international credit institutions do not always possess the necessary mechanisms for carrying out normal medium-term credit operations for private enterprises in Latin American countries;

That it is desirable to organize a credit system for such enterprises with the collaboration of banks, financial and development institutions;

The recommendation is made:

To draw up a joint agreement for the creation of an Inter-American Fund for Industrial, Agricultural and Mining Development, along the following lines:

(1) The Fund will be established in the city of New York, for a period of thirty years, with a nominal capital of 250 million dollars, of which 20 per cent will be paid up immediately and the remaining 80 per cent will constitute a guarantee fund, in accordance with point 9 of this draft agreement. Half of the capital will be subscribed by the United States Government and the other half by the governments of the Latin American countries, either directly or through their central banks or official development institutions, depending upon the decision of individual governments.

The allocation of subscription quotas among the Latin American countries will be carried out in accordance with the ratios corresponding to their share in the International Monetary Fund. Since Argentina is not a member of this institution, it has been estimated that its quota might be similar to that of Brazil.

(2) The Inter-American Fund will receive a contribution from the United States Government in annual quotas of 50 million dollars for a period of fifteen years.

(3) To obtain additional resources the Inter-American Fund may:

(*a*) Issue securities in the money markets of its member countries, following consultation with the governments, or in any other market;

(*b*) Receive loans from the International Bank for Reconstruction and Development, from the Export-Import Bank, or from any other institution that it deems suitable, and

(*c*) Sell or discount, with or without guarantee, the securities it may have acquired.

(4) The Inter-American Fund may carry out credit operations with banks, financing bodies, or development institutions, either public or private, which are acknowledged to be responsible and solvent concerns, in order to supply them with general resources for operating with industrial, agricultural or mining enterprises, under general conditions to be agreed upon; or else to operate with such firms through those banks or institutions, which would guarantee the entire amount of the operations by the payment of commissions approved by them.

(5) The Inter-American Fund's credit operations may take the form of:

(*a*) Loans;

(*b*) Purchases of securities of firms or enterprises; and

(*c*) Guarantees on securities of firms or enterprises, or on loans made by them.

The terms of payment applicable to such transactions will be from three to twelve years.

(6) The purpose of the Fund's credit operations shall be to finance capital investments, either for imports or capital goods, or for a reasonable share of the investments made by firms within a given country.

(7) The Fund may only effect credit operations in dollars, except when it issues securities in the currency of its members to cover domestic investments in accordance with paragraph (6) above.

In no circumstances may the Inter-American Fund assume exchange risks. These will be charged to the debtor, depending upon the extent to which they were not shared by a government or central bank, by means of an adequate premium to be approved by the Fund.

(8) The Fund may provide facilities for technical assistance to industrial and mining firms and enterprises in order to improve their technical and administrative organization and to increase their efficiency and productivity.

(9) The Fund's profits will be distributed proportionately to the capital stock in order to constitute a reserve, and to the account representing the contribution from the United States, thus increasing its amount.

Losses will be deducted first from the reserves and secondly from the subscribed capital; if these prove to be insufficient, members will be required to cover the proportion of capital subscribed but unpaid, until the losses have been covered.

(10) The Fund will be administered by a board of five members, of which four will be elected on a personal and independent basis by the

shareholders and will hold office for a period of four years; the fifth member will be elected by the other four members for a period of six years and will act as chairman of the Inter-American Fund and of the board.

(11) The Fund will enjoy the same privileges and immunities in this continent as the International Bank for Reconstruction and Development and the International Monetary Fund.

(12) Member governments agree to appoint a commission of five members to prepare the terms of reference of the Inter-American Fund and to present them for consideration at its first meeting, less than six months after the present agreement has been ratified by shareholders representing a minimum of 75 per cent of the paid-up capital.

4. Technical and financial collaboration between foreign private and national enterprises

Considering

That, without prejudice to other measures for the promotion of foreign capital investment in Latin America, special agreements between foreign and domestic enterprises should be encouraged so as to facilitate technical, administrative and financial collaboration of the former in fields where national effort is still inadequate;

That such agreements would permit a given Latin American country to maintain the ownership of certain concerns, within the hands of the government or its nationals, and, simultaneously to obtain the abovementioned assistance during the formative and initial development stage;

That in this way favourable opportunities are offered to international credit institutions for granting their loans and thus adequately complement the contributions of private foreign capital and of domestic capital;

That similarly it is desirable to encourage other forms of association between foreign private and Latin American enterprises;

The recommendation is made:

(1) To promote management contracts in order to obtain the technical, managerial and financial participation of foreign private enterprise in the creation and initial operation of concerns which are considered desirable to keep under domestic ownership, either public or private;

(2) To suggest to international credit institutions that they collaborate in the preparation and financing relating to these management contracts;

(3) To stimulate the contractual services of foreign concerns whose experience can be utilized in the installation and operation of public or private national concerns, so as to enable national concerns to share in their advanced technological methods.

5. Internal measures to promote economic development and to encourage international co-operation

Considering

That the economic development of the Latin American countries depends on international co-operation in technical, economic and financial fields, as well as internal measures adopted by governments to stimulate that development and to encourage the most effective utilization of foreign investment;

That the efficacy of these measures will depend to a considerable degree upon the size and scope of the financial co-operation extended to Latin American countries and the possibility of reaching the recommended investment target;

That it is indispensable that such measures, without prejudice to other objectives, should contribute to an increase in the technical and economic capacity to absorb public and private investment and to facilitate the transfer of their financial services abroad;

That with this objective it is necessary to draw up national programmes for the better allocation of investments, taking into account the available resources, and for the adequate formulation and co-ordination of monetary, fiscal, customs and exchange measures required by a development policy;

That the creation of substantial basic investments, and the adoption of such measures, would create a favourable atmosphere for investments of private foreign capital in Latin American countries;

That foreign investments of the size proposed by the above investment target can only represent a temporary and supplementary solution within a development policy, and that it is essential for such a policy to progressively raise the rate of domestic investment to a level sufficient for maintaining a high rate of economic growth;

The recommendation is made:

(1) To prepare development projects that combine all the technical, economic and financial requisites for their consideration by international credit institutions, and to co-ordinate such projects within an over-all programme. In such programmes it would be desirable to:

(*a*) Set aside a substantial share of public funds for basic investments;

(*b*) Give priority in public and private investments to those which would provide the greatest increase in direct and indirect productivity, which would stimulate new investment or which would contribute to a reduction of production and transport costs, and

(*c*) Establish clearly the fields of investment towards which private foreign capital should be guided, in which such capital may provide the greatest technical and economic contribution;

(2) To improve the operating units in the different sectors of public administration and economic activity responsible for the preparation of individual projects and sectoral development plans; and to create or strengthen central programming agencies or organs which give over-all direction to the formulation of those plans, integrate them within the general economic development programme, periodically evaluate the performance under such programme in terms of planned targets, and assist in introducing reforms which experience demonstrates to be desirable;

(3) To adopt monetary and fiscal measures to curb the inflationary process; and to request the collaboration of credit institutions and the

International Monetary Fund in avoiding a stabilizing policy which would have unfavourable consequences on economic development;

(4) To undertake fiscal and other measures for discouraging non-essential consumption and investment in luxury goods, for stimulating more profitable utilization of the means of production, particularly arable land, for encouraging new investment and for allowing the formation of adequate depreciation reserves;

(5) To adopt customs and exchange measures which would facilitate structural changes in the internal economy and in the composition of imports, to open up new fields of investment to private enterprise, to reduce the vulnerability of national economies to external fluctuations, and to facilitate the transfer of services on foreign capital.

6. Measures for co-operation of the United States Government

Considering

That the United States Government has taken the initiative in introducing fiscal incentives into its tax legislation in order to stimulate private investment abroad;

That these incentives could be extended to other forms of taxation for a better accomplishment of such objectives;

That in addition to stimulating private enterprise among foreign concerns in Latin America, it is advisable to encourage their free competition or, if this should not be possible, to adopt control measures to avoid the unfavourable consequences of monopolies;

The recommendation is made:

(1) To indicate the importance of the initiative taken by the United States Government as regards fiscal incentives to private investment abroad;

(2) To suggest the possibility that such incentives might be extended to other taxes, particularly export taxes established by some Latin American countries, when these represent alternative forms of taxing the profits of export enterprises and may therefore receive the same treatment as income taxes;

(3) To reach agreements for applying to United States concerns operating in Latin America the same principles of anti-monopolistic legislation in force in the United States, or otherwise to take adequate control measures when necessary;

(4) To furnish means for facilitating the collaboration of the United States Government in the process of collecting taxes which the Latin American countries impose upon those concerns which simultaneously operate in their own countries, in the United States, and elsewhere.

(5) To appoint a special commission to examine the problems connected with points 3 and 4 of this recommendation and to present the conclusions to interested governments.

7. PERIODIC REVISION OF ECONOMIC DEVELOPMENT POLICY AND MEASURES OF INTERNATIONAL CO-OPERATION

Considering

That the attainment of the foreign investment target, as well as the measures of domestic co-operation in development policies of the Latin American countries, calls for a periodic examination by the interested governments;

That it is also advisable to examine the internal measures adopted by Latin American countries to obtain greater advantages from international co-operation;

That this examination might lead to new agreements or recommendations, or to a modification of those in existence, and a revision of the investment target;

The recommendation is made:

(1) To examine periodically economic development policies and the accomplishment of measures for international co-operation during the meetings of Ministers of Finance or Economy to be convened by the Inter-American Economic and Social Council;

(2) To invite the Secretary-General of the United Nations to extend the collaboration of the secretariat of the Economic Commission for Latin America with a view to the presentation by that Commission to meetings such of an analytical report on the rate of growth in Latin America and the internal and international factors which influence this development, on the investment needs of individual countries, on their development programmes and the results being achieved, and, particularly, on the scope and effects of the measures of international co-operation in the technical, economic and financial fields.

8. CREATION OF A CONSULTATIVE GROUP ON ECONOMIC DEVELOPMENT

Considering

That in preparing internal measures aimed at facilitating the full utilization of international co-operation it might, in certain cases, benefit the Latin American countries to receive the prior opinion of an independent group of experts;

That owing to the confidence this group might inspire in the interested governments and international credit institutions, the advice of such experts could also contribute to harmonizing different points of view and facilitating negotiations;

That, in order to discharge their duties to the best of their ability, the experts should act in a personal capacity and as entirely independent of the institutions appointing them;

The recommendation is made:

To create a Consultative Group on Economic Development in accordance with the following principles:

(1) The Group will be composed of five members, of which:

(*a*) Four will be appointed respectively by the United Nations, the Organization of American States, the International Bank for Reconstruction and Development, and the Export-Import Bank, if such a procedure is agreed upon by these institutions;

(*b*) The fifth member will be selected by the four others.

(2) The experts so appointed will act in a purely personal capacity and not as representatives of the institutions which nominated them. They will not receive instructions from these institutions nor will their opinions bind the institutions in any way whatsoever.

(3) The members of the Group will remain in office for a period of six years and their fees and other expenditures will be covered on a pro rata basis by the above-mentioned institutions.

(4) If this proposal is approved by the Secretary-General of the United Nations, the secretariat of the Economic Commission for Latin America, within the limits of its resources, will place administrative services at the disposal of the Group.

(5) The Group will meet whenever requested by a Latin American government or by an international credit institution, and the meeting will be summoned by the secretariat of the Economic Commission for Latin America, in the capacity assigned to it in point 4.

II. MEASURES TO DECREASE THE EXTERNAL ECONOMIC VULNERABILITY OF THE LATIN AMERICAN COUNTRIES

9. INTERNAL MEASURES TO DECREASE THE EFFECTS OF WORLD ECONOMIC FLUCTUATIONS

Considering

That fluctuations in the world economy have adverse effects on Latin American stability and economic development;

That possible international solutions could only reduce the amplitude of these movements and that it is therefore necessary to adopt measures of an internal nature to reinforce such international action;

That the main aims of these internal measures would be to attenuate the effects of variations in prices and in export volume upon productive activities, upon the monetary situation and upon the national income;

That these objectives could be achieved by absorbing international resources in times of prosperity for use in periods of recession, which would simultaneously reduce exaggerated variations in public and private consumption;

That it is possible to combine the objectives of stability with those of economic development if such a policy of foresight is linked to measures of international co-operation;

The recommendation is made:

(1) To absorb part of Latin America's increase in foreign exchange resources which is periodically caused by favourable external factors,

utilizing for this purpose fiscal policies relating to public credit, or other measures;

(2) To direct the resources so obtained towards the financing of economic development projects;

(3) To arrange agreements between interested countries and international credit institutions so that the latter, for periods of not more than five years, undertake to loan to the former an amount equivalent to such resources utilized in economic development projects when such funds are required as a result of a slackening in internal activity or a disequilibrium in the balance of payments. To this effect, the projects referred to in point (2) should be presented by the interested countries to international credit institutions for prior approval;

(4) To place the resources obtained in accordance with point (1) in a special fund or account apart from the general public funds to ensure their use for this specific purpose.

10. Anti-cyclical policy of international credit institutions and the International Monetary Fund

Considering

That the collaboration of international credit institutions is indispensable to the anti-cyclical measures adopted by governments to mitigate international fluctuations and to lessen their effects upon Latin America's economy;

That stand-by credit arrangements which can be utilized at the discretion of interested countries have been made available by the International Monetary Fund;

That credit quotas of that institution for the Latin American countries, based on estimates that no longer reflect existing circumstances, have in general been insufficient to offset the effects of external fluctuations upon the balance of payments or upon emergency situations of internal origin;

The recommendation is made:

(1) That international credit institutions be provided with the flexibility that is indispensable to obtain greater regularity in implementing the economic development programmes of the Latin American countries. In the event that external factors prevent the attainment of the volume of internal resources required to finance investments, such institutions should with prudence increase the volume of lending that had previously been approved, without prejudice to the measures referred to in recommendation 1 of Part II or to those they may deem it advisable to adopt in order to carry out this proposal;

(2) That the relevant regulations contained in the articles of agreement of the International Monetary Fund be made use of to enlarge the credit quotas of the Latin American countries and to modify them in accordance with prevailing conditions, thus increasing the efficiency of its compensatory policy.

11. Measures to reduce price fluctuations of primary products[e]

Considering

That efforts are being made at the international level to obtain greater stability in the prices of primary products, and that with this object the Economic and Social Council of the United Nations has established a Commission on International Commodity Trade;

That without prejudice to the measures which may be recommended by that Commission for maintaining fair and reasonable prices for basic products, it is indispensable to prevent such prices from dropping below the critical levels at which output would be so affected that it would later be unable to meet the normal growth of demand;

That although such an objective would as a rule necessitate world-wide agreements, Latin American countries could in special cases, such as those concerning certain strategic products or others in which the hemisphere's consumption or production represents a high proportion of the world total, contribute to averting a price decline by means of co-operative measures;

The recommendation is made:

(1) That the Commission on International Commodity Trade study measures to prevent prices of basic products from dropping below the critical levels referred to previously, including the following:

(*a*) Measures to determine such critical levels and their periodic readjustment, in order to avoid an accumulation of stock that would be excessive in relation to growth trends of world demand;

(*b*) The formation of buffer stocks that may be sold at the critical price level by the principal producer and consumer countries, and the procedure for liquidating such stocks;

(*c*) The financial co-operation required to achieve the foregoing objectives.

(2) That if prices of basic export products from Latin America threaten to drop below the critical level, the governments of the producer and consumer countries of the hemisphere should consult together with a view to meeting that risk, and, whenever appropriate, to promoting more extensive action at the international level.

12. Consultation procedure for agriculture surpluses[f]

Considering

That the United States Government has decided to liquidate a proportion of its agricultural surplus without provoking disturbances on the world market that would adversely influence other producers;

The recommendation is made:

To follow a procedure of consultation between the interested countries which would contribute to greater success in the policy of liquidating agricultural surpluses on the world market in an orderly manner.

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[e] See annex.

[f] See footnote by the ECLA secretariat on page 82 regarding the FAO Consultative Sub-Committee on Surplus Disposal.

III. TRADE POLICY AND ECONOMIC DEVELOPMENT

13. Industrial protection and agricultural development

Considering

That it is desirable to recognize certain essential principles which should guide the development policy of the Latin American countries and its relation to foreign trade and the policy of international co-operation;

The recommendation is made:

To formulate the following declarations:

(*a*) Industrialization is an inevitable necessity for economic development of the Latin American countries and this process must be progressively amplified to the extent that—as technical advances are made in low-productivity activities—it will be increasingly necessary to employ in industry and services the potential labour force that export activities cannot advantageously absorb.

(*b*) In addition to other incentives, industrialization requires tariff protection; if this protection is maintained within adequate and reasonable limits and does not deprive export activities of the factors required for their normal development, it does not unfavourably affect the volume of world trade.

(*c*) The interdependence of economic activities makes it essential that, combined with industrial development, special consideration should be given to agriculture, as well as the improvement of its techniques and working conditions, so as to avoid troublesome maladjustments of an economic and social nature.

14. Trade policy of the United States in regard to Latin America

Considering

That a reduction of customs duties on primary products in the United States, by causing increased exports from the Latin American countries, leads, either directly or indirectly to an expansion of exports from the United States; and that in view of this spontaneous reciprocity it is not indispensable that Latin American countries should in turn lower tariffs which might adversely affect their economic development;

That tariff protection in Latin America—if maintained within reasonable limits—only modifies the composition of imports in accordance with structural changes in the internal economy, while higher customs duties in the large industrial centres unfavourably influence the volume of their trade with the less-developed countries;

The recommendation is made:

(1) To emphasize the special significance of the proposal publicly made by the United States Government to introduce reductions in customs duties, as also of the recent decision not to raise these tariffs in cases that would have adversely affected Latin American exports;

(2) To underline the importance which the continuance and expansion of this policy has for Latin American countries;

(3) To recognize that, notwithstanding these favourable measures, well-known obstacles exist in the United States which hinder further tariff reductions from reaching a scale sufficient to offer a powerful stimulus for the development of Latin America's economy, and for this reason it is of fundamental importance that other vigorous co-operative measures be adopted in the international field.

15. Trade policy governing strategic raw materials

Considering

That the economic solidarity of the region is intimately linked with its political solidarity and that production and trade in those commodities known as strategic raw materials which are produced by Latin American countries should be conducted in the light of the basic principle of the inter-American system;

That in considering the hemisphere as a common source of strategic raw materials, it is essential to adopt measures to meet the economic consequences of this fact in the Latin American countries, as well as to encourage a better utilization of their natural resources;

That the system of flexible tariffs applied to certain mineral imports in the United States causes serious repercussions on the Latin American economy;

The recommendation is made:

(1) To avoid the expansion of high-cost marginal production in the United States, so as to maintain and enlarge mining activities in Latin America, both of strategic and other minerals;

(2) To adopt measures offsetting the unfavourable consequences to Latin America should it be impossible to modify the current system of flexible tariffs because of the need to develop certain areas, or because of difficulties of another nature;

(3) To give special consideration among these measures to additional imports of mineral products with a view to preventing prices from dropping below the critical level which flexible tariffs endeavour to prevent;

(4) To encourage production in Latin America from unexploited mining resources, or from those at present worked on a very reduced scale in relation to the needs of the continent, through the co-operation of either international credit institutions or of private capital.

16. Liberalization of inter-Latin American trade

Considering

That the development of certain branches of production in the Latin American countries generally requires broader markets than those provided by the domestic economy;

That the reduction or elimination of trade restrictions between such countries would enable this objective to be achieved, thus facilitating greater specialization and supplementing their economies by better utilization of resources, increased productivity, reduced costs, and benefits for consumers;

The recommendation is made:

(1) To liberalize trade between the Latin American countries, reducing or eliminating tariffs and other commercial barriers between them;

(2) To extend the measures initially applied by two or more countries to other Latin American nations, including the granting of adequate compensation;

(3) To take the foregoing principles into account in the regulations of the General Agreement on Tariffs and Trade (GATT).

IV. TECHNICAL ASSISTANCE

17. Technical assistance for economic development and the training of highly qualified technical personnel

Considering

That the United Nations and specialized agencies and the Organization of American States, as well as the Government of the United States of America, are engaged in placing at the disposal of under-developed countries their wealth of technical knowledge and research methods, which have been accumulated by the more advanced countries;

That among other important aspects, this task is of immeasurable significance for the economic development of the Latin American countries;

That experience has shown the resources devoted to this purpose are obviously inadequate and that the present system, which entails annual approval of those resources, detracts from the continuity that is indispensable if technical assistance is to provide greater efficiency;

That the direction and nature of technical assistance closely depends upon the objectives pursued by development programmes;

That experience shows technical assistance to be required in the actual drawing up of these programmes, not only for the programme itself but also for the preparation of specific projects, and that for this purpose it is necessary to train technical personnel who are at present almost non-existent in the field of programming;

That among the efforts to this end, the Economic Commission for Latin America and the Technical Assistance Administration of the United Nations have begun a training programme for Latin American economists in Santiago, Chile, which deals with economic development, but that the magnitude of this programme is still limited in relation to practical requirements;

That, in addition, more technical personnel for industry, agriculture and services must be trained and that although a praiseworthy effort to this end is being carried out through fellowship grants, about 3,000 fellowship grants provided annually for the whole of Latin America satisfies only part of the requirements;

That in the task of training technicians it is advisable to benefit from and improve the facilities offered by Latin American countries themselves;

The recommendation is made:—

(1) To enlarge substantially the resources devoted to technical assistance for economic development and to give greater continuity to tasks that cannot be efficiently accomplished under a system that requires annual approval of resources;

(2) To form permanent cadres of international technical personnel to collaborate with the Latin American countries in preparing development programmes and specific projects;

(3) To broaden the training programme for economists in the field of economic development organized jointly by the Economic Commission for Latin America and the Technical Assistance Administration of the United Nations and to extend this programme to other Latin American countries, organizing therein short training courses at periodic intervals;

(4) To increase to 10,000 the number of fellowships that are granted each year for training senior technicians for employment in Latin America's agriculture industry and services;

(5) To take advantage of Latin America's own technical experience in assistance given by some countries to others, for which purpose a list of Latin American experts specialized in different fields should be established;

(6) To make use of the facilities existing in Latin American countries for the training of technicians, and to contribute to their improvement as far as possible.

18. Programming of technical assistance for economic development

Considering

That technical assistance to Latin American countries is still in an initial stage and does not yet therefore follow a definite plan;

That the objectives of this programme are closely connected with the aims of a development policy and until the latter are clearly defined, adequate guidance cannot be given to technical assistance objectives;

That while progress is being made in this dual task, it is essential to inaugurate a systematic examination of the most important needs of technical assistance, especially in the field of natural resources and their conservation, technological research into their better utilization, and productivity in agriculture, industry and services;

That in regard to agricultural productivity the Food and Agriculture Organization of the United Nations is making a valuable contribution, while the United States Government is making a most praiseworthy effort, in which the institutions of that country are participating efficiently, and that such efforts are now being extended to industry;

That these efforts should be extended and intensified and advantage should be taken of the creation of the Inter-American Fund for Industrial, Agricultural and Mining Development to provide both a wider basis and greater continuity to technical assistance in order to increase industrial productivity;

The recommendation is made:

(1) To entrust to the secretariat of the Inter-American Economic and Social Council of the Organization of American States, the secretariat of the United Nations Economic Commission for Latin America and the United Nations Technical Assistance Administration, with the collaboration of the other international agencies concerned as well as of the United States Government, the preparation of a report on technical assistance requirements which should principally cover the following points:

(*a*) Technical assistance that has been given in analysing the natural resources of the Latin American countries, their conservation and use; practical results of that assistance; principal objectives which technical assistance should pursue in this field from the viewpoint of economic development and the degree and stages in which it is advisable to accomplish them;

(*b*) Technical assistance to agriculture which would increase productivity, either directly or indirectly; results obtained and the objectives which a programme for agricultural productivity should follow, taking into consideration consumption requirements and export possibilities;

(*c*) Factors hindering increased productivity in industry, power and transport; criteria and the order of priorities to be followed in granting technical assistance, depending upon the problems involved in developing these activities and the objectives established for them;

(2) To recommend to these secretariats the calling of a Group of Experts to discuss the above-mentioned report and to draw up the basis for a technical assistance policy with respect to natural resources and productivity, presenting a cost estimate of this assistance based upon the extent of application that such experts consider advisable to recommend as a means of meeting economic development requirements. The report of the group, together with that prepared by the secretariats, will be brought to the attention of their respective organizations;

(3) To extend and intensify the present technical assistance for productivity, especially that of the United Nations and of the Government of the United States of America.

ANNEX

Resolution 557 F (XVIII) adopted by the Economic and Social Council at the 829th plenary meeting, 5 August 1954

COMMISSION ON INTERNATIONAL COMMODITY TRADE

The Economic and Social Council,

Bearing in mind that Council resolution 512 A (XVII) provided for the creation of a permanent advisory Commission on International Commodity Trade and postponed its constitution and organization until the eighteenth session of the Council,

Taking note of the comments from governments contained in documents E/2623 and E/2623/Add.1-3,

Noting that a majority of governments, either in their written comments or in their statements during the debates on this question in the Council, have expressed the view that the Commission should begin its work as soon as possible, especially in view of the urgency of problems in international commodity trade which was recognized in the debates on the world economic situation and economic development,

Noting furthermore that several governments have expressed the view that, before the Commission is established, an opportunity should be given to the Contracting Parties to the General Agreement on Tariffs and Trade to consider to what extent the problem of instability in primary commodities should be dealt with under the auspices of that Agreement,

Noting that this question will be raised at the forthcoming review of the General Agreement,

Noting also the communication from the Director-General of the Food and Agriculture Organization, transmitting the view of the FAO Committee on Commodity Problems concerning the relationship between its work and that of the Commission, together with the statement of the functions and activities of the said Committee in regard to international commodity problems and trade,

Mindful of the need to provide the Commission with an efficient and adequate organization to enable it to accomplish its mission satisfactorily.

Considering that the Commission will be called upon to study some of the problems hitherto entrusted to the Interim Co-ordinating Committee for International Commodity Arrangements,

Decides:

1. To proceed with the immediate constitution of the Commission on International Commodity Trade on the following basis:

2. The arrangements for membership shall be as follows:

(*a*) The Commission on International Commodity Trade shall be composed of one representative of each of eighteen Members of the United

Nations elected by the Council, bearing in mind the need to ensure adequate representation of all geographical regions and of countries in various stages of development which participate to an important extent in international commodity trade and/or are closely dependent thereon;

(*b*) With the exception of the initial period, the term of office of members shall be three years;

(*c*) When a representative of a member of the Commission is unable to serve for the full term of three years, the vacancy shall be filled by another representative designated by the same Member State;

(*d*) Retiring members shall be eligible for re-election;

(*e*) The original members of the Commission shall be the eighteen States elected by the Council as early as possible at its resumed eighteenth session;

(*f*) The term of office of one-third of the Members shall end on 31 December 1956, one-third on 31 December 1957, and one-third on 31 December 1958;

(*g*) Subsequent elections shall be conducted in accordance with the usual procedure for elections to functional commissions of the Council.

3. In carrying out its work, the Commission shall be guided by the following principles:

(*a*) Any Member State not represented on the Commission may bring to the Commission's attention any problem connected with international commodity trade within the Commission's terms of reference which it considers to be of special importance;

(*b*) Any Member State not represented on the Commission may participate in the Commission's debates on problems in which it has a direct concern. Similarly, the Commission, subject to prior authorization by the Council, may invite States which are not Members of the United Nations to take part in its discussions when their presence appears advisable for further clarification of the problems under study;

(*c*) The Commission shall establish and maintain relations through the Secretary-General with other United Nations organs, specialized agencies, international study groups and inter-governmental bodies concerned with the problem of primary commodities or with related questions. More specifically, in the interpretation of its terms of reference and in the organization of its work, the Commission shall consult on a continuing basis with various specialized agencies and their subordinate bodies having responsibilities in the field of international commodity trade and, in particular, with the FAO Committee on Commodity Problems, so as to ensure that the most effective use is made of the work already being done in that field and to prevent duplication or overlapping with the activities of these agencies;

(*d*) Within the above framework, the Commission shall be authorized to inform Member and non-Member States of the conclusions of its studies, to send them its report, and to seek from them the available information it requires for its work, all such relations being conducted through the Secretary-General of the United Nations;

(e) The Commission shall meet as frequently as it considers necessary to discharge its work efficiently. The Commission shall meet only when specific items have been proposed for discussion;

(f) The Commission shall be authorized to hold private meetings when it considers this to be in the best interests of its work;

(g) The States members of the Commission should appoint representatives who are qualified experts familiar with the technical and practical problems of international commodity trade;

(h) Neither travel nor subsistence expenses of the representatives of members of the Commission shall be paid out of United Nations funds.

4. Subject to prior authorization by the Council, and in accordance with the decisions of the General Assembly, the Commission may hold meetings away from headquarters when it considers this to be in the best interests of its work.

5. The Commission shall submit to the Council reports on its activities, in which it may include its own recommendations.

6. The Commission may submit to the Council its views and recommendations on any changes it may consider desirable in its terms of reference, organization and rules of procedure, so as to ensure the most practical development of its work.

7. The Interim Co-ordinating Committee for International Commodity Arrangements shall, for the present, continue to discharge its functions of convening inter-governmental study groups, of making recommendations to the Secretary-General on the convening of commodity conferences and of co-ordinating the activities of the individual commodity study groups and councils. The Commission shall assume all other responsibilities hitherto discharged by the Interim Co-ordinating Committee.

8. The Council, in consultation with the Secretary-General, shall consider the status and functions of the Interim Co-ordinating Committee at its twentieth session.

9. The Council shall consider in the future the status and functions of the Commission on International Commodity Trade in the light of any important development in its field, including the results of the discussions by the Contracting Parties to the General Agreement on Tariffs and Trade, which shall be taken into account as soon as possible after these results are known.

10. The Secretary-General shall convene the first session of the Commission as early as possible in 1955. The agenda for this session shall include the following:

(a) Survey of the current situation in international commodity trade;

(b) Consideration of proposals by governments regarding international commodity problems;

(c) Consideration of terms of reference, rules of procedure and programme of work.

11. The Commission shall submit to the Council at its twentieth session the first report on its specific activities concerning international commodity trade, and include therein its observations on its terms of reference, organization, rules of procedure and work programme, taking into account the records of the discussions of the Council on this subject.