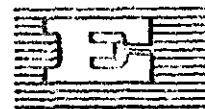


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SOCIAL COUNCIL



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ECONOMIC COMMISSION FOR LATIN AMERICA
Sixth Session
Bogotá, Colombia
29 August 1955

COMMITTEE II
(Economic Development and Technical Assistance)
SUMMARY RECORD OF THE THIRD MEETING
Held at Bogotá on Tuesday,
6 September 1955, at 3.20 p.m.

CONTENTS:

The programming of economic development (E/CN.12/363,364 and 365)

PRESENT:

<u>Chairman:</u>	Mr. MULLER	Venezuela
<u>Rapporteur:</u>	Mr. GUERRERO	Nicaragua
<u>Members:</u>	Mr. VALLADARES	Argentina
	Mr. ARCE	Bolivia
	Mr. ORTIZ LOZANO	Colombia
	Mr. HESS ESTRADA	Costa Rica
	Mr. DIAZ MASVIDAL	Cuba

/Mr. NAPPE

Mr. NAPPE	Chile
Mr. PITARQUE	Ecuador
Mr. RAMIREZ	El Salvador
Mr. ROSS	United States of America
Mr. VIAUD	France
Mr. APOLLON	Haiti
Mr. BUESO ARIAS	Honduras
Mr. ZAMORA	Mexico
Mr. GUEBERRERO	Nicaragua
Mr. VAREKAMP	Netherlands
Mr. AIZPU	Panamá
Mr. SCOTT FOX	United Kingdom
Mr. GINEBRA HENRIQUEZ	Dominican Republic
Mr. NIDAL JAUME	Uruguay
Mr. ALAMO BLANCO	Venezuela

Also present:

Representatives of specialized agencies:

Mr. AMIOT	Food and Agriculture Organization
Mr. VERA	International Monetary Fund

Representative of a non-governmental organization:

Category A:

Miss KAHN	World Federation of Trade Unions
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/ Secretariat:

Secretariat:

Mr. PREBISCH	Executive Secretary
Mr. MARTINEZ CABAÑAS	Deputy Director, Technical Assistance Administration
Mr. URQUIDI	Director, Mexico City Office
Mr. BLELLOCK	Technical Assistance Board
Mr. FURTADO)	Secretaries of the
Mr. GANZ)	Committee

/THE PROGRAMMING

THE PROGRAMMING OF ECONOMIC DEVELOPMENT (E/CN.12/363, 364 and 365)

Mr. HESS (Costa Rica) said that a special office for the programming of economic development had been set up in Costa Rica. The general plan of work to be undertaken by the office was divided into three main sections: the compilation of basic statistics, projections for each of the main economic sectors and a general plan of economic development, including an estimate of investment requirements, tax implications and trade prospects.

The office was also responsible for considering the balance of payments prospects over a period of ten years, a subject of great importance to Costa Rica, 40 per cent of whose gross national product depended on the external sector. It was also important to have some idea of balance of payments prospects in order to estimate the future foreign currency reserves available for the purchase of capital equipment and consumer goods. The office was also preparing a comprehensive plan for increasing Costa Rican agricultural and animal production.

He then outlined the origin and history of the office, explaining that its principal assignments were a general study of economic development, the co-ordination of the current short-term and long-term plans of the various ministries and agencies concerned with economic development, the evaluation of the public and semi-public investment projects which required external financing, and specific studies of industrial development. There were eighteen persons on the research staff, including highly qualified economists and statisticians.

/He hoped

He hoped that ECLA would continue its effective work to promote the economic integration of Central America and would give special consideration to the making of a complete study of the problems and prospects for the economic development of Costa Rica, similar to those made in respect of Argentina, Brazil, Chile, Colombia and Mexico. ECLA would thus contribute to the work of research at present hampered by the lack of competent personnel. He suggested that the Technical Assistance Administration should expand the capacity of the Economic Development Training Programme in Santiago with a view to increasing the number of specialized personnel. Not more than fourteen fellowship-holders attended the training course each year and only two Costa Ricans had been granted fellowships during the four years of its existence.

As the Colombian representative had stressed, it was necessary to train specialists in economic development programme to co-ordinate and direct the work of specialists in other branches.

Finally, Costa Rica hoped that additional technical assistance would be forthcoming for studying the possibilities of import substitution.

Mr. SCOTT FOX (United Kingdom) recalled that, at the fifth session of ECLA, the Secretariat had presented a preliminary study of the technique of programming economic development and had been invited to continue its examination of the problem.

The Introduction to the Technique of Programming (E/CN.12/363) presented at the present conference showed the progress which the Secretariat made in its work.

Mr. Prebisch and his colleagues were to be congratulated also on the admirable studies of the economic development of Brazil and Colombia (E/CN.12/364 and 365).

/The application

The application of theory to practice was particularly important because it could help to correct the misconceptions which were liable to arise from the consideration of pure theory, as the latter was expounded in the Introduction to the Technique of Programming. In perusing that document he had felt some misgivings about the importance attached to somewhat uncertain statistical data. For instance, great importance was given to the concept of the ratio between output and capital which was calculated for past years, and utilized as a means of estimating the amount of investment needed to provide a given increase of output. That formula should be used with caution; additional output did not necessarily demand the same amount of capital as preceding output, and, in achieving any given output, many different technique of production might be involved. Moreover, too firm conclusions should not be drawn from statistical data which could hardly fail to be unreliable.

The Introduction to the Technique of Programming suggested that an inflow of capital lasting a few years might accelerate development for an indefinite period. The belief was that the higher incomes produced with the flow of capital might lead to a permanently higher ratio of saving to income. That seemed an optimistic view; experience in the last decade showed that higher income through improved export prices had not led to any marked improvement in saving.

He wished to challenge the assumption, which appeared to underline parts of the study, that certain economic factors were beyond the influence of the Latin American countries. The volume of exports was treated as a datum which could not be improved upon and which thus justified excessive resort to import restrictions, which tended to make Latin America seem more dependent than necessary on foreign capital. The purchase of Latin America's exports depended largely on the quantities which it could produce

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and on the prices at which it was willing to sell. If more exports were produced at competitive prices, producers could sell more and could thus afford the additional imports needed for development. By putting some investment resources into production for export, countries could ensure increased exports, the process of economic expansion would be assisted and the regression into self-sufficiency might be avoided.

He well understood the fear in Latin American minds about the precarious nature of overseas markets, which arise from the experience of the Latin American countries between the wars and which was kept alive by the inevitable fluctuations in international trade. But it was reasonable to suppose that the conditions of the early 30's were not likely to recur. The industrial countries which imported Latin America's products had every reason to avoid their recurrence, not only because of the internal hardship caused by unemployment but also because there was an enlivened sense of responsibility for international economic stability. There was, moreover, a growing understanding of the technique by which a tolerable degree of stability might be maintained.

The feature, to which he had drawn attention in the study, was not so apparent in the more practical country studies, and the paper on Brazil placed proper emphasis on the need to expand exports.

His Government was very conscious of the great importance which the Secretariat of ECLA attached to studying and planning the economic development of Latin America; it noted with respect the serious work accomplished in the last two years and would look forward to further country studies of the calibre of those made in respect of Colombia and Brazil.

Mr. VIAUD (France) stated that, following the devastation of the Second World War, French agriculture and industry had been unable to meet

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the needs of the population. The State had been obliged to undertake the rehabilitation of national production and had prepared a development programme to re-equip and modernize the essential industries. The Government had tried to find a compromise between the traditional French proclivity towards economic liberalism and the need for State guidance. The first plan, covering the period 1948 - 1952, had placed the main emphasis on basic activities such as the construction of new power plants, the modernization of the metallurgical industry and the reorganization of transport facilities. The second and current development plan gave priority to agriculture and the transformation industries.

For each branch of the economy there was a technical committee consisting of representatives not only of the administration but also of the industries and trade unions concerned. A governmental body co-ordinated the work of the various committees.

The plan was divided into annual programmes subject to modification according to the Government's financial policy and other circumstances. The national budget was the main factor determining the volume of public investment. Much also depended on the Government's taxation policy, which could be the most effective means of stimulating private investment in enterprises where development was desirable.

The plan was also conditioned to a great extent by the requirements of international co-operation. The Organization for European Economic Co-operation, for example, endeavoured, among other things, to co-ordinate the economic policies of its member States in certain respects. Its influence had been felt particularly in the transport and electrical industries. The European Coal and Steel Community was another example of an international agency which influenced the development of other industries.

/The Latin

The Latin American countries were faced with problems different from those which had confronted post-war Europe, yet, as the remarkable studies of ECLA indicated, they too were obliged to undertake vast national and international economic development programmes. The planning of development in each Latin American country was primarily the responsibility of the Government concerned. However, despite the diversity of their problems, the Latin American countries presented certain common aspects which had to be taken into consideration when programming development.

So far as the basic economic activities were concerned, Latin America was at the stage through which the more industrialized countries had already passed. The creation of new industries might lead to bottlenecks if those industries lacked sufficient power, proper transport facilities or the necessary semi-finished product of heavy industry for their operation.

Development programmes should accord due importance to diversification in order to eliminate the economic dependence of a country on a single commodity.

The financial policy of Latin America as a whole should be designed to encourage national saving and to include foreign investment. National financial stability was essential for the creation of a proper investment climate.

Inter-Latin-American co-operation was also necessary. The efforts of each country would be more effective if co-ordinated with the efforts of neighbouring countries. Fortunately ECLA offered excellent facilities for Inter-Latin-American co-operation. The excellent studies on techniques of programming in Brazil and Colombia showed that the experts of ECLA were amply qualified.

The Technical Assistance Administration was also prepared to expand
/its valuable

its valuable contribution to the work of programming economic development.

International co-operation could be useful in co-ordinating planning methods and the objectives of the various development programmes, in accordance with resource capabilities and geographical location. Considerable progress in that connexion had already been achieved in the technical conferences organized under the auspices of ECLA. Finally, international co-operation could be effective in studying methods of financing. France was prepared to join in the common endeavour. Its experience, technology and resources enabled it to make a useful, although possibly modest, contribution to the development of the Latin American countries.

Mr. ROSS (United States) said that documents E/CN.12/363, 364 and 365 spoke for themselves as to the amount of work and complex analysis involved in their preparation. He asked for the opportunity to present more considered observations to the Secretariat at a later date; in the meantime he would make some tentative and preliminary comments.

He emphasized the importance of flexibility in the programmes, which should be subject to modification in the light of new events and data, a point which was of particular importance in relation to dynamic economies such as those of Latin America, where major changes could occur in the main variables of the economy.

The practical usefulness of programming on the basis of hypothetical goals could be enhanced by the parallel programming based on availability of resources and their best utilization. This approach would be more valuable for short and medium term periods in that it could provide a faster means and more realistic basis for the formulation of economic development objectives.

The over-all quantitative projections were useful, however, since they

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gave an indication of the general order of magnitude of the problems confronting administrators and policy makers, of the national effort required and of the methods to be used to meet given goals, and they provided a basis for judging the feasibility of the goals.

Since the decisions involved in programming were of vital importance for national welfare, the Secretariat had rightly stressed the need for impartiality and objectivity in the preparation of estimates and presentation of the probable consequences of alternative courses of action.

He expressed the opinion that the accuracy of future forecasts depended to a great extent upon the validity of the basic statistics, and he promised the continued support of his government to ECLA and all other international and national organizations in that field.

He pointed to the possibility that domestic saving as a source of funds for investment could be susceptible of greater expansion than indicated by the ECLA reports. In that respect, he mentioned various measures such as control of inflation, existence of savings institutions, increased taxation which would not appreciably reduce investment incentives and the possibility of sizable investments, with relatively little financial expenditure, in community efforts to build and expand local facilities.

He raised the question as to whether larger investment for development purposes could not be obtained from income increments. He felt that ECLA had perhaps under-estimated that source. The possibility of increasing domestic savings affected directly the rate of economic growth and the dependence on foreign capital.

ECLA's report might have given greater emphasis to the problem of developing an adequate amount of skilled labour and management and to the relationship between price movements and economic development.

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In the first projections of capital requirements, he thought that the conclusions based on recent experience, with respect to the increase in product associated with the increase in capital, would be more valid for the future than those based on the average productivity of accumulated capital.

He commended the Secretariat, for clearing up, in Chapter I of analysis and projections of Economic development (E/CN.12/363) the misconception that economic programming was necessarily linked with a rigid State control of the economy.

Finally, he emphasized that good development projects should not be delayed to await the final results of long-term planning. The solution of these problems, such as a favourable atmosphere for private investment and financing by the Eximbank and International Bank, could be rewarding. In this connexion, he had been surprised by the small volume of loan applications to the Export-Import Bank since the Rio de Janeiro Meeting of Finance Ministers. He thought that Mr. Prebisch had had that same point in mind when stating that both long-term programming and immediate action should go forward at the same time.

Mr. BUESO ARIAS (Honduras) outlined the main aspects of economic programming in his country. At the end of 1954 his Government had established a committee to prepare a preliminary five-year economic development programme under the guidance of an expert from the International Bank for Reconstruction and Development. The plan prepared by that committee gave priority to road building, development of energy resources and agricultural expansion. A special organization, the Consejo Nacional de Economía, had been created to formulate a general economic development programme on the basis of the preliminary plan.

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Since the application of the plan had been expected to begin in June 1955, the public investment budget had been increased by 17 million lempiras, while taxes and customs duties had been increased in order to reduce the need for foreign aid.

The implementation of the plan, however, had encountered various difficulties, such as lack of preliminary studies, which had prevented the preparation of work programmes, lack of trained personnel and the delay in obtaining credit from international financial institutions. The Consejo was also considering the possibility of substituting domestic production for imports, particularly of sugar and cement. With that in mind, a protective tariff to foster domestic production had been adopted. In addition, the Consejo was working towards a better co-ordination of ministers.

He emphasized that Honduras, in programming its economic development, was giving due consideration to the economic integration programme for Central America, since greater integration was expected from development owing to the larger purchases envisaged from other Central American countries, while an expansion of traditional exports, mainly to El Salvador and Guatemala, was also expected.

Mr. PREBISCH (Executive Secretary of ECLA) thanked the committee for its kind appreciation of the documents prepared by the Secretariat and stressed that all comments and criticisms, such as those to be expressed in the memorandum promised by the United States delegation, would be very welcome.

He referred to the points raised by the representative of the United Kingdom. He stated that the Secretariat was fully aware of the danger of using statistics which did not have a sound basis in fact. However, although attempts had generally been made to avoid that procedure, at times the risk

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had deliberately been incurred on the assumption that a further interest would thus be awakened in the improvement and wider collection of statistics.

As to the doubts expressed by the representative of the United Kingdom about the efficacy of using the product-capital ratio, he emphasized that similar reservations had been made in the ECLA studies. He entirely agreed that such estimates should be regarded with caution. The United States representative had stated that the calculation of capital requirements on the basis of a historical series could give only a very rough preliminary estimate. The Executive Secretary concurred, since that figure could be altered by structural changes in the economy. Such estimates were nevertheless valuable in that they indicated the amount of capital required to attain a certain rate of development which could be used as a guide to study of each sector of economic activity. When a specific study had been made of each sector it would be possible to revise the over-all estimates. The ECLA Secretariat had been able to find no other formula for those calculations than the method of successive approximations.

The United Kingdom representative had also raised the question as to whether a given flow of foreign capital would necessarily result in a certain rise in the level of domestic saving. Periods of external prosperity generally led to an improvement in the coefficient of domestic savings, but that could not be maintained owing to the influence of factors tending to increase consumption to the detriment of investment. A deliberate policy was therefore needed to raise the coefficient, and, while the State could play an important role through its fiscal and monetary instruments, the co-operation of the private sector would also be essential.

In regard to the discussion of exports in ECLA studies, he admitted that emphasis had been given to the substitution of imports, but at no time

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had the importance of expanding exports been disregarded. The United States delegation had also raised the point, at a previous ECLA conference and had recommended that the subject be made the object of a special study. ECLA had already undertaken research in that field, and results had shown that Latin America had often missed the opportunity of increasing its exports, owing to inadequate price or exchange policies, or to a rapid process of industrialization which had absorbed the labour force required for primary activities, without achieving the complementary technification of agriculture. In the specific cases of Brazil and Colombia, however, the Secretariat had reached the conclusion, that, even with the most optimistic hypothesis, the rate of expansion of exports would never equal that of the national income, and that those countries would therefore have to continue to foster the substitution of domestic production for imports. Both aspects were not incompatible, but stress should be laid on one or the other according to the circumstances in each country.

He agreed with the observations made by the United States representative, on the need for flexibility in programming. As to the suggestion made by the same representative that economic programming should be approached from the standpoint of availability of resources, he thought that there was no incompatibility between that view and the method used by the Secretariat, since the projections thus prepared would remain on a purely theoretical plane unless supplemented by a survey of resources.

He was in agreement that, as the United States representative had rightly pointed out, the projections and analysis of economic development had not paid due attention to the problem of training labour for the skilled work required. That aspect had been studied in documents dealing with specific economic activities such as the report on the Iron and Steel Transforming

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Industries in Selected Latin American Countries (document E/CN.12/377).

In reply to a comment made by the United States representative, the Executive Secretary admitted that despite the favourable reaction of the Latin American countries, at the Rio de Janeiro meeting of finance ministers, to the offers of an increased flow of public international capital, the lack of interest shown in presenting projects to international credit institutions was a matter of deep concern.

The CHAIRMAN informed the Committee that FAO, in co-operation with the International Bank and the Technical Assistance Administration had already organized several training courses on the technique of programming and evaluation of agricultural development projects, which had been held in Lahore, Santiago, Ankara and Cairo and that it was preparing a similar course for the northern area of South America, to be held in El Salvador in 1956.

The Meeting rose at 5.05 p.m.