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SECRETARY OF THE ECONOMIC COMMISSION FOR LATIN
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When the member Governments of this Commission accepted with pleasure the invitation to hold the seventh session at La Paz, so kindly extended by the Government of Bolivia at the Bogotá conference, we of the secretariat of this United Nations organization were most gratified to have such an opportunity of visiting the scene of developments as important as those which are taking place here. Later, the secretariat received a further invitation, offering even greater promise and possibilities, for a group of our economists to study Bolivia's economic development problems and the lines along which the most important of them might best be solved. In spite of an exceptionally heavy work-load, we did not hesitate to accept this further undertaking, in which the Technical Assistance Administration offered its always very welcome and valuable collaboration. The reception accorded to our economists was generous in the extreme; all public and private sources of information were made freely available to them, and they unflinchingly met with active co-operation in the execution of their task.

/Before proceeding

Before proceeding with my statement, therefore, I must express my deep appreciation of the spirit of friendly cordiality then displayed, as well as of the hospitable welcome extended to us on the present occasion, to the warmth of which the delegations need no words of mine to testify. In the preparations for this session we invariably enjoyed the unflagging support of efficient and energetic Bolivian officials. We wish to thank them all, and in particular the Rector of this University, which has so kindly opened its doors to ECLA's seventh session.

Bolivia is seeking new patterns of economic life and social relationships. The growth of the country had always been directed outwards, and had been beset by extremely difficult circumstances. This form of growth which was the pattern for the Latin American countries but is definitely a thing of the past, undoubtedly enabled some of them to develop their exports on a substantial scale, and thus to prepare themselves for the new dynamic phase through which they are at present passing. But this did not apply in every instance, and was far from true in the specific case of Bolivia; from the earliest colonial times, the wealth of its mines was distributed over the world, without in return providing the country with the resources essential to its economic development. Primitive farming techniques, dating from centuries back, and a land-tenure system which stifled human energies and prevented the expansion of production, were the most serious obstacles to the development of the economy. But history seldom provides an easy

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solution to such problems, and it is not surprising that, here too, those initial upheavals should have taken place which are the inevitable social cost of major reforms. The experience of Bolivia has often reminded me of Mexico's; in the latter country, when the traditional land-tenure system disappeared, new social forces were released which are undoubtedly to some extent responsible for the remarkable progress now being achieved by the Mexican economy.

Mexico offers a fruitful example of the way in which the Latin American countries are learning to develop their economies from within. Strong resistances have yet to be overcome, and psychological obstacles, which are far from disappearing, must not be underestimated. Indeed, there are some very curious ideological anachronisms which still influence the more important decisions of economic policy, despite the radical changes that have taken place in the reality and events out of which these ideas emerged. The production of raw materials for the world market requires formulae and makes claims very different from the demands of a time when this objection has ceased to be an end in itself, and has become one of the means - a highly important one, it is true - whereby the internal development of the economy can be promoted, with a view to the attainment of that other primary objective which is a better standard of living for vast strata of the population of Latin America.

Great progress has been made in this direction, and a

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backward glance will show that what is now accepted as axiomatic virtually was still the subject of sharp controversy when the discussions of the United Nations Economic and Social Council first began. Some share in such an advance - and perhaps no small one - can be claimed by this regional agency of the Council for Latin America, thanks to the high technical level at which its member Governments have always conducted their debates and adopted their resolutions.

But this is no reason for complacency. The way is only just beginning to be cleared. Neither in the domestic nor in the international field have such effective forms of practical action been discovered as would quickly bring the Latin American countries to the stage at which economic development becomes self-generating. This is the position in the more advanced countries, where, thanks to high per capita income and technological intensity, the process of capital formation takes place almost automatically, and the constant innovations in methods of production steadily raise both productivity and the standard of living.

These highly-developed countries reached this stage through a long-term process. The basic problem in the under-developed countries is to avoid dangerous delays, to assimilate and adapt the new technology with all speed and to attain income levels at which an uninterrupted process of capital formation can also spontaneously generate a sustained rate of economic growth.

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But a combination of factors stands in the way of the decisive transformation required for this purpose. And neither domestic development policy nor measures of international co-operation, despite all the progress made, have yet acquired the scope and vigour that are essential if this undesirable complex of economic and social forces is to be broken up.

Everywhere in Latin America the entrepreneur is now a living and vigorous reality in the field of private enterprise. Nevertheless, despite praiseworthy efforts, he does not yet enjoy easy access to the international sources of capital and techniques and the State, whose resources are also limited, fails as a rule to provide the investment in social overhead capital which the expansion of the economy requires.

A development programme is inconceivable unless measures are taken to strike at the roots of these and other deficiencies. But such a course necessitates gradual national and international action, with considerably greater resources, both technical and financial, than are currently available. A mass transfer of capital and technique is an indispensable pre-requisite for overcoming the obstacles of which I was speaking. And this urgent task concerns not only those whose part it is to provide the capital and the technique, but also, and to a very great extent, the recipients, who must turn the assistance provided to the best possible account in accelerating their economic development.

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Special emphasis must be laid on this remark with respect to the Latin American countries. They have not yet awakened to a clear consciousness of development problems, and in them too the psychological obstacles, to which I alluded a moment ago, assume substantial proportions. One of the many clear proofs of this is afforded by the heat of the controversy that still rages in a number of countries over the problem of industrialization. It is true that certain maladjustments are observable, but these are not so much due to industrialization in itself as to improvised or misguided economic policy. There are notorious instances of traditional exports' having seriously declined, either because of the over-valuation of the currency, or because prices have been fixed at so low a level as to discourage producers, or, again, because primary production has been prematurely deprived of manpower without first being provided with the necessary means of mechanization. But none of this is inherent in the process of industrialization. Moreover, one of the most serious difficulties encountered in some areas is that, precisely because exports have been thus affected, they no longer suffice to supply industry with the capital goods, raw materials, and intermediate products it needs.

In this context, one clearly-defined notion must be fully understood. Every stage in a country's economic development requires the maintenance of a proper equilibrium between agriculture and industry. This is a changing relationship, dynamic and balanced at the same time. One of the functions of industry is to absorb the labour force which is or may be released from

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agricultural activities as a result of technical progress. The existence of this real or potential manpower surplus in the rural sector depends not only on the degree of mechanization attained, but also on external and internal demand for agricultural products. If the volume of external demand were large enough for the labour force in question to be completely absorbed by agriculture itself, there would be no need for industrialization. But this is not what actually happens, for the reason so often pointed out: demand for primary commodities increases much less than demand for manufactured goods. And this ubiquitous disparity in the growth of demand assigns to industrialization its second dynamic role in the countries in process of development. The population must be supplied with all those goods that it would otherwise be unable to obtain on account of the relatively slow expansion of exports.

Consequently, for every degree of technical progress in primary production and of expansion in the demand for primary commodities there is a corresponding degree of industrialization. In this context, one of the most interesting conclusions reached in the ECLA study on Bolivia relates to the very fact that primary production, no matter how extensive is the exploitation of the fertile hot-country areas, will not suffice to absorb the whole of the annual increment in the active population. The role of industry as an agent of absorption therefore acquires increasing importance.

At this point I should like to make a digression. The fact

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that industry, by absorbing the surplus agricultural labour force, contributes to the urbanization process in the Latin American countries does not mean that the characteristic concentration of the population in the towns which is taking place everywhere, sometimes with disturbing rapidity, originates primarily in industrialization. This aspect of the subject has been dealt with for the first time in a study submitted for the consideration of the seventh session, which, despite shortcomings attributable to uncertainty as to the reliability of the statistical data available, points out certain facts that will undoubtedly arouse the interest of the Governments represented here. The growth of employment is very unequal, especially in certain countries, in activities which do and in those which do not directly produce physical goods. This is a typical feature of economic development. As personal income increases, it is not only the demand for physical goods that expands; after a certain stage the demand for services is apt to develop more intensively. The dynamic phenomenon to which we were referring is not exactly this, however, but the decided over-employment observable in low-productivity services, which is a reflection not of a high development coefficient but of actual under-development. This employment of excessive numbers in precarious occupations or in public administration, which in some areas has increased out of all proportion, is a warning symptom that there is something wrong. And the weakness is to be found in no less a vital spot than the dynamic forces of the economy, whose lack of impetus renders it unable to absorb in directly productive activities

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an adequate proportion of that surplus labour, which is so prejudicial to the productivity of the economy as a whole and therefore to the standard of living of the population.

Nor is this all; for in the productive activities themselves, as well as in the related sectors of transport and energy, it can often be noted that, even at prevailing levels, a surplus labour force exists which could very easily be eliminated. The explanation almost invariably offered is that the trade union objects and that it cannot be done. But the problem here is a much more difficult one than the very understandable resistance put up by the trade unions. What is to be done with the labour force that will thus find itself unemployed? Is it to swell the ranks of the surplus active population in the non-productive activities?

Consequently, the basic problem is one of investment. Provided enough capital is available to expand the productive activities and to develop new branches of primary production and industry, there will be a fruitful field for the absorption of the manpower in question.

We have had the opportunity to observe at first hand the proportions which this problem of surplus manpower has assumed in Argentina. But before considering Argentina's case, I feel obliged to say something about the report prepared by the ECLA secretariat on that country's structural crisis, since I am keenly disappointed at not being able to present the study to the member Governments at this session. It requires only finishing touches, and I hope that by the second half of June

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it will reach the Argentine authorities, in the first place, because of its nature. The study is the result of the technical assistance for which the Government of Argentina applied to the Secretary-General of the United Nations, and in which an active part was played, not only by the Commission, but also by the Technical Assistance Administration, the Food and Agriculture Organization, the International Monetary Fund, the International Labour Organization, and the Inter-American Institute of Agricultural Sciences at Turrialba, which is a subsidiary body of the Organization of American States. What is even more important, we have enjoyed the invaluable co-operation of Argentine officials and of technical experts and executives from the private sector.

The structural crisis in Argentina is the outcome not only of a specific economic policy but of factors which have long been attacking the very core of the economy, and which, as they were not identified, could not be effectively combated. This has perceptively aggravated the crisis. The factors in question are to be found both on the land and in industry; on the land, because the whole expanse of the traditionally productive pampas is already in use, and because the surviving antiquated farming methods and land-tenure systems will not therefore permit an expansion of production, and hence of exports, without jeopardizing growing domestic consumer demand. The intensive introduction of new techniques in Argentina's agricultural and livestock production is a pressing necessity if the country's recovery is to be ensured.

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While in the agricultural sector it is a reform of the methods of production that is needed, what is required in industry is to remedy serious structural defects. As a result of increased industrial activity, which has been gradually developing since the end of last century, import substitution has already been achieved in respect of almost all the consumer goods produced by light industry, but industry is still over-dependent upon imports of raw materials and intermediate products. And as these cannot be increased because of the decline in exports, industry is at a standstill.

This situation will undoubtedly be eased by the expansion of exports which could be achieved over the short term up to a point. But however much exports may increase - and we have erred on the side of caution in our estimates - they cannot suffice to ensure the uninterrupted growth of industry. This latter must also correct its structural defects, so that it depends only to a reasonable extent on imports of intermediate products and raw materials.

A wide range of possible import substitutions has been studied, in activities varying from the steel-making to the petrochemical industries, and careful estimates have been made of the possible magnitude of this process. The saving in foreign exchange which would thus be achieved, plus the increment in the production of petroleum and - allowing for the rather unpromising world market outlook - a moderate expansion of exports, might gradually restore the balanced growth of the Argentine economy.

Such import substitutions would call for intensive

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industrial development as regards the production both of raw materials and intermediate products and of capital goods. And this process would provide an opportunity for the absorption of the surplus labour employed in activities not directly producing commodities. For the disproportion previously described has been so great in Argentina, that of the increment in the active population during the last ten years, only a relatively small percentage has found its way into agriculture and industry, and the remainder has been diverted to those occupations where over-crowding is very marked, namely, the railway services and the multiplicity of commercial activities.

Apart from the external contraction which is hampering the growth of industry, shortage of capital constitutes an obstacle to the productive absorption of manpower. Per capita investment has scarcely increased over the last twenty years, and its composition is very unsatisfactory, since it has decreased in basic services, such as transport and energy, with the result that, in the Argentine economy, internal bottlenecks are added to those of external origin to which attention has already been drawn.

To all this must be added the upheavals caused by inflation and the various attempts to control its effects, which have only led to worse evils. Among these countermeasures I would refer especially to the subsidies which, in order to protect the consumer, reduced the incentives to export activities, either because of the low prices paid to the producer or on account of the excessive domestic consumer demand promoted by

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the subsidies to the detriment of exports, This policy defeated its own ends, since a reduction in exports also meant a contraction of imports, thus depriving industry of the necessary means of expanding its production whereby to supply the consumer with a growing volume of commodities.

Our study is not confined to elucidating the facts. At the request of the Government, an attempt has been made to suggest certain elements which, were it so desired, might serve as a guide in the formulation of a far-reaching economic development programme. Thus, we have analysed the development possibilities of the different sectors of the economy, made an approximate estimate of capital requirements for the next ten years, and examined the means whereby the Argentine economy could provide increasing amounts of this capital out of its own savings, as well as the supplementary foreign capital that would be required.

In all this work ECLA's new technique of analysis and projection of economic development has been applied, and we are more than ever convinced that it constitutes a very valuable element in the programming of development. While touching upon this point, I feel that a misapprehension may well be cleared up here. The insistence in our secretariat studies on the need for programming economic development has sometimes given rise to the belief that we advocate the centralized control of the economy through authoritative State programming organizations which tend to stifle private enterprise. Yet this has not prevented others from attributing to us a diehard faith in the

classic norms of the free interplay of economic forces because we have called attention not only to the inefficacy but also to the dangers of certain forms of State intervention. The staff members of ECLA have never participated, in their official capacity, in controversies of this kind. As responsible members of the United Nations staff we are bound to preserve a strictly impartial attitude to such matters, whatever our private beliefs or convictions may be. The United Nations gives technical assistance, but it does not offer this brand of political assistance.

With the addition of Argentina to the list, there is now a considerable number of countries for which, after careful analyses, we have prepared the projections of economic growth referred to. Apart from their application in each country's domestic programming, projections of future demand and of the prospects of meeting it have once more persuaded us of the need to encourage inter-Latin-American trade. The more advanced countries of Latin America will have to apply increasing effort to the production of intermediate and capital goods as well as of raw materials deriving from industrial processes, and this generally calls for very complex techniques, high capital intensity and markets broader than any one country can provide. The only way of overcoming this obstacle is a regional market. Such a common market could embrace not all but only a limited number of commodities, especially in the complex industries referred to, although individual consideration might always be given to the case of each of those commodities which at present

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frequently encounter substantial trade difficulties. Unquestionably this idea of a regional market will have to overcome a number of obstacles if it is to be converted into a working reality. One of these is the existence of both more and less developed countries in Latin America as a whole. But this distinction could not justify the application of the old cliché of the "division of labour", according to which the industries of the more highly developed countries could dispose of their manufactures on the markets of those at a less advanced stage, in return for their purchases of the primary commodities produced by the latter. On the contrary, a further function of the regional market will be to encourage industrialization in the under-developed countries, and not merely to serve the interests of those which are entering upon the more complex phases of industrial technique.

This whole problem will be the subject of careful study, requested by the Trade Committee. Over-simplification of the question must be avoided. Among the very important aspects to be taken into consideration there is one which an agency of the United Nations could by no means neglect, namely, the relationship between the regional market and the large centres of industry.

I do not think that the regional market will have any unfavourable effects on the mutually advantageous trade between the great industrial countries and the Latin American republics. The capacity to import of the latter is essentially dependent upon their exports to the large centres, and if the whole of

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this capacity is utilized, as is always only to markedly the case, there will merely be a change in the structure of Latin American imports, not a contraction. Herein lies the difference. If the regional market is not created, each country will attempt to produce more complex manufactures by itself, and will be faced with all the drawbacks of too narrow a market. There would be no fear of this if the regional market were set up since it would entail all the advantages of reciprocal trade.

It is not in this direction that the factors adverse to Latin America's trade with the great industrial centres seem to me to lie, but rather in a possible attitude on the part of these latter. It is common knowledge that the idea of the European common market has been a source of concern in some countries. A distinction should be drawn between the common market proper, and the preferential arrangements which may be made in favour of certain territories where primary production prevails. As regards the former, it is difficult to see how a more rational organization of the European economy, which will expedite its development, could be prejudicial to the interests of the Latin American countries. The increment in European income is surely more likely to entail an expansion of demand for Latin America's commodities. And this brings us to the second point, for if such increased demand is artificially deflected to other producer regions by some discriminatory régime, it is obvious that what might be a source of mutual advantage would become a handicap to Latin America's economic development, dependent as it is upon trade with the great centres

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of industry.

Should this happen, and were Latin America's exports to Europe to undergo a decline, which undoubtedly everything possible will be done to prevent, the Latin American countries would find themselves compelled to adopt a much more intensive import substitution policy, in which case the need to devise effective formulae for intra-regional trade would become still more imperative.

The Trade Committee has clearly recognized that, without a satisfactory payments system which will lead to the gradual abolition of the bilateral régime, it will be impossible to discover such formulae; and it has recommended that the ECLA secretariat should make a study of the problem of payments, in two separate phases concurrently. The first is the stage of improving the existing system of bilateral agreements and initiating multilateral clearing operations on a voluntary basis. The second envisages the possibility of an automatically multilateral régime.

The first of these phases is being very satisfactorily implemented, in our opinion. A few days ago the first meeting of Central Bank experts was convened at Montevideo to recommend appropriate measures. I should like to take this opportunity of thanking the Government of Uruguay and the Banco de la República authorities for all they did to ensure the success of this first technical meeting. These are preliminary steps; and there are experts present here who attended the meeting in question and who can give the delegations information on

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this whole topic which will supplement the relevant report shortly to be distributed.

The report in question seems to open up hopeful prospects for the second phase. It includes highly significant statistics which have been obtained for the first time in Latin America, thanks to the collaboration of the Central Banks of the countries having bilateral clearing agreements. These figures show that the margin of payments, which would in any event have had to be settled in dollars, is really small. Nor do such outstanding balances represent the last word. It is quite possible that measures designed to encourage trade between the countries concerned by facilitating payments in terms of commodities, might still further reduce the amounts to be liquidated in convertible foreign exchange.

It is important, however, not to lose sight of the picture as a whole, or of the future possibilities in a much broader sphere of international transactions. Convinced as the Latin American Governments seem to be of the advantages of world multilateralism, they will undoubtedly avoid expedients which might, in the course of time, hinder their participation in more liberal international payments arrangements. Even so, international multilateralism should be envisaged not as a fact, but as a possibility. Meanwhile, since there is no way of obtaining sufficient convertible foreign exchange to satisfy the region's increasing requirements of imports from the large centres, it would seem essential to save it in the reciprocal trade of those Latin American countries which are most acutely affected by this /problem, until

problem, until circumstances suggest more satisfactory solutions. If this were done, and the inflexible mould of bilateral agreements broken, a very effective step would have been taken towards world multilateralism by way of the prudent intermediary stage of a regional multilateral system.

In the spirit pervading the Trade Committee's discussions, exclusive arrangements in this connexion are inconceivable. The formulae devised must embrace all the countries involved in intra-regional trade. And I feel no doubt that this basic principle will be still further strengthened at the present session.

Apart from the resolve to achieve a progressive improvement in the external payments system, favourable symptoms are appearing in the domestic monetary situation. In some countries inflation has assumed disquieting proportions, and the Governments have decided to adopt energetic measures to control it. The obstacles to be overcome are formidable indeed, for among the many disturbing effects of inflation, those of a psychological nature are usually very grave. An unfortunate fallacy has arisen in this connexion. Despite all experience to the contrary, the idea still prevails that mass wage increases, in excess of the levels justified by productivity or by a reasonable restriction of profits, are the way to improve the standard of living of the population. But inflation has never been an instrument of a more equitable distribution of income. When it has any positive effect, a rise in the income of some groups of workers has always been achieved at the expense
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of others. The example of Argentina provides conclusive evidence of this. Broadly speaking, the entrepreneurs have been little affected by inflation, and not only have been able to protect themselves and, at worst, maintain the proportional relationship between their profits and national income, but they have in fact substantially increased their percentage share during that optimistic phase of inflation which began in 1946 and came to an end in 1949.

For the equitable distribution of income very different instruments must be sought, and the countries which, under the present system, are the most advanced from the social standpoint provide evidence of this. Through responsible and intelligent trade union action, labour is securing a steadily growing share in the income increment deriving from higher productivity, while the political power of the people enables them to utilize taxation with an efficacy formerly undreamt of as an instrument of the progressive distribution of income.

It is of no use to cherish illusions. Inflation is not a weapon of distributive justice; but it may serve as a tool for other purposes. If the aim is to undermine the economic system, throw its dynamic forces out of joint and drag it down to decline and stagnation, then inflation is an excellent, a supremely efficacious, social instrument since it reduces the consumer goods available to the mass of the population, to the undeniable detriment of their standard of living.

However, the struggle against inflation is arduous and thankless not only on account of the psychological obstacles, but also, as so frequently happens, for the reason that, when

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inflation results from an excessive expansion of credit in addition to massive wage increases, bank loans must also be restricted in order to curb the inflationary process. And here the consequences are deplorable, since unemployment ensues, first in the activities directly affected and then in the rest of the economy, with the anomalous result of a reduction in consumption and investment, the growth of which is of supreme importance for economic development.

Given the present situation of the countries afflicted by inflation, I see no other practical remedy for this regrettable contraction of the economy than a well-devised programme of foreign investment capable of filling the gap created by credit restrictions. This would be only a temporary measure, until the growth of income permitted greater capital formation on the basis of the economy's own resources.

Thus, the anti-inflationary campaign calls for energetic domestic measures combined with timely and effective contributions from foreign sources. Such a combination of the internal and the international is not easy to bring about. What is more, we have more than once observed that wise domestic measures could in practice make no headway, because the good intentions behind them were frustrated by the community's irresponsible acceptance of inflation.

The struggle against inflation calls for great moral strength, deep and unshakeable convictions and a self-denying spirit prepared to sacrifice the facile concessions rendered possible by highly dangerous expedients to the real and lasting

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interest of the masses. My spontaneous admiration goes out to the vigorous and enlightened champions of this cause; and it is my fervent hope that the resounding success of their endeavours will ultimately serve as a shining example for the encouragement of those who, in other countries similarly affected, are setting out with equal energy and selflessness on the thorny path towards the control of inflation.