

UNITED NATIONS



ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CN.12/AG.40/14
8 April 1958
ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
COMMITTEE OF THE WHOLE
Sixth session
Santiago, Chile, 7 April 1958

STATEMENT BY THE EXECUTIVE SECRETARY, MR. RAUL PREBISCH,
AT THE INAUGURAL MEETING ON 7 APRIL 1958

The fact that this Committee of the Whole is honoured by the presence of the Ministers of Foreign Affairs and Economy represents something more than a reaffirmation of the support that ECLA has always received from every Government of the Republic of Chile. With his keen insight into all the inherent potentialities of the international organizations, as well as into the weaknesses and shortcomings that events are gradually bringing to light, and the need to remedy such defects, Mr. Sepúlveda is undoubtedly actuated by the wish to offer us the positive encouragement of his experience and his sympathetic understanding of our problems. Thank you very much, Your Excellency. The Minister of Economy, who is doing the Committee the honour of taking the chair at this session, combines a brilliant record of private economic activities with his present position as a high official of the Government, and will unquestionably make an enlightening contribution to our discussions.

Chile's unflinching support of ECLA is the logical sequel to its clear-sighted proposal of a decade ago. This organization owes its being to Chile, and those of us who serve in its ranks could hardly forget the striking part played by Mr. Hernán Santa Cruz. His term of office in the United Nations Economic and Social Council, his chairmanship of that high-ranking body, demarcated a whole period -- that of the under-developed countries. Inspired by a deep conviction bred of his concept of what ECLA was to be, he succeeded, by dint of admirable timing, and with that remarkable persuasiveness and capacity for action whereby everyone has been impressed, first in putting his idea into practice and later in very effectively furthering its implementation.

At the head of the Ministry of Economy of Chile at that time was another outstanding personality, Mr. Alberto Baltra Cortés. Trained at the side of the Chilean statesman who had so clearly perceived the need for the Latin American countries to become industrialized, and spurred on by the same unwavering conviction, he gave valuable assistance to the nascent organization. It fell to him to take the chair at ECLA's first session, and in his pithy speeches can be found the vital principle from which all later growth and achievement sprang.

I should like to take this opportunity of placing on record my

/personal tribute

personal tribute to these men who have done so much to enhance the prestige of the Chilean people in international assemblies.

II

Now is hardly the time to review the history of this first decade. Our chief concern is with the problems that lie ahead. Looking back, however, I cannot but allude to one circumstance which I believe to have been of decisive importance in the formation of what may by now be called the tradition of this secretariat. I mean the intellectual independence that has always been the prerogative of those economists who form its staff. At this distant point of time, I may as well confess that ten years ago, when I declined to accept the post I now hold, one of the reasons that impelled me to do so was a doubt as to whether, in an international organization understandably influenced by the economic ideas prevailing in the industrially advanced countries, the need for the less highly developed to apply a criterion of their own to their problems would be fully understood. I was afraid that an attempt would be made to steer our course by outworn doctrines, and that anachronistic theories of international trade and prejudices against industrialization would frustrate every endeavour to open up new horizons. No such thing has come to pass. Nothing has been more reassuring than to see that those responsible for the policy of the United Nations Secretariat -- and this too is a firmly-established tradition -- have at all times encouraged us to maintain the uncompromising attitude of intellectual independence without which the activities of the secretariat could not have contributed as they have to the elucidation of economic development phenomena in Latin America and the devising of appropriate solutions. Much has been written on this subject in the past ten years, and perhaps this would be a suitable opportunity to compile an orderly and homogeneous synopsis of material which might otherwise be lost in its present scattered form. If the delegations see any merit in this proposal, it is for them to recommend its implementation.

At another and higher level -- that of the Governments which make up this Commission as an integral part of the United Nations Secretariat -- we have also invariably enjoyed the independence provided for in our basic charter. No Government, great or small, has ever made the slightest move
/to interfere

to interfere with the objectivity of our work, nor has even a hint been dropped at any time as to the desirability of prior consultation on the planning of our studies or the findings of our research. I recently had great pleasure in hearing this principle endorsed by Mr. Randall. Had it not been constantly operative, we should have lapsed irremediably into that futile word-spinning which ravel's out ideas until they dwindle into such stuff as dreams are made of.

III

I said a few moments ago that our concern was not so much with the ten years just over, as with the problems that lie ahead. Latin America is again displaying its usual high degree of external vulnerability. The economic recession in the United States is making itself felt, as always, in this part of the world. According to provisional estimates, in the fourth quarter of 1957 the terms of trade seem to have been 6 per cent lower than a year previously. The deterioration mainly affects non-ferrous metals, coffee and wheat. The monetary reserves of the region as a whole decreased by some 435 million dollars -- in other words, by one-fifth -- except in Venezuela, where they increased by 411 million. It will not be long before these and other repercussions are reflected in the rate of growth of income, already considerably weakened in recent years.

These are events of regular occurrence, and they never fail to find us unprepared to meet them energetically. Our countries have no clearly defined anti-cyclical policy. And in the international field, although substantial progress has been made in the analysis of world price movements, we are once again facing an emergency without means of taking effective action. Moreover, this would be an opportune moment for a speedy expansion of the volume of credits, with the two-fold aim of alleviating the recession in the developed countries, and at the same time softening its impact on those that are striving to accelerate their own development.

IV

Among all these developments, there is one which is decidedly favourable for Latin America. During the previous recession, the economy of Western Europe managed, up to a point, to remain aloof from events in the United States. It would seem that the same thing is happening now, a not merely by accident, but as the outcome of a policy which is now taking final shape in the common market. The countries of Western Europe seem determined to continue trading actively among themselves and to maintain fluidity of their multilateral payments system whatever vicissitudes may be occurring elsewhere.

This represents a belated but highly efficacious move to adapt themselves to the changes brought about in the world economy by the shifting of its chief dynamic centre within the régime of free enterprise. At the height of its prosperity, the centre constituted by Great Britain spent as much as 35 per cent of its income on imports from the rest of the world. When its function was taken over by the United States, only 5 per cent of the latter's income was used for imports, and this figure has since fallen until it now fluctuates between 2 and 3 per cent.

This change is of radical importance. When the principal dynamic centre has a high import coefficient, conditions are created which foster a similar state of affairs in the other dynamic centres and the peripheral countries, and world trade is then active. But when the centre in question reduces its import coefficient, all the other countries are forced to do likewise, not only in their trade with the dynamic centre but also - and this is perhaps more serious - in their own reciprocal trade.

Such was the spectacle to be witnessed in Europe after the First World War, and particularly after the great world depression of the 'thirties. The European countries had previously conducted intensive and profitable reciprocal trade. In reality, before the First World War a sort of spontaneous economic integration had existed in Europe, which subsequently disappeared. And every European country curtailed its imports not only from the dollar area but from other countries in the same continent and from the rest of the world. Bilateralism was not

/the expression

the expression of a theory; it was an isolated attempt to prevent certain trade relations from undergoing this regrettable contraction. It has finally disappeared in Western Europe; the way is clear, however, not for a return to the former régime but for progress towards a new system adapted to the altered patterns of the world economy. Thereby the economic integration of Europe (though unfortunately only of a part of it) is restored, in accordance with formulæ much more comprehensive and effective than before, and - a supremely important point - the European economy is sheltered as far as possible from the vicissitudes affecting the chief dynamic centre.

V

In Latin America the consequences of these metamorphoses of the world economy were equally serious, although of a different nature. I will allow myself a brief digression to emphasize an aspect which, patent though it is, might be open to misinterpretation. I am not hazarding critical appraisals which would be out of place here, but am confining myself to pointing out a fact. The contrast between the two great dynamic centres, yesterday's and today's, is largely attributable to inescapable causes; a small territory with very limited natural resources, which induced the British centre to open its markets to the rest of the world, and vast and extremely varied resources which are leading the United States to become increasingly self-sufficient and reduce the value of its purchases abroad to a minute proportion of its aggregate income. Such are the causes, and such the effects. In Latin America they were of another kind. At no time was there any economic integration among the countries of the region. When, in the course of the nineteenth century, they were fully incorporated into the world economy, the Latin American economies were not integrated with those of the large centres, but linked with them in time-honoured patterns of international trade based on the exchange of primary commodities for manufactured goods. Each country followed its own separate line of approach to the central economies, while relations among the Latin American countries were very weak, save in a few exceptional cases. And these weak trade relations were unable to withstand the

/effects of

effects of the collapse of the 'thirties, so that in their case too the only way to save them was to resort to crude forms of bilateralism.

But the greatest significance attaches not to this, which I regard as a mere episode, but to the persistence of that out-dated pattern which is so cramping to inter-Latin American trade. In former times, when the Latin American countries exported their primary commodities in order to purchase manufactured goods, it was understandable that they should not trouble about their reciprocal trade. But now that they have proved their ability to produce manufactured goods themselves, and the most advanced of them are being swept along by their own development towards progressive and complex forms of industrialization, it is pointless for them to preserve the same trade patterns, and for the process of industrialization to continue taking place in twenty watertight compartments.

The question is not, therefore, to imitate Western Europe. Whereas there the common market represents an endeavour to restore and broaden an integration which already existed, here it means an attempt to create a system whereby the maximum benefit can be derived from industrialization in order to achieve a rapid improvement in the standard of living of the Latin American populations. In the final issue, the common market must prove a potent instrument of economic development.

But what is very important is the lesson that Europe has learnt after many years of indifference to the astounding success of the United States common market; as is also highly significant - and doubtless must have been for Western Europe - the example of that other common market constituted by the Soviet Union. And much the same significance will ultimately attach to the experience of the People's Republic of China, with its 600 million inhabitants, and of India, with its 400 million, huge masses of humanity feverishly engaged in the process of industrialization, the inevitable complement of the introduction of improved agricultural techniques.

It would be a mistake to blind ourselves to the supreme importance of this truth. Latin America is the only region in the world with a very large population and immense resources that is trying to combine industrialization with keeping production artificially boxed up in twenty scaled compartments, as if it were possible to exploit the whole of the
/vast potentiality

vast potentiality of modern productive technique within such out-of-date patterns of international trade.

VI

Last February we reiterated these considerations on the occasion of the first session of the Working Group which the secretariat had convened in pursuance of the Commission's recommendation, with the aim of suggesting to member Governments the most appropriate formulae for the establishment of a regional market. It was an encouraging and inspiring occasion. Seven eminent figures from entirely different parts of Latin America and with a widely varying range of experience readily reached agreement on basic issues. When they were invited to attend the sessions, the only one whose views were known to the secretariat was the distinguished Brazilian economist, Mr. Garrido Torres, who, in company with other experts, had collaborated with us on a previous occasion, contributing the first document to contain an organic account of the regional market concept. But we chose the others in ignorance of their ways of thinking, not heedlessly but deliberately, because we wished to ensure that there would be genuine debate. Under the enlightened chairmanship of a statesman as well-known throughout the continent as Mr. Galo Plaza, all the members of the Group were unanimously convinced of the imperative need for a regional market. Here at the Committee's disposal are the twelve bases which they presented, so lucidly that any commentary I might have proposed to add would be superfluous.

This was a preliminary meeting. With a view to a second session, the secretariat has been requested to prepare a series of studies with precisely-specified objectives. I can safely state that we will undertake them by means of readjustments of our own, shifting the emphasis from some of the other items in our programme of work, if the Committee of the Whole, to which the programme in question is submitted, deems this appropriate. We should also like to secure the co-operation of the Inter-American Economic and Social Council in certain important aspects, and shall take advantage of the invariably welcome presence of Dr. Taylor, our colleague from IA-ECOSOC, to enlist his interest. We have in mind particularly the very important contribution which his organization is making in connexion with the standardization of foreign trade statistics, and we should like

/to share

to share with the Council the responsibility for the specific study recommended to us by the Group.

The Group has also requested us to consider the problem of financing those industries whose role in the regional market might be very dynamic, as well as that of credits to exports within the regional market area. This aspect is so significant as to merit special emphasis. The regional market will provide powerful incentives to foreign investment, and there can be no doubt as to the desirability of concurrently giving vigorous impetus to the activities of Latin American entrepreneurs by according them all the financial co-operation they need. This secretariat is bearing in mind the fact that at the recent Buenos Aires conference the Inter-American Economic and Social Council was requested to study formulae and measures whereby to augment the financing of Latin America's economic development, and it will follow up these studies closely in order to avoid duplicating work which is already being carried out, and possibly to suggest their expansion if the specific points mentioned are not covered.

In all the other studies recommended to us by the Group, it is not our intention to embark upon a detailed examination of individual cases, but rather to attempt the methodical discussion of alternative formulae, on the basis of illustrative examples. The former method would take up considerable time and resources, and besides, I doubt whether it would be the most efficacious procedure. In my view, the path we are pursuing is the right one.

VII

The idea of the regional market is arousing understandable interest in the industrially advanced countries, the scope of whose investment would broaden with an optimum distribution of their effort over the extensive field of the Latin American economy. But it has also given rise to certain equally understandable misgivings. One of the main objectives of this integration effort is to enable the Latin American countries to manufacture with increasing efficiency a substantial proportion of the capital goods they require, as well as a series of intermediate products involving complex techniques. Clearly, their imports of all these manufactures from the more

/advanced countries

advanced countries will diminish in some cases or in others cease altogether. But the same thing would happen, and in fact is happening, in the absence of a regional market, with the difference that at present the replacement of imports by domestic production is relatively costly, because of the narrowness of the individual country markets and the consequent lack of specialization, whereas if a regional market existed, such substitutions would be effected so much more economically and rationally that production costs might reasonably be expected to decline progressively to the levels prevailing in countries at a more advanced stage of industrial development.

However, it will not do to overlook one obvious feature. From the standpoint of foreign trade, the aim of such import substitution is, in the last analysis, to make way for the expansion of new imports. Economic development implies a steady transformation of the composition of imports. Latin America will not continue to buy the same goods as at present from the more highly developed countries, but it will purchase all it can in proportion to the volume of its exports absorbed by such countries and the foreign investment placed in the region.

Furthermore, the Latin American regional market may open up fresh possibilities of advantageous trade with the countries in question. As I said before, specialization in Latin America's industrial production will bring lower costs in its train, and the countries of the region will thus be enabled to begin exporting certain lines of industrial production, provided that development in this direction is not hampered by protectionist measures. And the greater the extent to which this takes place, the greater will be the Latin American countries' capacity to increase their imports from the large industrial centres.

Let us take a specific case in point. Latin America cannot export manufactured goods because of its low productivity, which is partly attributable to the small size of its markets. If it had access to broader markets, its productivity would gradually improve, and the day might draw near when Latin America's industrial products could compete on the world market. The regional market would be an instrument wherewith to increase industrial exports from Latin America, which would therefore have more resources to draw upon in order to import from the large centres, in the way

/I have

I have just described. I believe that this is Latin America's great opportunity to begin to export goods produced not only by light but also by heavy industries. Europe is under the necessity of importing the iron ore it needs for its iron and steel industries, and the depletion of its own resources will compel it to go on importing more and more. One of its sources of supply is Latin America, and the following dilemma therefore arises: Will Latin America continue to export iron ore, or will it send semi-manufactured goods abroad? Now is the time to give serious thought to reaching some agreement with European industry with a view to the development of this new type of trade and the possibility of exporting goods that have undergone some degree of processing. This would result not in idle capacity in Europe, but in a rechannelling of certain investments towards Latin America, so that Europe might be supplied with ingots by means of an expansion of the Latin American iron and steel industry.

In reality, as modern productive technique progressively finds its way into the peripheral countries of the world economy, it will gradually place these latter, for the first time since the industrial revolution, in a position to compete on equal terms; and trade will increasingly have to be conducted on a footing of equality, at least so far as important categories of goods are concerned, in contrast with those trade formulae based on inequality which confined the commerce in question to an exchange of primary commodities for manufactured goods. Such formulae, not long ago regarded as the expression of the natural order of the economic world, and firmly established on precisely those theoretical grounds to which I alluded at the beginning of this statement, have turned out to be mere episodes - very important ones, of course - in the vast, the titanic process of the dissemination of modern productive technique, now the occasion of spectacular competition between two systems.

In the attempt I have made here to show the problem of the Latin American regional market in its broad historical perspective, I should perhaps reproach myself with having overstepped the strict bounds of our agenda, by virtue of the liberty which the delegations have so kindly granted me since the early sessions of this Commission. Once again I should like to express my appreciation of their attitude, which is an

/indisputable manifestation

indisputable manifestation of the tireless and magnanimous spirit of co-operation which the Governments have displayed towards the secretariat. On the occasion of the tenth anniversary of the Commission, it is my very pleasant duty to offer the delegations my thanks on all these counts; and, after making particular mention of the country which so generously acts as our permanent host, I should also like to express my special feelings of gratitude to Mexico, where our other office has found so kind a welcome, and to Brazil, which is now inviting us to establish our economic development training course on a permanent footing, as well as a study group which would work in conjunction - as we have already had occasion to do with every success - with the economists of the Banco do Desenvolvimento Econômico.

In connexion with the Mexico Office, I must mention that we shall shortly be deprived of the privilege we have enjoyed in having Víctor L. Urquidi as its Director. Our colleague's exceptional ability makes this a very regrettable loss. Although it may be a little premature, I should like to take the present opportunity of offering him the tribute he deserves for his admirable work on the Central American Economic Integration Programme. Without the intelligence, the tenacity and the enthusiasm which this ECLA economist has unfailingly brought to the task, it is our belief that the programme could not have reached the advanced stage to which the Governments of Central America have been able to develop it.

And now that I am speaking of grievous losses from the standpoint of the work of the secretariat, I cannot but recall that José Antonio Mayobre, who until a short time ago was the chief of our Economic Development Division, has now left us to return to Venezuela and devote his talents to the zealous service of his country. Like Urquidi, José Antonio Mayobre gave himself ungrudgingly to the furtherance of the United Nations' objectives in the economic field, and took the keenest interest in all the studies and research for which he was made responsible by this secretariat.

Among the other economists who have already left or are about to leave us, and whose collaboration we are deeply sorry to lose, I should like to make special mention of Alexander Ganz, who for six years has given the

/benefit of

benefit of his lively intelligence and admirable capacity for hard work to ECLA's studies on economic development problems, particularly the technique of analysis and projections, to the evolution of which he has made a positive contribution.

I greatly deplore these departures, but they should not be regarded as cause for discouragement. It is true that in the Commission we have had difficulty in finding the staff we needed. Important positions in our secretariat have long remained unfilled, perhaps because we have been unduly exigent in that we have preferred to wait until we could find first-class personnel, rather than to reduce the secretariat's level of ability and efficiency. I mention this point because more than one delay, imperfection or defect in our work may perhaps be due - other reasons apart - to this serious staffing problem, which has thrown upon a few people the burden of responsibilities that but for our great enthusiasm I should describe as over-heavy. I think it opportune to make these remarks just now, when the Committee of the Whole is about to consider the programme of work, which is very full, and imposes new demands deriving from the requests made to the secretariat in connexion with the regional market. From the secretariat's point of view, it would be as well if as far as possible we were not requested to undertake further studies, not because we are unwilling to do so, but because our resources are already completely absorbed by the existing programme. Nevertheless, the delegations may be quite sure that the decisions they adopt and the tasks they recommend to us will be implemented by the secretariat with the greatest diligence and enthusiasm.