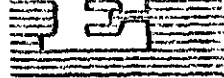


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COMMITTEE OF THE WHOLE  
Seventh session  
Santiago, Chile, 28 March 1960

STATEMENT BY MR. RAUL PREBISCH, EXECUTIVE  
SECRETARY, AT THE INAUGURAL MEETING ON  
28 MARCH 1960

It has become a traditional gesture on the part of the Government of Chile to cheer us with its words of encouragement at the inaugural meetings of this Committee of the Whole, as it has done on the present occasion through so distinguished a spokesman as Mr. Enrique Ortuzar Escobar, its Minister of Foreign Affairs. Thus we are once again afforded an opportunity - especially welcome on the eve of the construction of our building upon the site so generously donated to the United Nations - of reaffirming to the Chilean Government our organization's grateful appreciation of this country's unflinching support. I also wish to offer my warmest thanks to the Ambassador of Colombia, General Juan B. Córdoba, for his kind and cordial allusions to the work of this secretariat, which I shall have great pleasure in passing on to my collaborators.

I should like, as on previous occasions, to make a few observations on the significance of certain economic events in Latin America. We have witnessed yet another year of slack development, which has set its final stamp on the five-year period that has just come to an end. Since 1955 the rate of growth of the region's economy has barely exceeded that of its population, and the per capita gross product has risen by only a little over 1 per cent, while income - also in per capita terms - has increased at an even lower rate.

The Latin American economy is not progressing as it should. I have weighed this statement carefully before making it. I am referring, of course, to the countries of Latin America as a whole, and am not overlooking obvious exceptions to the general rule. This weakening of the dynamism of the region's economy fills me with concern, and greatly fear that unless deliberate steps are taken to influence the operation of its forces through systematic and far-reaching action, the economic and social tensions so apparent throughout the length and breadth of Latin America will be aggravated to incalculable extremes.

However, it would be a mistake to depreciate here the significance of certain efforts that are being undertaken with praiseworthy determination. I should like to lay special emphasis on the anti-inflation campaign, and

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to take this opportunity of paying public tribute to the selflessness of those who have shouldered the burdensome task of combating the inflationary process. A burdensome task, and a thankless one, for the struggle against inflation is also a dramatic struggle against misunderstanding. If, deeply conscious of their responsibility, these administrators refuse to countenance illusory wage and salary increases, they are impoverishing the populace, they are handicapping a country's development.

In this contest, I wish to state an unshakable conviction, formed long ago, and gradually strengthened and corroborated by events. No contribution to economic development can be made by mass wage and salary increases. Everywhere experience has shown that when such increases cannot be absorbed by entrepreneurs' profits and are unassociated with any improvement in productivity, they are inevitably transferred to prices, and the traditional spiral is the result. They are, therefore, a snare and a delusion. A lucid explanation was given by His Excellency Mr. Jorge Alessandri, President of Chile, in his recent speech. Only in the manner he described can real wage and salary increments be achieved on sound bases.

Such a policy need in no way affect economic development, as it does not intrinsically involve any contractionist element. It is for quite different reasons that some experiments in anti-inflationary policy have been accompanied by a regrettable contraction of productive activity and of the workers' share in the national product.

In our countries the disproportionate use of bank credit to finance public or private capital investment in certain fields - especially in construction - has brought serious inflationary consequences in its train. The restriction of such credits, and of all others of a speculative character, is essential if the inflationary process is to be halted. But it is here that the chief cause of the contraction of economic activity ususally lies.

Is this, perhaps, an inevitable price that must be paid for the control of inflation? I do not believe anything of the kind. This is one of the most delicate aspects of anti-inflationary policy, and I might

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somewhat sketchily outline my views as follows: as inflationary investment is gradually restricted, investment representing genuine saving must be correlatively encouraged. The application of such a policy is no easy matter, for it means that simultaneously all available sources of national savings must be mobilized, and external capital contributions be made available to the extent that the country's own saving is insufficient to enable such investment to be effected upon sound monetary bases.

Simultaneously, I would repeat, not subsequently. To wait until a contraction of the national product has taken place before mobilizing the country's savings and making provision for a firm contribution of international public resources, is simply to waste precious time and throw away energy, since, the smaller the national product, the less will be the capacity for saving and, consequently, the larger will be the amount of international resources afterwards required for the recovery and development of the economy.

Hence the mere determination, the mere effort of the country which is endeavouring to combat inflation, however energetic and enlightened, is not enough. Full and resolute co-operation at international level is also needed if anti-inflationary and economic development policy are to be perfectly compatible.

Moreover, the primary aim of the latter must be to exert an effective influence on the structural factors which have helped to unleash or encourage inflation, so as to support anti-inflationary policy or prevent a relapse. Such structural factors range from those affecting the balance of payments to those hindering the more efficient utilization of productive land.

The satisfactory solution of the problem will call for the assembly of very substantial capital resources. The rate of capital investment in Latin America as a whole is too low by any criterion, as it represents only 17 per cent of the gross product. A determined effort would have to be made to raise it above the 20-per-cent mark in order to ensure an adequate rate of growth of the per capita product.

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It is not my intention to dwell here on this topic, which has already given ECLA so much food for discussion. Nor will I speak of the changes in the methods of production and in the structure of the economy that will have to accompany an increase in investment. But I do wish to mention two aspects that are of vital importance if the increase in the investment coefficient is to produce its full effect. One of these relates to education. The proportion of illiteracy in Latin America still stands at about 40 per cent, and the average length of school life is only one year, according to UNESCO's statistics. A steady acceleration of the rate of development will be impossible unless a blow is struck at a very root of this basic problem and a prompt and far-sighted attempt is made to deal with the question of technical training at all levels. The Colombian Ambassador has just referred to the high rate of growth of the population. And I in my turn should like to point out that owing to this high growth rate, during the next quarter of a century, 90 million persons will be incorporated into the active population, of whom 25 million will replace those who retire or die and 65 million will have to seek new sources of employment. A formidable effort to solve this problem will have to be made, and made without delay. Are we in Latin America embarking on this essential effort to incorporate these millions of men into productive activity, within patterns of production that will have to be very different from those prevailing today?

The Minister of Foreign Affairs alluded a moment ago to Chile's disarmament proposal, which I consider to be of supreme importance. We are all waiting for the great powers to disarm, in order to obtain the additional resources that Latin America and other countries, in process of development require for their growth. But we have within our reach the possibility of disarming ourselves, of restricting armament programmes in Latin America, as the Minister has just pointed out. And it is therefore within our power substantially to augment our investment resources with the saving thus achieved. I hope that if this effort meets with success, at the forthcoming session of the Organization of  
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American States which has been announced, a considerable proportion of the funds in question can be allocated to Latin America's human capital, to the training of its people, beginning with their elementary education in the primary schools.

The following is the other aspect to which, for brevity's sake, I should like to confine my remarks at present. To increase Latin America's capital in order to accelerate its rate of development is not enough. In addition, the productive potentialities of that capital must be turned to the best possible account, and this we shall not succeed in doing if we continue striving to achieve industrialization within sealed frontiers.

Hence the supreme importance of the Free-Trade Association that has just been formed in Montevideo. The Governments now have in their hands the preferential instrument which will enable them gradually and progressively to throw open the frontiers in question, under the stimulus of their purpose - their great purpose - of attaining a future Latin American common market.

Let us not exaggerate, however, the scope of the specific commitments which the Governments have so far contracted. It is true that they have pledged themselves to eliminate on substantially all their reciprocal trade, within a term of twelve years, the duties and restrictions which at present act as barriers to their commerce. "Substantially all" their trade, however, is based almost entirely on the primary commodities which constitute Latin America's traditional exports. Obviously, if their reciprocal trade in industrial products is actively developed and "substantially all" their trade thus comes to include manufactures, the time will have come for the liberalization commitment to be extended to these goods, as to primary commodities. But if such trade is to expand, it will be essential to launch a resolute policy of reduction and gradual abolition of duties and restrictions on the industrial products concerned.

The intention of pursuing such a policy of course exists, but concrete and specific commitments, over and above the general undertaking, were not and could not have been assumed in a treaty of the kind signed at Montevideo. But the preferential instrument needed for this purpose

has - I repeat - been successfully forged, and the guiding principles for its application established.

Herein lies the crux of the problem. The industrial output of the seven member countries of the Association is in the neighbourhood of about 10,000 million dollars. But out of this considerable amount, only 10 million dollars' worth is traded, or, in other words, barely 1 per mil of production.

How can the capital invested in Latin American industry be fully utilized without reciprocal trade? Such trade is essential if costs are to be reduced, if we are gradually to approach the high productivity indices registered in the great industrial centres. Productivity will improve with specialization, with the establishment of enterprises of more economic size and with the tonic effects of competition.

The reduction and abolition of duties on industrial products will have to be the object of careful and toilsome negotiations, which will necessarily take a very long time. It would therefore be desirable to establish from the outset certain over-all targets in respect of which all the contracting parties could reach agreement without unnecessarily prejudicing the flexibility required for the conduct of the negotiations themselves. Otherwise, these might drift along at the mercy of circumstantial or contingent factors.

This bears witness to the closeness of the link between the Montevideo Treaty and the recommendations formulated by the Working Group on the Latin American Regional Market and set forth in the document which it prepared at Mexico City in February 1959. The document in question, drafted at the request of this Commission, advocated the free-trade area formula as a first step towards the common market. Its purpose, however, was not to substantialize this formula but to define precisely those economic targets or objectives which the Governments should set up as milestones on the road to the common market.

One of the principal merits of the Montevideo Treaty lies in its having given concrete shape to the free-trade area formula in accordance with the principles of the Gatt, with the result that the preferential instrument

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is now available; whereas one of the major virtues of the Mexico document consists in the technical discussion of the objectives which should be established for the application of this preferential instrument, to ensure that the negotiations should not drift along, as I said before, but should aim at the attainment of clearly-defined targets within a given period of time.

For all these reasons, I attach great importance to the task ahead of the Government experts who, as requested at the eighth session of the Commission, are to make a thorough analysis of the recommendations of the Mexico Working Group, in relation not only to the targets in question but to the whole of the common market project.

What action will the Latin American Governments subsequently take on the basis of these expert recommendations? It seems to me that two possibilities can be glimpsed, two major alternatives which this is not the moment to discuss, but which may be sketched out here.

One is for the Latin American Free-Trade Association to adopt the recommendations, to convert the targets into further commitments and thus to become an efficient organ for the gradual and progressive establishment of the common market, with the incorporation of new countries. In this case, the Association would prove to have been that initial nucleus of common market countries to which the Mexico document alludes.

The other alternative would differ in form, but would lead to the same goal. Once the Latin American Governments were in a position to pronounce upon the recommendations of their own experts, they would concert a treaty which would draw in the largest possible number of countries and in which the Montevideo Treaty could be re-absorbed, or, if it were thought preferable, smoothly inserted, the same procedure being applicable to the Treaty signed last year by the Central American countries.

The significant incorporation of Mexico in the Latin American Free-Trade Association as a founder member, at the invitation of the other countries, on the occasion of the historic visit of His Excellency Mr.

/Adolfo López



Adolfo López Mateos, President of Mexico, and the liberal provisions of the Montevideo Treaty with respect to the accession of additional countries, would seem to suggest that the way is open for first course of action.

Careful study will have to be devoted to this and many other aspects. This secretariat considers it a real privilege to have been asked by the Governments Members of the Commission, to carry out such studies, either directly or in co-operation with groups of experts on the work connected with the common market. And we are particularly gratified that we should have been able to initiate, within the secretariat and under its general terms of reference, the activities which culminated in the establishment of the Latin American Free-Trade Association, and which, originally undertaken at the prompting of circumstantial factors, gradually evolved into the organic Montevideo document.

We are most sincerely pleased and grateful that the Governments Members of the Association are asking us to maintain our technical collaboration with its directive organs; and we are also very glad that IA-ECOSOC too has been invited to take part in this new phase on the same basis, since the field of action is too vast and the responsibilities of such co-operation too heavy for a single organization to carry the whole load efficiently, as hitherto.

In this way, the highly important part of our work programme which relates to the common market will have been given new and decisive impetus, and I can assure the delegations that we will do everything within the secretariat's power to see that the enthusiasm and conviction with which we have been devoting ourselves to this project in no way operates to the detriment of other important aspects of the programme of work.

In making this declaration, we are encouraged by the hope that the Committee of the Whole will continue to follow its established tradition of carefully examining those new draft resolutions which imply additional work for this secretariat, since, with all the goodwill in the world, we should not be able to carry out their recommendations without adversely affecting the implementation of the programme in force.

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In conclusion, I should like to extend to the delegations a very warm welcome to the secretariat headquarters, and to assure them that all my collaborators are, like myself, at their service, ready as always to co-operate with them wholeheartedly in the proceedings upon which we are about to embark.