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ECONOMIC SURVEY OF LATIN AMERICA 1950

GENERAL INTRODUCTION

RECENT DEVELOPMENTS AND TRENDS IN THE ECONOMY  
OF LATIN AMERICA

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## CHAPTER I A BRIEF GLANCE AT NEW PROBLEMS ARISING IN LATIN AMERICA

### The Accumulation of Foreign Exchange and the Balance of Payments

The present widespread concern in Latin America regarding the accumulation of foreign exchange is a clear symptom of the deeper understanding of concepts of economic development. Formerly any such accumulation would have been welcomed as an opportunity for replacing monetary reserves after a period of disturbing shortage. Now, however, although this view has not entirely disappeared, the stress is rather laid on the need to make immediate use of these exchange receipts for importing capital goods and other commodities indispensable to production. Monetary resources are at present given preference as an instrument of economic development; this change in attitude must have been linked with the experience acquired in certain forms of control compatible with lower monetary reserves than those which formerly appeared to be advisable.

The sudden change in the balance of payments of the Latin American countries reflected by this situation, is in turn creating new problems differing from those which predominated until recently. Problems which had appeared urgent are no longer apparent on the surface, but this does not mean that they have been eliminated; some of these are of a structural nature and the course of events will have to be studied carefully before it can be considered that the factors governing them have really ceased to have any effect.

Meanwhile, more recent conditions have, to a certain extent, put a large part of the developments covered in this report in the past tense. Nevertheless, it would be erroneous to set them aside and deal exclusively with these new events. There has been no break in continuity and neither the present position, nor the probable future trends could be interpreted completely without reference to these earlier developments. On this basis, an attempt will be made here to outline the significance of the principal problems which are now taking shape.

The most obvious transformation naturally appears in the balance of payments. When the countries affected by the dollar shortage were reaching a satisfactory degree of equilibrium, after having imposed severe restrictions on their imports, the rise in prices of their exports

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changed the position in a very short time to one where exchange, if not abundant, was in relatively easy supply, and the improvement continues. Latin America, which had a severe disequilibrium in its trade balance with the United States in 1947, had succeeded in reducing this in 1949 and transformed it into a surplus of 240 million dollars in 1950; in 1951 it is estimated that this surplus may range between 500 and 1,000 million dollars. Nevertheless, this improvement does not in any way imply that a solution has been found to the structural problem to which reference has so frequently been made in these reports. It is anticipated, in fact, that in 1952 the service payments on capital invested by the United States in Latin America may amount to 700 million dollars as against 590 million in 1950. Bearing in mind this prominent debit item, as well as other less important ones, the net balance of payments in current account might range between a deficit of 250 million dollars and a surplus of the same amount. The possibility that the deficit may be transformed into a surplus is due to the fact that a capital investment of 370 million dollars is estimated<sup>1/</sup> for that year. It should be observed that this investment is lower than the amount of service payments on capital, and at a stage of development where the need for foreign capital begins to decline, this situation is to be expected.

As regards trade between Latin America and Europe, the efforts which the latter had made to approach equilibrium in the trade balance are being frustrated by present events. By increasing its exports and reducing imports, Europe had succeeded in reducing its trade deficit with Latin America to some 250 million dollars. In 1950, the figure rose again to 325 million, and for the current year a deficit of between 400 and 500 million dollars is estimated. The prospects are therefore similar, in certain aspects, to those of the first post-war years, when Latin America had large surpluses in its trade with Europe. The increase in prices of Latin American products, which has not yet been

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<sup>1/</sup> Effects of the United States Defence Programme on Trade with Latin America (Economic Commission for Latin America, United Nations /Document E/CN.12/234.

/followed by



followed by an equivalent increase in European export prices, and the growing difficulties which hamper a maintenance of the volume of these exports, are the principal reasons for the change which has occurred.

#### Credits to Purchasing Countries

Latin America's problem here is different from that with the United States. It is not expected that Europe can pay in gold or in dollars for a substantial part of that surplus or those which will probably follow, should the present state of affairs continue. It will therefore be more necessary to use inconvertible exchange, and the consequences of the bilateral system of compensation will become more serious, unless satisfactory methods are found to mitigate at least the rigidity and the inconveniences of this form of trading. With inconvertible currencies, the risk for the Latin American countries is certainly greater than in the transactions effected before the present situation, when Europe was rapidly increasing its capacity for export to Latin America, whereas now the opposite is the case. In other words, the acceptance of foreign exchange which cannot be used for imports implies the granting of credits to the purchasing countries, and the nature of the problem thus engendered should be carefully considered.

This explains why the report mentioned concerning trade between Europe and Latin America examines the advisability of seeking agreements to ensure future use of this exchange for the purchase of capital goods, protecting both interested parties from the risk of price variations.

The practical difficulties of carrying out such an apparently simple idea should not be overlooked, particularly when it is remembered that stabilization of domestic prices has not yet been achieved in the countries which are undertaking rearmament, and that therefore it would not be easy to consider export prices separately. Notwithstanding these difficulties, it should not be forgotten that domestic price variations only involve shifts in real income among the different groups within a country; whereas, in foreign price changes, the advantages and disadvantages are distributed among different countries. Nevertheless, the problem is sufficiently important to warrant the seeking of equitable solutions which will remove unnecessary obstacles to trade with Europe.

/Easing of

Easing of Inflationary Pressure

Moreover, formulae of this nature might considerably ease the solution of the domestic problem which will certainly arise as a result of the increase in foreign exchange holdings in the majority of Latin American countries. This will be examined briefly. The increase in foreign exchange, both dollars and other currencies, will have the immediate result of increasing inflationary pressure. However, it is not the inward, but rather the outward pressure which should cause most concern. The inflationary process has already developed on a wide scale within the Latin American countries. The total money supply increased by 2,300 million dollars in 1949 and 2,800 million in 1950 for Latin America as a whole<sup>1/</sup>; therefore, an increase of 1,000 million dollars, equivalent to the exchange to be accumulated, would not be extraordinary. It may be expected, however, that measures will be adopted to prevent monetary expansion of domestic origin continuing on the same scale. Quite apart from this, the great potential demand for imports could be made effective by the increase in foreign exchange. As the supplying countries are in a position to export less, rather than more, the inflationary pressure of this greater demand will be very pronounced. Should this situation be spread throughout the countries affected, it will cause prices to rise rapidly, and all that was formerly gained and recovered through the improvement of the terms of trade will be lost, and these may even deteriorate in relation to their former position. Moreover, a considerable part of the resources might be dissipated in purchases of consumer goods at inflated prices.

During World War II, some countries introduced measures to absorb or neutralise the money created by the abundance of exchange, but these were not very effective. It is conceivable, however, that if the absorption were complemented by an instrument whereby not only the future availability of exchange was assured but also its effective use for purchasing a given quantity of capital goods, the policy of absorption of redundant money

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<sup>1/</sup> To convert domestic money supply into dollars, the par value accepted by the International Monetary Fund, or the lowest official buying rate, was used, so that the resulting figure may be taken as a maximum.

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could have much greater chances of success.

There are other forms of action which should also be studied, for relieving the outward inflationary pressure. Should the setting of export quotas in the producing countries be accompanied by effective measures of distribution in the importing countries, it should also be possible to alleviate inflationary pressure considerably. This would be the case providing that at the time of the outlay on imports it were simultaneously possible internally to intercept some of the incomes causing that pressure and use them later for financing economic development, once the import difficulties had disappeared. The vast experience gathered by experts of the International Monetary Fund in their study of the monetary problems of the Latin American countries, as well as that of the economists in the respective central banks, should be very useful in considering these problems.

#### Imports of Capital Goods

Meanwhile, difficulties in importing increase constantly, both for capital goods and for certain raw materials and essential commodities. In the first report mentioned<sup>1/</sup>, it was estimated that in the last quarter of the year, and in 1952, the supplies of capital goods in the United States available for the Latin American countries might be 20 per cent. lower than during 1950. Nevertheless, if the estimates of production increases are fulfilled and the rearmament effort does not exceed present plans, it is considered that in 1953 these could reach the same level as before the present emergency. In any case, however, an unsatisfied demand will have accumulated during this period, apart from the displacement of demand which could arise because of the limited export capacity of the European countries.

These countries had previously made important advances in their exports of capital goods, competing favourably with those of the United States, through devaluation of their currencies or the improvements achieved in industrial productivity and the efforts made to adapt themselves to Latin American requirements. The full impact of defence programmes in Western Europe is not likely to be felt until the last quarter of 1951 or the beginning of 1952. European exports to Latin America this year will probably equal those of 1950, with some decline in the exports of capital goods towards the end of 1951. However, the British Government has

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1/ Effects of the United States Defence Programme on Trade with Latin America.

announced that an attempt will be made to maintain exports of capital goods. Although it is expected that British exports of iron and steel products will drop considerably, other European countries, particularly Germany, Belgium and France may be able to offset this decline in British shipments.

Prior to the present emergency, shortage of exchange, particularly dollars, had forced the Latin American countries to apply certain selective standards relating to imports of both capital goods and other commodities. Present conditions, however, are leading them to the stage where they have to adopt similar standards to make better use of the limited export capacity of the supplying countries. Nevertheless, the present position is more difficult, because while formerly each country could select the imports which it preferred, now it can only do so within the range which the exporting countries decide to manufacture. There is thus no doubt that the introduction by each Latin American country of an order of priority in their requirements for capital goods, and the discussion of their joint requirements with these exporting countries, could help to ensure a more rational use of the available resources.

#### Development Programmes

This order of priority would not necessarily coincide with that which would have to be introduced in normal times, for a well planned, economic development programme. In a large number of the Latin American countries, as mentioned in another report,<sup>1/</sup> there was a pressing need to substitute certain imports by domestic production in order to achieve equilibrium in the balance of payments. The present easing of the exchange position will in certain cases make it simple to solve the earlier difficulties. On the other hand, others will arise through the impossibility of obtaining the indispensable minimum of certain imports which are particularly important for economic development. New investments, therefore, will not always be follow the same direction as before, and the order of priority of capital goods, as a result, will have to be different.

Nevertheless, fundamental problems should not be obscured in any way by temporary and occasional conditions. Regardless of the manner in which the Latin American economies may grow during this emergency, the development will continue to create certain tendencies towards domestic and foreign mal-adjustment, and even though they may not be clearly apparent at the present

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<sup>1/</sup> Some Theoretical and Practical Problems of Economic Growth (Economic Commission for Latin America, United Nations [Document E/CN.12/221]).

time, their advent will not be delayed when foreign trade is once more in a position to develop under normal conditions.

Great caution should therefore be followed in plans for the future. The experience of the post-war period, which is not yet very distant, has taught certain lessons which should be remembered in this emergency. Large holdings of foreign exchange which appeared to ensure a country's absence from monetary problems for several years were dissipated notably later on. That same former abundance seemed to eliminate the need for a programme for the later use of these holdings. Thus, when imports were possible, unnecessary consumption drained away a considerable part of these foreign-exchange holdings and the most urgent requirements of capital formation were not always met. This is yet another important reason to be added to those which were given elsewhere concerning the need for the opportune preparation of development programmes. The probable weakening of the rate of development imposed by prevailing conditions, thus offers a propitious opportunity for examining the panorama of the country's economy in broad perspective, and taking advantage of recent experience for the better guidance of future development.

This by no means signifies that the application of development measures should be suspended. On the contrary, difficult moments are usually those which have led to the seeking and adopting of solutions which at other times were considered impossible or inadvisable. It may thus be expected that now certain ideas concerning the establishment of mutually advantageous industries may come to a head in certain Latin American countries. There has already been evidence of what can be done as regards iron and steel and this example could lead to a consideration of the possibilities for action in other fields, particularly cellulose and paper and some basic chemical products, to mention only a few. All this involves solutions which will have to be adopted in one form or another in the Latin American countries in the course of time, as their economic growth becomes limited by their capacity to import, which does not usually increase at the same rate. The pressure of present circumstances would only anticipate developments which would have to take place eventually, although not necessarily in the same way.

#### Examination of the Capacity to Export

This should not lead to neglect of the possibilities for greater exports outside the production of strategic materials, for the increase of  
/which effective

which effective measures are already being taken.

Apart from the prospects for exports to the United States, which are analyzed in a separate study<sup>1/</sup>, Latin America may look forward to a sustained demand for its products in Europe. Because of a steady expansion of industrial production and a rising standard of living, the long-term rate of Europe's imports of primary products may be expected to increase, but it is likely that its requirements will vary greatly as between individual commodities. It would therefore be worth studying, now, the capacity of the Latin American producing countries to expand future output of certain exportable commodities without detriment to the normal increase of domestic production.

Having made these brief observations regarding present problems, an analysis will be made below of the most recent figures relating to Latin American economic changes, which are presented in this way because of the impossibility of introducing them into the reports which follow.

#### Foreign Trade and the Capacity to Import

Exports from Latin America, the quantum of which had reached a maximum in 1948, declined in 1949 and the first half of 1950; in the second half, the reversal of the trend caused the total for the year to be 3.4 per cent higher than that for 1949. This recovery is still moderate, however, when compared with the levels reached in 1947-1948 and, above all, bearing in mind the increase in population. The quantum, expressed per capita, is still lower than before the war, and particularly the period preceding the great depression of the 'thirties. One fact stands out clearly above the rest: Latin America in 1950 exported 10.6 per cent per inhabitant less than in 1937.

On the imports side, the improvement in 1950, although amounting to 4 per cent in relation to 1949, was not sufficient to reach the 1947-1948 level, which was the highest for the last twenty-five years. Per capita, Latin America's imports in 1950 were 33 per cent higher than before the war, and approached the levels of the 1925-1929 period, as shown by the tables and the chart inserted later on. (Chart 1.)

Prices of Latin American exports have reverted to the trend which they had shown since 1940 and which was only interrupted in 1949. Between

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1/ United States Capacity to Absorb Latin American Products (Economic Commission for Latin America, United Nations [Document E/CN.12/226]).

that year and 1950, the average general rise amounts to 5 per cent, but it should be borne in mind that the rising current of price of the majority of the products exported by Latin America was only felt in the second half of the year. (Chart 2.)

In the early months of 1951, the rising tendency of prices of the majority of Latin American products was maintained; some of them had been affected by regulations adopted in the United States concerning stabilization of prices, as in the case of copper. Chile, however, has achieved a reconsideration of this metal's position, and will now receive a premium of three dollar cents per pound of copper, as well as other incentives for increasing production.

Price increases, as in the case of wool, when they doubled in less than two years, and coffee, where they doubled, may be explained by the exceptional position of these two products when demand, once stocks previously accumulated, had been exhausted, clearly exceeds current production. Wheat and other grains, as well as meat, which are mainly sold on European markets, have increased proportionately less in price than products purchased by the United States. As regards meat, the recent modification of the Anglo-Argentine agreement is based on an increase of prices in sterling, which compensated for the devaluation of this currency. (See Chart 3.)

Latin America is not only interested in the price of the raw materials which it exports, but also in the behaviour of the prices of materials and products, generally semi-finished, which it has to purchase outside the region. Rubber is among these products, as the few Latin American producers of this strategic material are far from being self-sufficient. The price of rubber has increased even more than that of wool or coffee, as between August 1949 and March 1951, it rose by more than 350 per cent. The price of jute -- another indispensable material for various Latin American countries, -- which had been falling until September 1950, changed its trend sharply and from that time on, rose by 44 per cent. (February 1951.) On the other hand, prices of other products which Latin America has to import, such as newsprint, rayon yarn, steel, tinplate, have risen by less than 10 per cent. Increases exceeding that percentage have so far been noted for pig-iron and aluminium (Chart 4).

In spite of the relative delay with which the rise in prices of raw  
materials is

materials is transferred to finished products, the statistics of some supplying countries have already begun to reflect the changed trend in their export prices. In the United States, the index of export prices reached the lowest point in May 1950, and since then began to rise; between June and December of that year, the increase was 11 per cent. In the United Kingdom, during the same period, the index of average prices for exports showed an increase of 7 per cent. In February 1951, there was already a 9 per cent increase over the average for 1950, while the price index for imports of raw materials showed a rise of 50 per cent.

Latin America is thus in a position where its terms of trade have become favourable, and this, together with the increase in the quantum of exports, has raised the capacity to import to record levels, at least in absolute terms. The increase per capita is not so significant, the level for the first time in twenty years, as shown in Chart 2, slightly exceeding that of 1925-1929.

Another outstanding fact should also be noted: in 1950, Latin America obtained an export surplus of about 1,300 million dollars, almost three times more than in 1949 and above the surpluses shown in 1945-1946, when imports were not yet normal. Of course, the existence of this surplus does not mean that there is an equivalent amount of exchange available; first, because of other debit items, which affect the balance of payments, and second, because of the effect of bilateral agreements which reduce the area of exchange convertibility.

#### Trade with the United States

Latin America's trade position is now much more favourable, mainly through improvements in trade with the United States. Until 1949, there was a trade deficit with the United States, although, since 1947, a trend has been noted towards the reduction of these deficits. This was largely due to the restrictions applied by the majority of the Latin American countries to prevent the shortage of dollars from becoming more acute: the import surplus fell from 1,708 million dollars in 1947 to 814 in 1948, and 412 in 1949. In 1950, for the first time since the war, an export surplus appeared, amounting to some 240 million dollars. Of this surplus, 190 million dollars corresponded to the second half of 1950, when the new trade trend became more marked. (Chart 5.)

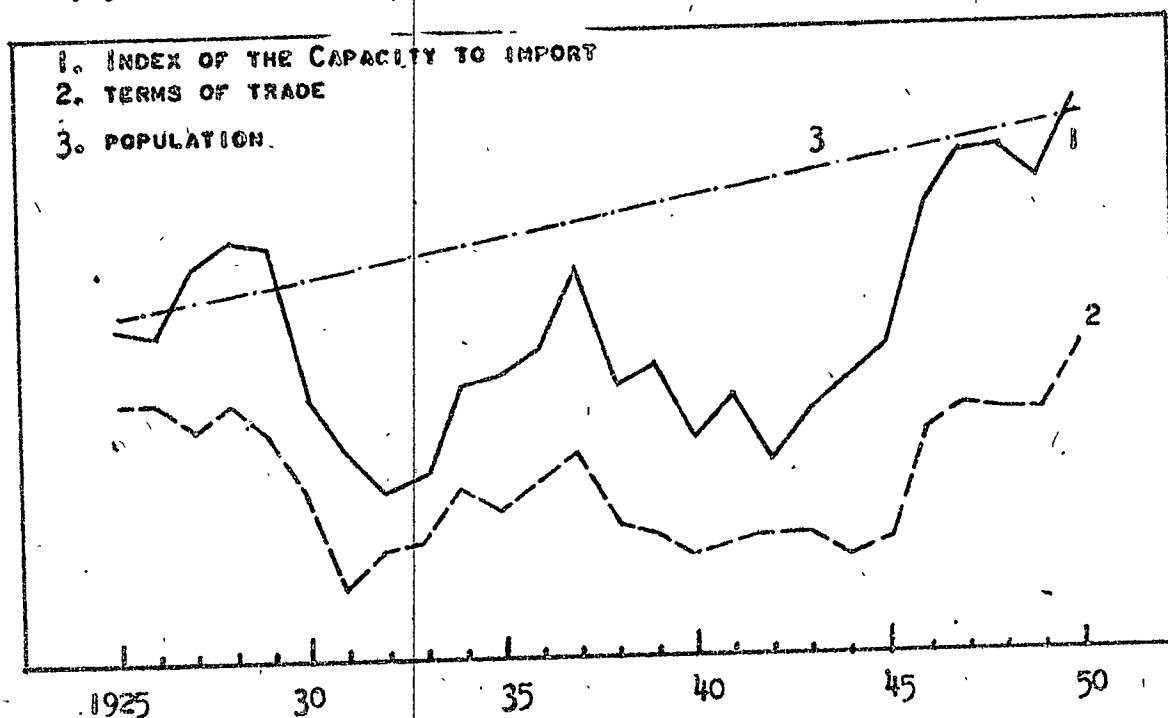
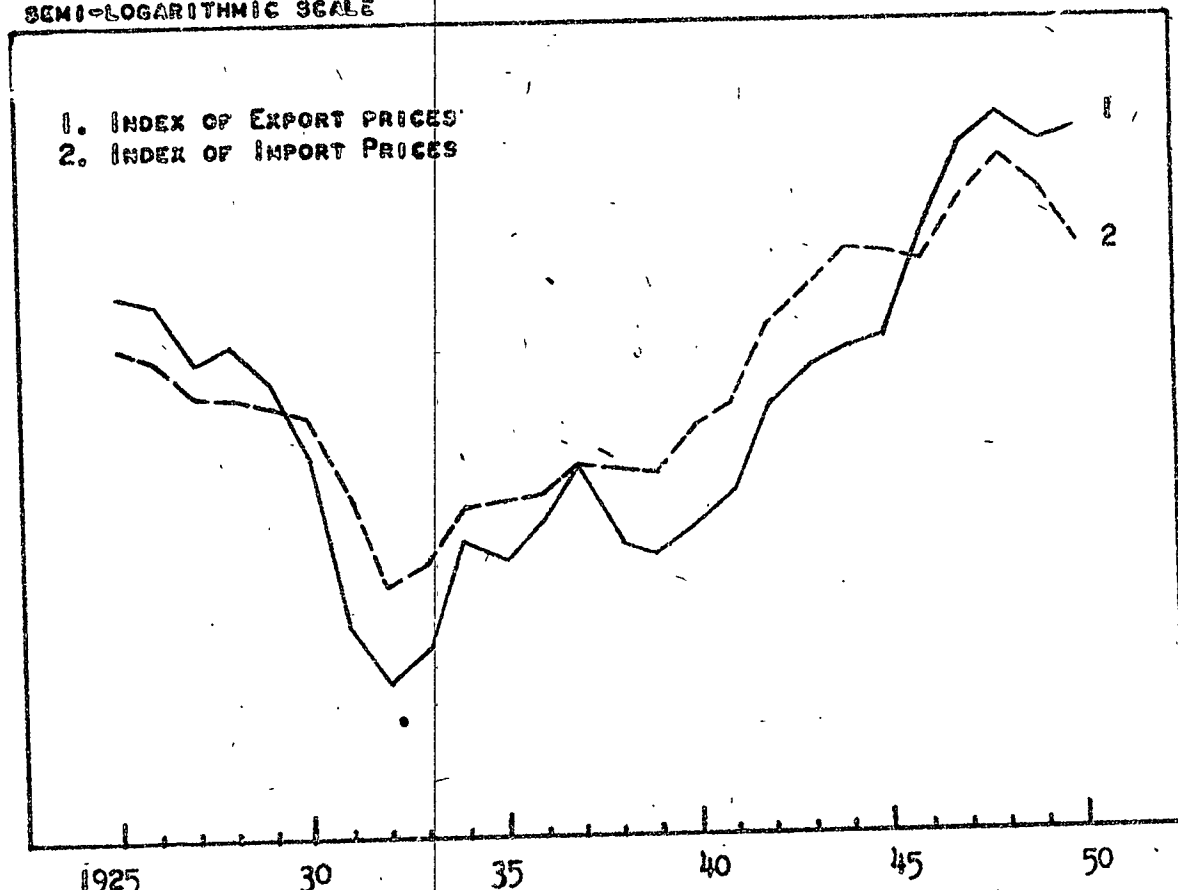
Almost all the Latin American countries improved their trade position  
/with the



# CHART 2 LATIN AMERICA

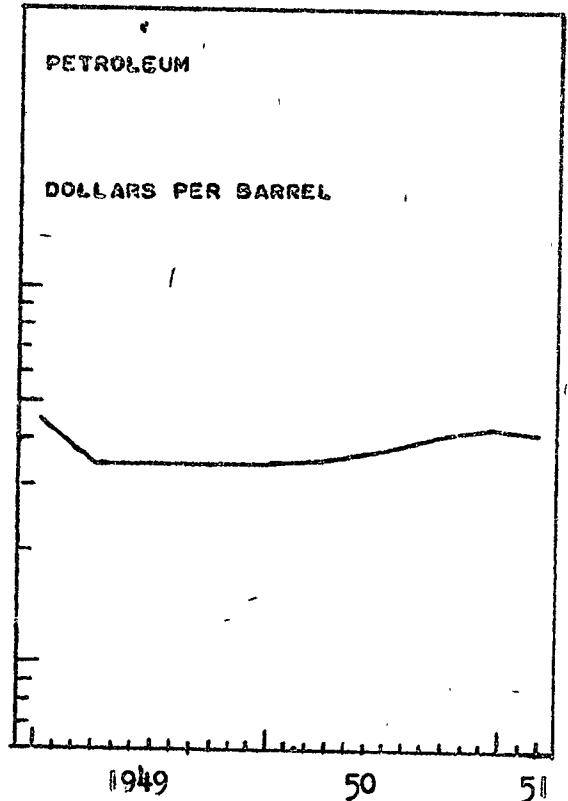
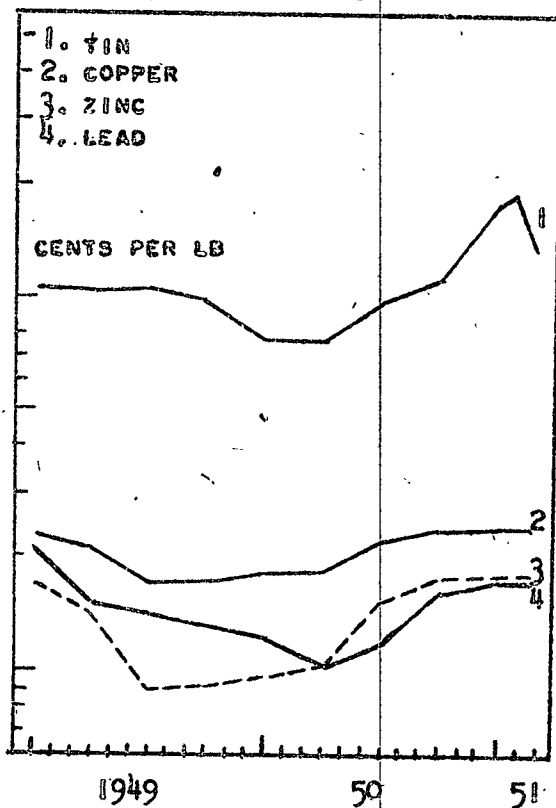
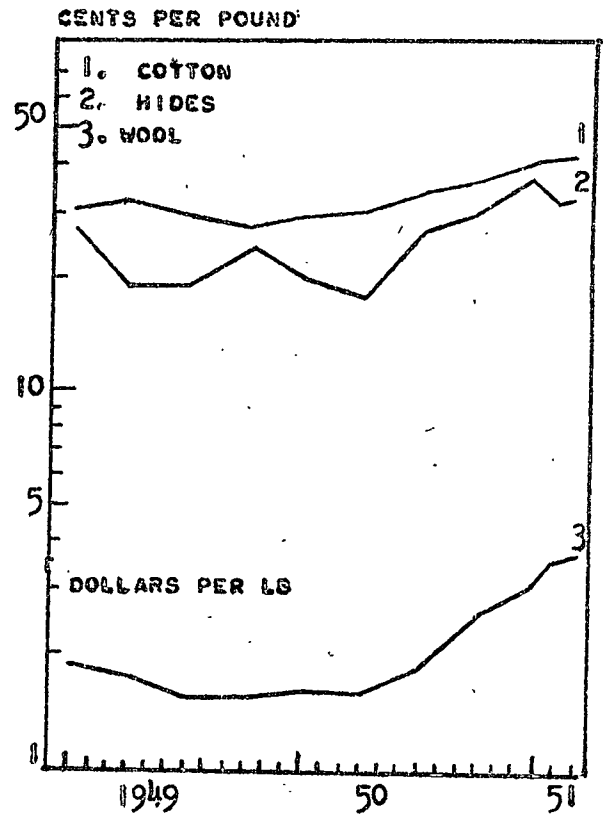
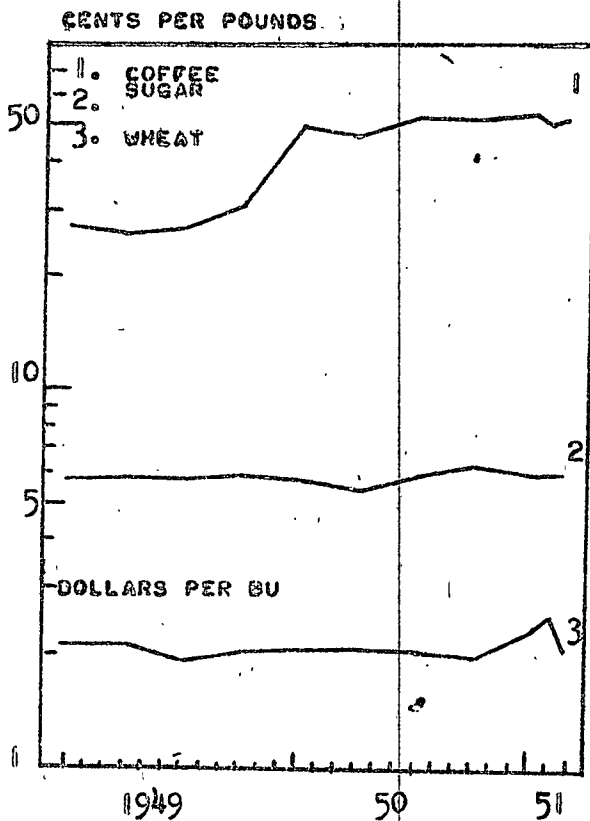
TERMS OF TRADE AND CAPACITY TO IMPORT  
1937 = 100

SEMI-LOGARITHMIC SCALE



# CHART 3 LATIN AMERICA

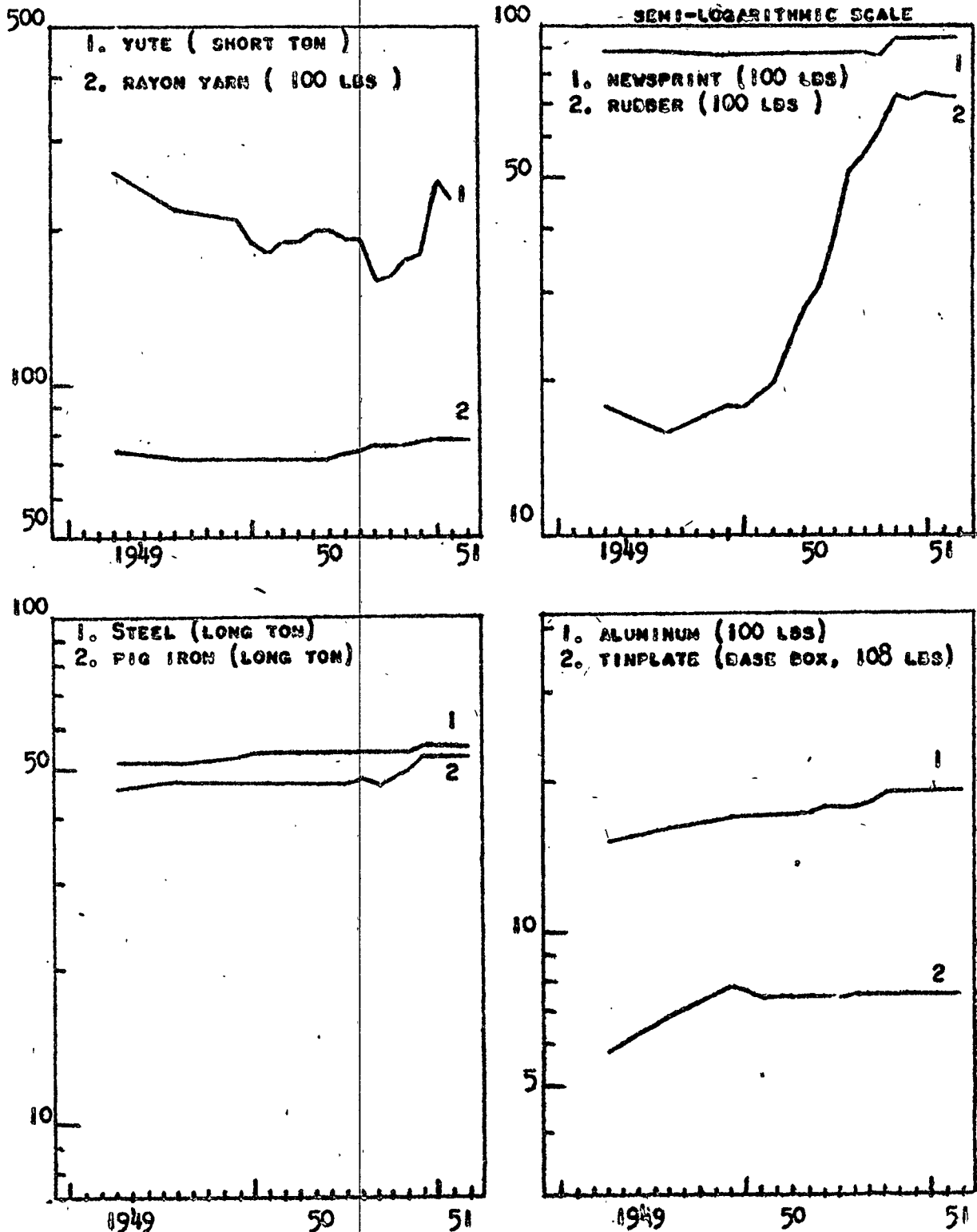
## WHOLESALE PRICES IN THE UNITED STATES OF LATIN AMERICAN EXPORTS PRODUCTS



# CHART 4

## LATIN AMERICA

### UNITED STATES PRICES OF GOODS PURCHASED BY LATIN AMERICA IN DOLLARS



with the United States. Argentina provides one of the most outstanding examples. In spite of the considerable reduction of imports from the United States, which had fallen from 680 million dollars in 1947 to 129 millions in 1949, Argentina had a net deficit of 32 million dollars in that year. In 1950, the position changed substantially. Exports to the United States were doubled and in spite of the increase in imports, Argentina had a surplus amounting to almost 60 million dollars. Brazil, favoured by the rise in the price of coffee, had a trade surplus of 360 million dollars in 1950, as against 170 million dollars in 1949. Among the countries which generally had unfavourable trade balances with the United States, Venezuela considerably improved its position in 1950. Mexico continued to show negative trade balances, but this deficit was more than offset by receipts from the tourist trade and from Mexican workers abroad. Cuba varies from negative to positive balances.

United States purchases from Latin America during 1950 have particularly benefited the countries producing coffee, petroleum and wool. On the other hand, the new situation is not yet reflected in purchases of copper and tin, which had been declining in relation to 1948. For sugar, the value of United States imports from Latin America was lower in 1950 than in 1949. As regards cacao, bananas, vegetable oils and leaf tobacco, there is a slight improvement over the previous year. The interesting point, however, is that in almost all products, the figures for the second half of 1950 are clearly higher than those for the first half of the year, the increase in values having been 30 per cent, thus providing clear evidence of the changed trend.

Concerning imports from the United States, the available figures show that in 1950 the majority of items showed declines in value in relation to 1948 and 1949, which may also reflect declines in volume, because prices in general have not changed much. The increases took place in farming machinery, automobiles and chemical products. (Chart 6.)

Altogether, prices have been the most active element up to the present, causing a considerable improvement in the terms of trade between Latin America and the United States. This may be appreciated from Chart 6, where the index of prices for 14 Latin American products imported by the United States, which is dominated to a large degree by the rise in coffee prices, has been used, as in the previous Economic Survey, to indicate export prices.

Under present conditions, the analysis of the United States balance of

(payments with

payments with Latin America is of great interest. It is undeniable that the dollar supply situation has improved greatly. However, in spite of this change, Latin America is still in a debit position in relation to the United States; according to provisional figures for 1950, that country's balance of payments with Latin America showed a final balance in favour of the United States, amounting to 54 million dollars, which is certainly much less than that for the previous years, that is, 120 million in 1949, 830 million in 1948, and a peak of 1,554 million dollars in 1947.

The change in sign of the trade balance took place in the fourth quarter of 1949. It was insufficient, however, to offset the deficit in the other items such as, for example, that of investment income payments, which increased to a very marked degree between 1949 and 1950. These payments exceed new United States investments in Latin America. This is one of the most significant factors, as it clearly shows the insufficiency of capital receipts from abroad. Moreover, private capital inflow, which had increased between 1946 and 1949, declined again to a very considerable extent.

The increase in holdings of gold and short-term assets in the United States, mainly reflected the dollars received from transactions with third countries, which has permitted a partial recovery of the gold reserves, these having been on the decline since the beginning of the post-war period.

#### Increase in International Reserves

In spite of the increase in international reserves for Latin America as a whole, between the middle of 1949 and the beginning of 1951, as yet not even half of the gold and foreign exchange lost between the high and low points of the post-war period have been recovered, (See Chart 7.) However, the position is not the same for all the countries. Some of them have exceeded the reserves of the early post-war years, as in the case of Bolivia, Cuba, El Salvador, Honduras, Nicaragua, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela. Others have recovered at least half of the reserves lost between 1945 and 1949; as in the case of Brazil, Costa Rica, Guatemala and Mexico. Finally, three countries - Argentina, Chile and Colombia - have not recovered even half of their post-war losses. It should, of course, be remembered that several Latin American countries have used part of their reserves to re-purchase their external debt and foreign investments (Argentina, Uruguay and Brazil; in the last-named, the fall in reserves between 1948 and 1950 was exclusively due to this procedure.

/Although it

Although it cannot be stated with certainty, it is unlikely that the gap left by the shortage of imports during the war years has been filled. The reduction in reserves, starting in 1947, forced the majority of Latin American countries to restrict their imports, at times to a very severe degree, as in the case of Argentina. Now, when the increase in exports brings some relief, restrictions are beginning to come into play on the other side, from supplying countries. Moreover, while for the moment the rise in the prices of raw materials is greater than that for finished products, this situation is rather precarious. The expansionary forces of the money supply are bound to take effect if the increase in exports cannot be invested in greater imports.

This new pressure of external origin is added to that of domestic origin, which has tended to increase in the majority of Latin American countries. In 1950, an increase in money supply can be noted in the majority of these countries, greater than that registered in 1949, which on the whole had been less pronounced than in the previous year. That is, the upward trend, which had tended to weaken, has again acquired greater force. The action of foreign demand is contributing to the rise in domestic prices. The cost-of-living index in the majority of the Latin American countries does not yet show any more pronounced increases in 1950 than in the previous years, except in Colombia, Costa Rica and Paraguay. In the other countries, the increase has been the same as or lower than that registered in 1949, which is due to the relatively delayed effect of import prices on the cost of living and to the fact that the rise in export prices did not have an immediate effect through incomes. The first indices available for 1951 indicate that the upward trend is becoming widespread. In Brazil and Cuba, the rises for the first quarter of 1951 are greater than those in the first quarter of 1950.

# INTRODUCTION

## Statistical Appendix

Table 1    Latin America: Quantum and Prices of Exports and Imports,  
Terms of Trade and Capacity to Import

Indices 1937 = 100

Years	Quantum of exports		Imports		Prices of exports	Prices of imports	Terms of trade	Capacity to import	
	Total	Per capita	Total	Per capita				Total	Per capita
1925/29	89.1	105.1	119.3	140.9	137.4	124.2	110.6	98.2	115.9
1945	103.5	88.4	87.0	74.0	134.9	167.0	80.8	83.7	71.3
1946	110.5	92.6	133.0	111.0	172.9	163.0	105.8	116.9	97.6
1947	118.5	97.5	191.0	156.0	213.4	191.0	111.7	132.4	108.5
1948	121.1	97.2	176.0	141.0	231.2	208.0	110.9	134.3	107.8
1949	111.2	87.8	164.0	130.0	214.2	193.0	111.0	123.4	97.5
1950	115.0	89.4	171.0	133.0	222.2	171.0	130.0	149.5	116.3

Source: Estimate based on data taken from official statistics. For sources and method, see Economic Survey of Latin America 1949.

Table 2      Latin America: Trade at Constant and Current Values

(in millions of dollars)

<u>Years</u>	<u>At 1937 prices</u>		<u>At current prices</u>		
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1945	2,415	1,398	3,259	2,334	925
1946	2,578	2,120	4,459	3,456	1,003
1947	2,765	3,036	5,900	5,798	102
1948	2,825	2,803	6,535	5,830	705
1949	2,594	2,623	5,556	5,062	494
1950	2,683	2,727	5,961	4,664	1,297

Source: Compiled with data taken from the official statistics of each country, converted into dollars in accordance with the average exchange rates established by the International Monetary Fund

Note: The values at 1937 prices were obtained, for exports, by multiplying the quantum index by the 1937 value and, for imports, by deflating the series of current values by the combined index of export prices for the United States and United Kingdom.



Table 3      Latin America:   Variations in Prices of Some Export Products,  
According to Quotations in the United States

<u>Products</u>	<u>Increases in per cent, in March 1951</u>	
	<u>Over July 1949</u>	<u>Over 1949 minimum</u>
Tin	30.1	75.7
Coffee	93.7	106.7
Sugar	2.6	9.1
Wheat	21.6	21.6
Cotton	49.6	57.7
Wool	206.1	209.3
Hides	71.8	81.1
Copper	39.3	39.3
Lead	21.4	61.9
Zinc	94.4	94.4
Petroleum	25.0	25.0

Source: Quotations on United States markets.

Table 4      Latin America: Variations in Prices of Some Imported Products

(Percentage increases)

<u>Products</u>	<u>March 1951</u>	<u>March 1951</u>
	<u>August 1949</u>	<u>1949-50 Minimum</u>
Rubber	351.2	351.2
Jute	5.4 a/	44.1 a/
Pig-iron	13.1	13.8
Aluminium	11.8	11.8
Rayon yarn	9.8	9.8
Steel	7.7	7.7
Newsprint	5.7	7.5
Tinplate	- 1.6	1.4

Source:    International Monetary Fund; Statistical Bulletin  
              of the United Nations; The New York Times

a/    February 1951.

Table 5      Latin America:    Terms of Trade with the United States

1937 = 100

Years	Index of prices of 14 products exported to the United States		Index of Import Prices	Terms of Trade
	With Coffee	Excluding Coffee a/		
1945	124.6	116.6	174	71.6
1946	154.4	130.8	152	101.6
1947	216.2	192.6	178	121.3
1948	239.2	217.3	188	127.2
1949	252.6	224.5	177	142.7
1950	314.7	229.7	173	182.0
1950 b/	287.2	216.6	..	..
1950 c/	340.1	242.6	..	..

Source: Compiled from data supplied by the Department of Commerce,  
Washington.

a/ The 14 products included, with their respective weights for  
1945 and 1950, are the following:

	1945	1950
1. Coffee	36.48	49.92
2. Crude petroleum	8.38	14.45
3. Sugar	20.96	11.90
4. Copper	13.13	7.08
5. Cacao	1.97	3.54
6. Lead	2.48	3.27
7. Wool	4.81	2.92
8. Bananas	2.84	2.60
9. Tin	2.56	1.29
10. Nitrate	1.96	1.06
11. Zinc	1.41	0.85
12. Hides (untanned)	0.37	0.32
13. Hides (tanned)	0.23	0.30
14. Silver	2.42	..
Total	100.00	100.00

b/ First six months.  
c/ Second six months.

Table 6      Latin America:      Trade with the United States, 1947-1950

(in millions of dollars)

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
<u>Latin American exports to the United States</u>	<u>2,150</u>	<u>2,352</u>	<u>2,302</u>	<u>2,907</u>
Argentina	154	180	97	206
Brazil	446	514	552	714
Chile	122	179	152	160
Colombia	206	236	241	313
Cuba	510	375	388	406
Mexico	247	246	244	318
Venezuela	174	271	278	322
Other countries	291	351	350	468
<u>Latin American imports from the United States</u>	<u>3,858</u>	<u>3,166</u>	<u>2,714</u>	<u>2,668</u>
Argentina	680	381	129	145
Brazil	643	497	382	354
Chile	125	106	142	72
Colombia	219	197	176	233
Cuba	441	441	380	460
Mexico	520	522	463	516
Venezuela	427	517	518	398
Other countries	803	505	524	490

Source:      United States Department of Commerce: Survey of Current Business.

Table 7      Latin America: International Reserves of 18 Countries

(in millions of dollars)

<u>Countries</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>a/</u>
Argentina	1,663	1,696	1,071	809	747	b/ 941	b/ ..	
Bolivia	35	34	31	31	29	40	..	
Brazil	666	760	785	757	719	665	..	
Colombia	177	176	111	84	111	101	68	
Costa Rica	8	3	4	5	5	4	6	
Cuba c/	232	266	346	316	343	338	c/ 375	c/
Chile	110	69	56	53	43	55	61	
Ecuador	33	37	27	28	26	37	35	
El Salvador	28	29	29	30	37	41	58	
Guatemala	41	47	50	44	34	35	40	
Honduras d/	8	7	6	8	8	13	..	
Mexico	344	223	126	78	126	287	e/ ..	
Nicaragua	7	6	5	3	4	3	10	
Paraguay	10	11	9	6	3	12	16	
Peru	38	35	32	44	47	52	72	
Dominican Republic	33	35	30	25	22	31	38	
Uruguay	252	291	255	241	216	312	..	
Venezuela	227	252	255	386	445	374	..	
Total	3,912	3,977	3,228	2,948	2,965	3,341		

Source:                      International Financial Statistics.

a/ March.

b/ The figure given in Argentine sources for gold has been converted at the rate of 3.04 pesos per dollar, and the figures given for foreign exchange, at the rate of 3.545 pesos per dollar. For the years prior to 1949, the figures given are taken from International Financial Statistics (International Monetary Fund)

c/ Excluding the investments of the Banco Nacional de Cuba and foreign exchange holdings of the commercial banks.

d/ Including foreign exchange holdings in the banks.

e/ Figure for Mexico at the end of November.

CHAPTER. II

AGRICULTURE

The Development of Production

The generalisations applicable to the development of Latin American agriculture during the post-war period are subject to the same exceptions as those applicable to other sectors of the various economies.

The following excerpt from a recent authoritative publication possibly provides an adequate idea of the Latin American situation towards the end of the period under review: "During the agricultural year 1949-50, the per capita quantum of production of the region's principal crops was only 87 per cent of the pre-war levels. If the present ~~estimates~~ materialise, this figure will reach 95 per cent in 1952-53. Even if we were to exclude Argentina, where a substantial reduction has occurred in the total area harvested per capita, no progress would be reported elsewhere in this region, in the ratio between the total area harvested and the population. Even more important is the fact that, with few exceptions, the yield per hectare obtained in basic crops is, for practical purposes, no higher than it was fifteen years ago."<sup>1/</sup>

If, instead of studying production, attention is paid to per capita domestic supplies of the 22 principal Latin American agricultural products (production minus exports plus imports), it will be seen that according to available figures, in 1948-49 the volume of supplies was only slightly higher than before the war, and excluding Argentina, it was slightly lower. These results occurred despite a constant increase of both total production and production per capita since the war, indicating the low levels to which production had fallen during the war.

<sup>1/</sup> Introduction of the Food and Agriculture Report on Development and Prospects of Latin American Agriculture, placed before the Second Latin American Regional Conference held in Montevideo, December 1950.

/ Comparing the agricultural

Comparing the agricultural panorama with that of other sectors of production, it may be observed that where the growth of agricultural production has been relatively greatest, that is to say, in Mexico, the index of industrial production in 1949 (as compared with the period 1936-39) shows an increase nearly 15 per cent greater than that of agricultural production. In Argentina, Brazil and Chile, the increases recorded for industrial production are at least 50 per cent higher than those of agricultural production, despite the fact that to a large extent industrial production depends on the volume of raw materials supplied by agricultural activities.

Nevertheless, in spite of this picture of gradual progress or decline in agricultural production per capita, during the post-war period the difference between these relative rates of increase in industry and agriculture has become less; and, in the case of Mexico, according to official indices, the rate of increase of agricultural production is now higher than that of industrial production. Even in those countries where an intensive industrialisation policy has been carried out and where industry is considered to have developed most, the relative importance of agriculture has either remained stable or expanded since 1945. In Brazil, agricultural production accounted for 36.7 per cent of the country's total production of goods during 1945 and 36.5 per cent of that total in 1949. In Chile, 17 per cent of the national income was supplied by agriculture in 1945 and 17.6 per cent in 1948 (although 34.3 per cent of the country's total production of goods in 1945 and 31.7 per cent in 1949 was made up of agricultural products). In Colombia, the contribution of agriculture to the national income in 1945 represented 38.6 per cent of the total, whereas in 1948 its share 38.3 per cent.<sup>1/</sup> Thus, with very few exceptions during the post-war period, the rate of agricultural expansion has either increased or the trend toward lower production has been checked, but in comparison with the years immediately before the war, the general picture is still rather poor.

<sup>1/</sup> Due to the lack of the necessary statistical data, it is not possible to use the same basis of comparison for the position of the various countries.

/It is not possible

It is not possible to estimate the extent to which the inclusion of secondary products would alter the foregoing general picture of the problem of slow agricultural development, as observed from the data available for the 22 principal items of the area's total production. It is quite possible, however, that production of these may have increased at a higher rate than that of basic goods, since the growth of the urban populations, with their more diversified pattern of food consumption, has been greater than that of the total population. It is likely that little change would be noted in the total or the per capita volume of production since the area on which such secondary products are cultivated is small in comparison with that utilised for basic products. Nevertheless, the results of such increases are important in relation to the diet of the population, in view of the fact that the statistics referring to the calory and protein content of the diet of seven outstanding Latin American countries (Argentina, Brazil, Colombia, Cuba, Chile, Peru and Uruguay) indicate an improvement for the period 1946-49, as compared with 1936-39. A similar improvement is observed in the statistics referring to available supplies of foodstuffs for human consumption (kilogrammes per capita per annum), contained in the analysis of retail sales. As will be seen, these data are hardly compatible with a reduction in per capita supplies of foodstuffs.<sup>1/</sup>

In conclusion, it may be tentatively stated that the decline recorded in agricultural production per capita, if in fact such a fall occurred, was not detrimental to the basic diet of the Latin American populations as compared with pre-war standards; on the contrary, it is possible that their diet improved.<sup>2/</sup> There is greater likelihood that the increase in the per capita yield of agricultural production was very small, if indeed any such increase occurred.

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<sup>1/</sup> See Tables XXVII and XXVIII of the aforesaid FAO Report.

<sup>2/</sup> Nor must the possibility be overlooked that the decreases of domestic supplies indicated by the data available for certain countries may be ascribed to inadequate statistics.



Factors bearing on Production

There are various factors responsible for the slow progress or the decline in agricultural production during the war and for the fact that the rate of growth, whilst still weak, has improved during the post-war period. There were, for example, 1) The fact that greater attention has been paid to other sectors of the national economy; 2) the continuation of trends in foreign trade (rather small in relation to the increases of population or income) which were accentuated by transportation difficulties during the war; and 3) the fear of a post-war depression. During the war, there was a relatively greater shortage of industrial products. It is evident that governments sought to increase production of those goods which are in shortest supply and that private savings were invested in such activities, because they offered greater opportunities for earning profits. Thus, during the war and the post-war periods, there was a marked increase of expenditure (either in the form of consumption or investment) of the income derived from agricultural production in other spheres of economic activity. This development was a result of shortages and of the disproportionate rise of prices of industrial goods, causing a relative displacement of incomes from the country to the town which narrowed the possible margin for re-investment in agricultural activities. In addition to these factors, there also arose the difficulty of supplying the agricultural equipment necessary for the extension, renewal or maintenance of existing facilities, in addition to replacing machines which were depreciating comparatively rapidly; and there was little possibility of utilising existing equipment more intensively, as was done in industry, and to which may be attributed a large part of the increase obtained in industrial production. All this contributed to weakening the growth of productivity and to the decrease of agricultural production during the war, though it did not hinder the accumulation of surplus stocks of certain items such as coffee, cotton and wheat, for example. Nor did it hamper the increase of certain agricultural productions providing raw materials for industry, and which therefore shared in the profits of industry.

/The recovery of

The recovery of the levels of production during the post-war period, which, as has already been shown, did not compensate for the per capita decrease in the production of basic goods during the war, was caused by a reversal of war-time tendencies. In other words, greater attention was devoted to agricultural production, transportation facilities became available; foreign markets were re-opened, high prices were received in the international market, relatively greater profits accrued to the agricultural producer as a result of the foregoing factor, supplies of manufactured goods from traditional foreign suppliers increased, and there was an upward trend in the importation of agricultural equipment.

The fact that in certain cases greater attention has been devoted to agricultural production since the war, and especially during the past few years, can be ascribed to the efforts to expand exports and thereby increase foreign exchange availabilities. In all these countries, however, the relatively short supply of agricultural products (brought about by the marked increase of the urban population) exerted a decisive influence in shaping policy, as did the greater demand arising out of the increased monetary income of the total population. Putting the matter more clearly, it may be said that, simultaneously with the per capita decrease of agricultural production, a disproportionate increase of the urban population in relation to the total population was recorded during the period of hostilities; and it should be noted that both as regards industrial and agricultural products, the urban population reveals a higher level of consumption than the rural population. The increase of the industrial population's monetary income could not become effective in a very important sector of consumption, while per capita agricultural production was declining, and thus it resulted merely in the increase of agricultural prices (shared between the farmers, who used the money to maintain, as far as possible, the level of their consumption of higher-priced manufactured goods, and the middlemen, who form part of the urban income groups). Since the war, the fact that urban demand for agricultural products could not be met has exerted the greatest influence in directing policy toward the adoption of measures intended to stimulate the /production of

production of foodstuffs, since in its efforts to raise its standard of living the urban population has become an important factor, and governments are anxious to avoid the repercussions of rising prices of foodstuffs.

Nevertheless, the effort to prevent a rise in the cost of living has, in a certain sense, also been an obstacle to the maximum efforts of private enterprise to increase production. That is to say, the shortage of the so-called essential agricultural goods has led to the adoption of import controls and the lowering of the selling prices of foreign goods, all of which have discouraged domestic production. Thus, at times, aspirations of agricultural development have been curtailed by short-term supply requirements, to the detriment of the former. The need for intervention and for official encouragement of production became greater in view of the check placed on private enterprise by import restrictions. The policy of low agricultural prices is nevertheless losing support, as will be shown below.

All the incentives provided, have, however, proved powerless to raise production to the required level, as may be seen from the calculations made by the Food and Agriculture Organisation, and it would appear that despite continued and intensified effort in this direction, no substantial change in the basic position is likely to be achieved for the period 1952-53.<sup>1/</sup> In addition to the factors bearing on the trend, the slow progress recorded could and will continue to be accounted for by the need for prior investment of large amounts, either in the form of basic development in order to cultivate new areas (e.g. irrigation, highways, colonisation), or in order to intensify development in the areas already under cultivation. Generally speaking, the adaptability of production to the stimulus of demand has been sufficiently great in Latin America. There are various outstanding examples of its responsiveness in this respect, among which figure the increase of cotton production both in Brazil (where it replaced former coffee-growing areas) and in Mexico (in the newly irrigated regions). The same phenomenon has occurred in

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<sup>1/</sup> See the publication referred to at the beginning of this chapter.

Uruguay where wheat has replaced forage crops, and in many other countries where other crops have given way to sugar and bananas. In Nicaragua, a product of seeming unimportance in the country's exports, ajonjoli, is found assuming a position of exceptional importance in the country's balance of payments as a result of the marked rise in its price. Subsequently, as the price fell, production of other items such as cotton rose. It is nevertheless evident that in a good many countries the limit has been reached as regards land which may be cultivated without requiring the investment of heavy sums for basic development in order to incorporate these into the total surface of arable land. The increase in the production of certain crops is, in some countries, being achieved at the expense of others, and therefore does not correspond to a net all-round increase of production. Hence it may be seen that the slowness of development could not be accounted for in the inadaptability of the crops; in fact, the relative inelasticity of the supply of agricultural products was in part due to the shortage of capital, in comparison with the higher profits to be gained from its investment elsewhere.

The slowness of development may also, in part, be attributed to the relatively short supply of labour. In Argentina, this shortage was greater than in other countries, an unusually strong migration toward the towns having been recorded, whilst the increase in production of maize, as compared with the pre-war levels, does not seem to have been the cause of this shortage.<sup>1/</sup> However, in various other countries, where there is a chronic state of disguised unemployment, and where as a result, it might be assumed that agricultural labour would be easily obtainable, problems of relative immobility of labour are encountered, even in the poorest sections of the rural population. In some parts of Mexico, the encouragement offered to national immigrants was sufficient to cause a substantial flow of labour from one agricultural region to another. But in other countries, and especially those in which there is a predominant Indian population, a shortage of agricultural labour is encountered in certain areas, together with the disguised unemployment in other parts of the country, despite the considerable difference of wages.

Plans for the Improvement of Agriculture

"Minifundios"<sup>1/</sup> It is possible that one of the principal reasons for the slight mobility of agricultural labour in some countries is the prevalence of very small properties, which tends to develop in the landowners a deep and instinctive sense of possession and attachment to a particular piece of land, despite the inadequacy of the agricultural unit on which they work. In some cases the fight against the extreme sub-division of the land has so far met with little success, especially in those Latin American countries which are least developed. Despite the strong migratory current from the country to the town, the area cultivated per agricultural labourer, which was already inadequate before the war, has tended to become even smaller whilst the progress of mechanisation, in the absence of any increase in the total cultivated area, would suggest the continuation of this trend.

Agrarian Reform. In nearly every country included in this region, plans have been put forward with the object of improving agriculture, varying both in extent and in the intensity of the efforts required to put them into practice.

One of the more recent and ambitious of these, that of Argentina, was drawn up precisely after a period when little stress was laid on agriculture. This scheme involves a programme of agrarian reform, with a view to guaranteeing the security of the leaseholder who shall not be dispossessed of the land he tills, and who, in fact, is granted facilities for its purchase. This plan also establishes the principle of the "agricultural unit" (the area deemed necessary for the life and progress of a family) and its indivisibility, with a view to countering the trend toward "minifundios". Furthermore, the

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1/ Rural farms which, by reason of their very limited size, cannot be economically cultivated as independent units.

Argentine plan allows for a distribution of government-owned lands, the granting of credit facilities, and the guaranteeing of prices. The plan's immediate object is the increase of agricultural production with a view to increasing the country's export capacity, which had been seriously weakened during the past few years.

Precedents for the various features of the Argentine plan, both in theory and in practice, may be found not only within Latin America but elsewhere, though in the past few years no country has put forward a plan of such outstanding importance. Moreover, since the Mexican experiment, no other Latin American republic has undertaken the task of dealing with land tenure problems and employer-employee relationships in agriculture on such a wide scale. It is generally admitted that in various Latin American countries, the land tenure system and employer-employee relations, in addition to being socially undesirable, constitute a considerable hindrance to the progress of production and productivity. Notwithstanding the fact that the Argentine problem does not present the acute difficulties characteristic of other Latin American republics, in none of these other countries has the government declared its intention of so zealously undertaking to improve conditions in general, nor have they, in any case, had recourse to such efficient means of solving problems so thoroughly. The explanation of the difference in attitude does not lie only in differences of a political or ideological nature within the government, nor in the varying composition and traditions of the peoples, but also in the presence of such factors as the availability of land and easy access to such territory, the existence of a market for the increase of production, and the availability of funds or the acceptance by the government of the inflationary consequences which such a programme implies.

/In Mexico,

In Mexico, where broad agricultural development plans have been laid involving a longer period for their completion than elsewhere, definite goals for production were set; but of course the agrarian reform had been undertaken a good many years before. It should however be emphasised that in the post-war years, a new stress has been laid on the implementation of Mexican land reform, with the object of granting greater facilities to the small-holding and less to the ejidal property (which, in fact, is the "minifundio"). This change arises partly from the fact that there are wider possibilities for obtaining private capital for individual holdings than for communal holdings. The greater stability of the agricultural situation has increased the amount of private capital invested in agriculture, even though this has not been carried out on a scale sufficient to reduce substantially the share of the Government in the financing of agriculture.

The "Agrarian Statute" passed by Venezuela in 1949, is an attempt at agrarian reform in that it contains wide measures for ensuring the concession of land to farmers desirous of working, whilst making allowances for the expropriation of holdings which are improperly developed, and regulating dealings between landowners and share-croppers or leaseholders.

In Paraguay, the extent and the effect of the execution of the "Supervised Credit" programme has effectively transformed it into an attempt to reform the working and living conditions of the peasant population, an attempt which is at the same time deeper and more intense than that of any other country. Moreover, given the latitude of the operations provided for under the Paraguayan plan, the word "Credit" does not convey the full meaning of the programme, as credit would appear to be no more than an inducement offered to the peasant to conform to an all-round programme of social improvement and directed production policy.

In the majority of the Latin American countries, nevertheless, the plans seem to be less thorough and too fragmentary to be of any practical benefit. The Mission headed by Lauchlin Currie, under the  
/auspices of the

auspices of the International Bank for Development and Reconstruction, commenting on the work of the agricultural development units in Colombia, states<sup>1/</sup>: "The result is that there is no main objective and no co-ordination of efforts in the agricultural programme. Much attention is given to protecting, stimulating and extending crops and cattle breeding, but it would appear that for the most part the general question of the farms and the rural population remains on the whole unheeded. It is to be assumed that no policy exists as regards the administration of the family and the farm, nor as regards the individual planning of the farms and the development of rural communities in order to improve living conditions thereon." These same comments can also apply to other countries in the region.

One might perhaps state that in those countries where there was the greatest need for an integral programme of agricultural improvement, its execution would require either a greater upheaval than it would be advisable to cause at the present time, or an outlay of funds for development which remains beyond the official resources since substantial outlays are also required especially for transport, public health improvements and the opening up of new lands, with the object of establishing more adequate forms of production without affecting vested interests. Undertakings, such as the recent establishment in Chile of a model agricultural village and a system which frees the peasant from the leasholding régime, are but a preliminary step toward the solution of a vast problem and cannot yield positive results in a short period. The co-operative agricultural movement, even though it rests on official support in the majority of these countries, has not yet met with outstanding success.

The "latifundio" (large estates in contrast with the "minifundios") have been a source of concern in most countries, but the efforts made since the war to achieve more efficient economic units have not met with much success.

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<sup>1/</sup> Book I, page 126, of the Spanish Edition of the Report.



The reasons for this are the same as those holding up the adoption of comprehensive plans of agrarian reform. The fact is that the large estates are being pared down by the slow and spontaneous process of land division involved in the system of inheritance or sale of the property, together with the fact that certain official institutions have lent their aid in the purchase of such land.

Mechanisation. Though little effort has been made to improve agriculture by modifying the structure of production and the relations between capital and labour since the war, there has nevertheless been a substantial attempt to increase productivity per man employed, especially by the introduction of mechanisation. From 1948 to 1949, there was a total increase of 21,000 tractors in Latin America, thus lowering the proportion of hectares cultivated per tractor from 967 to 743 during this period. This trend has been extremely sharp in certain countries, among which Paraguay and Uruguay have shown large relative increases and Mexico and Uruguay substantial absolute increases. In a few of these countries there were decreases in the number of tractors in use (Costa Rica and Haiti), whereas in others only a very small increase occurred (Bolivia, Ecuador, Peru, Salvador, Guatemala and Panama). Seven republics - Argentina, Brazil, Chile, Uruguay, Venezuela, Cuba and Mexico - accounted for 90 per cent of the total increase of tractors over this period.<sup>1/</sup> Venezuela and Uruguay at present have the highest number of tractors per unit of area harvested (134 and 211 hectares per tractor, respectively).

Though in a good many countries the possibilities for mechanising agriculture on the land at present cultivated would seem to be overestimated, the deficiencies are fully recognised in connection with this aspect of agricultural production. In Uruguay, where the highest degree of mechanisation in agriculture has been reached in Latin America, the government has been fostering the development of mechanisation as a means of gradually eliminating the use of 200,000 oxen and 100,000 work horses employed in agricultural tasks.

<sup>1/</sup> Within these countries live 80 per cent of the population of Latin America.

/It should also

It should also be pointed out that the attempts to increase production by the introduction of mechanisation in agriculture have not always met with success for either one of two reasons: the inadequacy of the machines when adapted to local conditions or the inefficient utilisation of such equipment. This fact has been definitely proved in various countries, and in this connection it is worth while noting the following quotation from the Annual Report of the Central Bank of Venezuela for 1949 (pages 21-22 of the original text), which reads as follows: "Given the very backward state of the large majority of agricultural enterprises, mechanisation was often used as an attempt to avoid the intermediary stages in the development of agricultural technique." Similar comments would be applicable to other countries in the area.

Though the shortage of foreign exchange has in some cases been the cause of delaying the process of mechanisation during the past few years, it is also obvious that the low relative profitability of agriculture in relation to other activities has also served as a contributory factor, as have the persistently low salaries in agriculture in many countries, a factor which tends to reduce the incentive for conserving manpower in a substantial sector of production. As has already been stated, when circumstances have justified the trend, that is to say, when the international price or national markets were favourable and production could be increased in a short period, investments were satisfactory, and mechanisation progressed. Evidence of this will be found in the mechanised production of cotton in Mexico, of sugar-cane in Cuba and of rice in several of the Latin American countries, especially in Brazil.

Nor can there remain any doubt as to the influence of monetary depreciation on the use of machinery in the Latin American countries. The research carried out on this aspect of the problem in Chile, for instance, indicates that whereas in the early forties there was a tendency for wheat prices to increase more than the price of mechanical equipment, by 1947 this trend had been reversed. It was estimated that the production costs of a metric quintal of wheat were 238 pesos where only very elementary methods of mechanisation were

/used (an ox-drawn

used (an ox-drawn plough and manual sowing and reaping etc.), whilst complete mechanisation raised the price to 242 pesos per metric quintal (at 1948 prices) if the mechanical equipment were the property of the farmer, and 267 pesos if it were state-owned. Since wages in agricultural activities did not increase in proportion to the depreciation of the Chilean peso in 1950, or even with the price of agricultural products, it is probable that the ratio of the price of wheat to mechanical equipment has fallen even further, reducing the incentive for mechanisation.

Whatever the difficulties may be, progress is unquestionably being made in the introduction of mechanisation into Latin American agriculture and it would appear to be developing at a greater rate than that of the growth of the population. This has important long-term consequences, because mechanisation displaces workers and does not increase production. All the difficulties in absorbing the surplus population in non-agricultural activities are likely to heighten the labour problem. Although the implications of the above are great, they cannot be entered into here; however, it is suggested that in those Latin American countries where demographic problems and those of low agricultural productivity are found in conjunction with shortage of land, it may be argued that investments which increase the unit yield without displacing labour from the countryside, seem to be more urgently required than investments in mechanised equipment. There are also numerous examples of attempts to increase the yield of the crops by improved technical methods, among which figure the selection of maize seeds in Mexico, which has progressed considerably during the past few years, and the efforts being made by various Central American countries to re-invigorate their coffee lands with diverse hybrid types (particularly of the kind grown in El Salvador). At the same time, attention should be drawn to the agricultural extension services, which offer the farmer a means of employing the techniques /developed on the

developed on the experimental stations.<sup>1/</sup>

Irrigation. Among the many aspects of the agricultural improvement programmes, irrigation is one that should be studied separately. In 1950, plans had been drawn up for the irrigation of 3,600,000 hectares, that is to say, about 5 per cent of the total surface cultivated at present; and if these are fully carried out, it will mean an increase of 60 per cent of the total irrigated surface. However, it is unlikely that the programmes will all be put into operation, since the present state of the projects for nearly half of this irrigated area is unknown, and furthermore the period necessary for their completion varies from 2 to 6 years, depending on the extent of the undertaking and the resources available for it. Until December 1949, of these 3,600,000 hectares which it was planned to irrigate, work on some 425,000 had actually been concluded, of which no less than 379,000 hectares were located in Mexico. It would, in fact, appear that at present work is going forward on the irrigation of about 920,000 hectares in Mexico and a total of 439,000 hectares in the other Latin American republics. It will thus be seen that the greatest progress achieved in irrigation among these countries has been in Mexico, both from the relative and the absolute point of view. No other Latin American country sets aside for this purpose so large a proportion of its official budgetary resources (about 200 million pesos annually). Since 1947, 90 per cent of the investments in irrigation made in Latin America were in Mexico, the total amount spent on irrigating the 379,000 hectares totalling about 125 million dollars (U.S. currency). Next in order of extent come the irrigation plans of Chile and Peru, covering a total area of 226,000 and 78,000 hectares respectively.<sup>2/</sup>

So far, the principal obstacle to the expansion of irrigation programmes has been the lack of funds, added to which is the lack or inadequacy of prior research on the water courses, discharge etc., and

<sup>1/</sup> At the Second Regional Meeting of FAO, held at Montevideo in December 1950, emphasis was laid both on the need to continue these services and on the apparent lack of coordination which has existed for many years between experimentalists and the farmers who should apply their results.

<sup>2/</sup> The six year plan of public works recently published in Peru assigns 2,000 million soles to irrigation.

/a dearth of

a dearth of experts to carry out the work. An event of outstanding importance was the recent loan granted by the Export-Import Bank to Mexico, involving the sum of about 30 million dollars for irrigation projects, which made allowance not only for dollar expenditure but also for the peso outlay required.

### Price Controls

The policy of price controls has been an instrument used in order to protect both the consumer and the producer. During the war, price controls were widely employed, principally for the purpose of protecting the consumer, though results on the whole were rather unsatisfactory. After the cessation of hostilities, many countries sought to limit these restrictions to those products most directly affecting the cost of living and most easily controlled in the distribution stage, that is to say, they were maintained principally on basic food products. An intense struggle arose here between two conflicting interests: the lowering of the cost of living and the development of agriculture. Up to a short while ago, pressure on the part of the consumers influenced government price policy, and in fact still does. The authorities were compelled to divert certain amounts from their scanty resources in order to be able to subsidise producers, and to provide special facilities for the import of foodstuffs. This policy was strongly attacked in a good many countries, where the producers pointed out that it was the principal cause for the delayed expansion of production. In general, the persistent inflationary trend and its effect on costs has been stronger than the price control systems in many of the Latin American countries; and where these systems did survive, the officially controlled price has been subject to constant revision. Thus, even assuming the efficiency of the control system, the price curve shows no considerable fall, but rather rises step-wise somewhat more slowly than it would have risen in a slope in the absence of any controls. In many cases, the relative inefficacy of the controls, together with the growing burden which, in some aspects, they imposed on official resources during a period in which opposition to inflation was sharpened, has contributed towards their relaxation. Governments have also justified the setting aside of controls on the prices of agricultural products by referring to their /apparent inefficiency

apparent inefficiency, alleging moreover that the encouragement given to production by the initial increase of prices leads to such an increase of supply that prices must perforce drop. This theory has in fact been proved in several concrete examples, though in few cases have the price reductions been lasting.

Definite examples of a reduction in the number of products subject to consumer sale price controls are to be found in Brazil, for instance, where during the past few months controls have been retained only on a few products, all others being subject to the interplay of the factors of supply and demand. Peru has also done away with most of its price controls recently (ceiling prices), the consumer being compensated for the lifting of these restrictions by receiving wage and salary increases in order to offset the effect of the rise in the cost of living. Controls of one sort or another are still maintained in other countries, but there is a definite trend toward exercising increasing pressure on prices by methods intended to increase the supply of agricultural products by means of better distribution systems. This has been the case in Brazil, where the municipal authorities have entered the market as retail distributors; a similar trend is observed in Argentina, Colombia, Ecuador and Mexico. In Chile, and in other Latin American republics, one could find, and still does, the existence of markets where producers enter into direct contact with the consumer.

At the end of the war, no special attention was given to agricultural activities for export purposes since increases in export prices more than compensated for the rise in costs. In fact, these activities were only looked upon by the State as a source for increased tax returns, and as a means of obtaining larger contributions with which to cover the increasing government expenditures. It was intended to combat rising prices by placing the greater part of this onus on agricultural production for domestic consumption. However, as inflation began to affect costs, and especially when the rising trend of international prices was interrupted and the curve showed a drop, the maintenance of the former level of agricultural production for export purposes became the main objective of Latin American economic policy. One of the most common

/means employed

means employed was the improvement of the equivalent amount in national currency of the prices received by the exporter, that is, modification of the exchange rates in one way or another, a method which has been frequently adopted in the past two years. The refusal to vary the rates of exchange has been firmest in the case of basic export goods, though less strong where secondary products were concerned; this can be explained as an effort to favour new exports with the purpose of diversifying production, and also, probably, because insofar as basic products are concerned, the producer's efficiency is greater and therefore his capacity to compete in foreign markets is proportionately greater. It is often found that the least favourable rate of exchange has been allocated to basic agricultural products for export and that the increases in export prices are accompanied by tax increases which allow the Government to claim part of the increased profits thus obtained. This has occurred in several Central American republics as a result of the rise in coffee prices, and Mexico has profited greatly from the increased receipts accruing from the tax levied on its exports. Venezuela, in turn, has adopted a sliding scale of exchange rates for coffee and cacao sales, according to which the rate applicable to the foreign exchange derived from exports of these two products varies in accordance with the prices thereof. An analysis of the rates of exchange applicable to Latin American exports of agricultural products during 1948 and those in force at present clearly reveals the existence of a very substantial difference. It also becomes evident that in the first few years after the end of the war, the variations in the rate of exchange were almost exclusively made for the purpose of restricting imports and, as time went on and inflation tended to grow, there was also a move to increase exports. This trend is exemplified in the fluctuations of the Argentine, Uruguayan, Chilean, Peruvian, Ecuadorian, Colombian and Nicaraguan rates of exchange.

The more usual method of procedure, and the one that has so far shown the best results insofar as agricultural produce for domestic consumption is concerned, has been that of guaranteeing the price paid to the producer, as is done, for instance, in Argentina, Brazil,

/Colombia, Costa Rica

Colombia, Costa Rica, Chile, Ecuador, etc. It will thus be seen that there has been an attempt to control agricultural prices, by encouraging the producer and guaranteeing that the increase of production will not provoke a fall in prices.

### Agricultural Credits

A considerable effort has been made in the past few years as regards the extension of agricultural credit facilities, and the difficulties which this task involves have become very evident. In the majority of the Latin American countries, crops for export purposes have always been assured considerable credit facilities, the same applying to the rate of exchange. For instance, both before and since the war, producers in the coffee-growing countries have been able to obtain credit facilities, but there has been a marked decrease in the granting of credits by the importing countries, these foreign loans being replaced by agricultural credits of domestic origin. This trend has been greater in those countries where the rates of exchange are controlled (because the element of risk is heightened), but it also obtains where there is a free exchange market. Nevertheless, in the majority of cases where agricultural credit plans and programmes have been drawn up, exports have been regarded as an item of only secondary importance until very recently, that is, until agriculture was looked to as a means of contributing to the credit items of the balance of payments, while production for domestic consumption was considered as the principal economic factor justifying the establishment of such plans and programmes. The granting of credits for export was never a vital problem. In those countries where little progress has been made in connection with the granting of agricultural facilities and where there is little concentration of production, the small producer who also supplies the export market makes use of private sources of capital at a high rate of interest. The benefits of loans granted  
/by credit establishments



by credit establishments at a lower rate are being brought forward as a means of eliminating this procedure.

In most of the plans for agricultural development, their social significance as well as their economic importance can be noted. In fact, at times it becomes difficult to distinguish where the economic importance ends and the social significance begins. Often the changeover from foreign to national sources of credit, at lower rates of interest, constitutes an essential part of these programmes, and both the economic consequences of the subsequent redistribution of income, as well as the inflationary effects, take a secondary position in relation to considerations of social justice. It is generally argued, however, that by obtaining a higher percentage of the ultimate price of his produce, the farmer can improve production. As a rule, little account is taken of the inflationary effects of investment, or expenditure in other activities, of the funds formerly lent to the farmer by private sources, nor is it frequent to pay much attention to the manner in which the private borrowers spend incomes which have been increased by the loans obtained from credit establishments.

In various Latin American countries, agricultural credit plans develop slowly, since the peasant class, which it is most desired to assist in increasing production and attaining their social aspirations, is not eligible for commercial credit from the point of view of providing acceptable collateral for loans or possessing the aptitude for the cultivation of more lucrative crops. Under the circumstances, it is easy to see why private banks should hesitate to enter spontaneously into such transactions and why they put up such a strong resistance to official assistance. In Mexico, in 1949-50, it became necessary to resort to extreme measures such as demanding 100 per cent reserve requirements against increases in bank deposits, except when a minimum is used for the purpose of supplying credit to farmers.

/The difficulties

The difficulties involved in the increase of agricultural credits may sometimes be due to the lack of basic developments such as transport facilities, which could be utilised to obtain better distribution of increased production. Even in Cuba, which could be considered an advanced country by Latin American standards, it is found that access by motor vehicle to 37 per cent of the properties cannot be guaranteed all the year round and that access to 31 per cent of the others is only possible during the dry season.

There has been a growing tendency to recognise the importance of still another aspect of the problem, viz: the need for credit supervision where it is sought to ensure that both the farmer and the country's economy as a whole gain the maximum benefit from the credits granted, since the agricultural sectors, in which the greatest relative increase of production is expected, are not always those least capable of introducing the necessary improvements in their agricultural technique. The absence of such supervision has led to credits becoming merely a substitute for private investments by the farmer in his own property. The farmer is then free to direct his funds elsewhere to schemes which possibly do not contribute to the improvement of production, either because of the latter's persistence in maintaining old methods of labour, a trait that is notoriously difficult to eradicate in the small property holders. Even among farmers who are in charge of fairly large estates, but who are also engaged in other activities (which often occurs among the absentee farmer class), one frequently finds that the failure to control the use to which the loans are put results in their investment in undertakings which the credit establishments would not be likely to sanction. The official Latin American agricultural credit institutions

/at the

institutions, at the outset, sought to extend their activities over too wide a field of operations when they lacked adequate means of control, resulting in situations such as those which have just been described. As a result of this defect, there is a growing tendency to concentrate agricultural credits in definite areas in order to facilitate the task of their supervision, and reduce the costs thereof. However, despite such concentration, owing to the considerable number of small loans which these establishments are bound to make in order to fulfil their purpose, the cost of adequate supervision is higher than the resources of the institutions permit, in view of the rates of interest which they are entitled to levy. Hence the reason for the interest evoked in Latin America by the success of the Costa Rican experiment involving Rural Credit Boards controlled by the National Bank, which have been considerably expanded in the post-war years. The Costa Rican system, based on the distribution of credits and their supervision by the farmers themselves, has been studied by the experts of several Latin American countries with a view to its possible adaptation elsewhere. It would seem, however, that rural conditions in other countries are too dissimilar to those in Costa Rica to enable the introduction of the plan elsewhere. Moreover, it appears that the level of educational advancement of the Costa Rican peasant is much higher than that attained by other Latin American countries. The Paraguayan scheme is even more interesting, since it involves adapting the basic idea of the United States Home Farm Administration policy to local conditions.

This system results in the credit facilities becoming part of a much wider programme of social improvements. It is nevertheless possible that in the more backward parts of the country agricultural credits would be of little use unless they were backed by comprehensive social programmes of supervision and technical assistance such as those enforced in Paraguay.

/Another aspect

Another aspect of growing importance and that has been given increasing attention during the past few years, concerns the periods for which these credit establishments should be authorised to operate. In many cases, these periods are far too short for the loan to be of any use to the farmer. There have been many cases of the agricultural departments of banking establishments having their assets frozen as a result of the concession of short term loans for purposes which required medium or long term credits, or because agricultural loans for adequate periods have been refused in view of there being no rediscount on the obligations. There have been recent examples of the extension of the periods for which the commercial banks of Mexico and Colombia were authorised to operate. Legislation passed in 1950 affecting the Central Bank of Honduras allowed the issuing establishment to rediscount paper maturing in more than one year in amounts equivalent to the fraction falling due within that year. As a rule the new agricultural credit establishments have been authorised to negotiate loans for varying periods, as distinct from the rulings controlling specialised and private institutions.

There has been much criticism (arising within Latin America rather than abroad) of the shortage of funds available for agricultural loans and investment in agriculture within the region. As a matter of fact, in the majority of the countries where official agricultural development organs have been set up, even though these bodies are unable to extend credits to the extent desired by their directors, considerable progress has been made. This is particularly true in comparison with the total amount of credits granted in each country or with those formerly granted for agricultural purposes, as in Mexico in the case of the Banco de Crédito Agrícola and the Banco de Crédito Ejidal, in the case of the National Banks of Costa Rica and Nicaragua, and with the Development Banks of Ecuador, etc. It must be noted, however, that part of the expansion reflects an increase of costs rather than any effective work carried out.

Generally speaking, there would appear to be some confusion as regards the aspirations of agricultural development and the possibility of carrying them out in a short period by means of

/agricultural credits.

agricultural credits. It seems, however, that the small increase of agricultural production recorded can be ascribed to the credits extended and that the expansion of government loans to agriculture is essential in order to achieve a higher rate of increase in production than has been attained during the past few years. Government assistance is necessary because private credit is scarce and agricultural pursuits do not offer the means of accumulating the savings necessary to create this stimulus, or there is not sufficient encouragement to reinvest profits obtained in agriculture.

Only a small part of the funds employed for agricultural credit purposes is derived from private deposits in the specialised bank, since heretofore this type of bank has not been deemed sufficiently remunerative by the depositors, who prefer establishments of a more commercial nature, which as a rule are private and conservative institutions.<sup>1/</sup> This has been the case, despite the efforts which the specialised establishments have made to attract deposits, and which have met with little success. Similar results were recorded with the issue of securities. It has been found that funds for the financing of agriculture must be derived from official sources. The original capital of the newly created organisations has sometimes been supplied by budgetary allowances, and in other cases, recourse was had to the raising of at least a part of the capital by means of bonds sold to the central banks, thus permitting the governments to postpone the settlement of the final payment. There are also various examples of the levying of different taxes and charges for the purpose of raising capital for the agricultural development organs. Within the past few years, the income derived from differences in the rates of exchange as a result of multiple exchange rates has been one of the means most frequently used for this purpose; that is to say, such income has been used to create the establishments themselves (as occurred in Ecuador),

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<sup>1/</sup> In various countries, the deposit account banks are those granting the fewest loans.

/or such income

or such income has considerably eased the government's task of raising funds for such establishments (as occurred in Costa Rica, Chile and in other countries). In the course of their transactions, the aid given by the central banks has, as a rule, been wide and of a general nature, despite the conflict between the desire to expand, expressed by the credit institutions, and the rather more conservative policy of the central banks.

/Principal Agricultural Products

Principal Agricultural ProductsCereals

A survey of trends in principal Latin American agricultural products reveals deficiencies in the output of some and increases in that of others; these trends vary widely among the different republics.

Cereals are a notable example of this divergence. The fall in total production figures for Latin America is almost entirely due to the decline which took place in Argentina, and was not compensated by the increases in other republics. In the case of wheat, the average decline of 1 million metric tons in Latin American output between the pre-war and post-war periods is due to a 1.3 million ton fall in Argentina's production, which was partially offset by increases in other republics, particularly Brazil. The decline of 2.3 million tons in maize production is caused by the drop of 3.4 million tons in Argentina, partly compensated by an increase of 800,000 tons in Mexico and smaller amounts in other countries in the area.

The falling-off in Argentine production can be mainly attributed, as already indicated, to the expansion of non-agricultural activities which drew factors of production away from the countryside, as well as bad harvests at the end of the period 1945-49. Despite the drop in production, there were heavy unsaleable surpluses during the war as a result of transport difficulties. These surpluses were to a large extent used as fuel, thus easing the problem created by shortages of coal and petroleum. However, the drop in production did not represent a serious problem at that time. When the war ended, Argentina was able to take advantage of shortages in Europe by selling the stocks accumulated and the annual surpluses at relatively higher prices than those charged by other exporters; this partly compensated for the adverse effects of the inconvertibility of European currencies.

However, as output in competing countries increased, particularly with the large North American harvests, Argentina lost its bargaining power and had to adjust its export prices to those of the world market. During the few years when Argentina was able to obtain high prices for its cereals, the gap between export prices and those paid to the farmer continued to encourage the shift of factors of production to other activities. Consequently, the drop in export prices was not compensated by an increase in the quantity exported. Furthermore, adverse climatic conditions

/during two

during two years combined with these monetary factors to reduce the exportable output even more. However, Argentine plans, which have recently been put into practice, aim to reverse the declining trend in production and should give it a strong stimulus.

Brazil has made most progress in its efforts to increase wheat production, and in the 1949-1950 season managed to triple its average pre-war production. Similar efforts have been made in the case of maize, particularly in Mexico.

In 1949-1950, the production of wheat exceeded the average for the five years immediately prior to the war by 700,000 metric tons. This was due to increases of 400,000 tons in Argentina and over 100,000 tons in Mexico, Uruguay and Brazil. In the case of maize, on the other hand, there was a further fall of over 2 million tons, due to the drought in Argentina, which caused a drop of 2.5 million metric tons in that country's production.

As a result of the decline in total production of wheat, Latin American annual consumption per capita during the last five years was 4 kilogrammes lower than the average for the period 1935-1938. Practically the whole decline took place in the southern part of the region (mainly Argentina) where consumption dropped by 8.5 kilogrammes per capita.

In the maize countries, increases in income have tended to be accompanied by higher wheat consumption; this change has been intensified with the growth of urban population. The increase in Mexican imports of wheat is very significant in this respect; they rose from 97 thousand to 287 thousand tons between 1934-1938 and 1946-1949. Between the same periods Venezuela's wheat imports quadrupled and those of Costa Rica doubled.<sup>1/</sup>

According to estimates made by the FAO based on official data and programmes, it appears that, mainly due to Argentine policy, the downward trend noted recently in the total cereal production will be reversed in the next few years.

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<sup>1/</sup> Nevertheless, El Salvador, a country with one of the lowest pre-war consumption levels (5.6 kilogrammes per capita), with a strong upward trend in income and without balance of payments difficulties, shows a slight decline in its consumption during the last five-year period.



Barley and, more particularly, rice are the only cereals showing a significant increase in total production throughout the region between the pre-war period and the present.

Rice production has more than doubled in comparison with the pre-war years, rising from 2.0 million tons to 4.3 million tons in 1949-1950. Consequently, the net deficit situation in Latin America of this cereal has been reduced by more than half, despite the very considerable increase in consumption in all the countries included in this study except three, namely, Guatemala, the Dominican Republic and Paraguay. Cuba continues to be the most important Latin American importing country (averaging 233 thousand tons) and Brazil the major exporting country (an average of 155 thousand tons).

#### Pulses

The production of beans is important throughout Latin America, but most particularly in Brazil, the northern part of South America, Central America and Mexico. In these regions beans, as a source of proteins, form one of the most important items of popular diet.

On the whole, the production of beans since the war has been higher than during the 1935-1939 period, but only sufficiently to maintain per capita domestic supply at levels similar to or slightly above those before the war and to increase the volume of exports to a very small degree.

Comparing the pre-war and post-war periods, it can be seen that only Honduras, the Dominican Republic, Haiti, Chile and Uruguay show a slight falling-off, not only in volume but also in the area cultivated. In the rest of the countries, however, increases of varying degrees have taken place, the highest of which occurred in Brazil, where output rose from 825,000 tons in 1935-1939 to approximately 1,238,000 tons in 1950-1951, followed by Mexico, where it rose from 128,000 to 234,000 tons. El Salvador, Guatemala, Nicaragua and Panama practically doubled their production, and Venezuela's output increased by more than 200 per cent, rising from 12,000 to 41,000 tons.

There has been small inducement to produce beans in Latin America. Since they are primarily an article of popular consumption destined almost exclusively for the domestic market, demand is relatively inelastic and the price has risen proportionally to a lesser degree than that of other products.

Production in Chile, the main exporter of beans in Latin America, declined considerably during the last five-year period in comparison with the pre-war period. A sharp fall in prices on the international market encouraged its displacement, mainly by sunflower seeds and other products. It should be noted, moreover, that for the last few years the consumption of beans among the mass of the population has declined, having been replaced partly by rice. It is hoped that with the rise in export prices for beans in recent months production will recover its pre-war level.

According to information provided by the FAO, Brazil expects to increase its production in 1952-53 by 17 per cent over the 1949-1950 harvest. Apparently, considerable progress has already been made in this direction, as it is estimated that the 1950-51 harvest may be the greatest in the country's history. In Mexico it appears that production will remain more or less stable.

There are very few statistics available concerning the other pulses as their importance is less than that of beans. Mexico and Argentina have increased production of peas, lentils, lima beans and chick-peas. Chile reduced the area under cultivation for all these products except chick-peas, the production of which increased slightly. In Uruguay there was also a drop in the output of peas and lentils.

#### Sugar

Cuba occupies the same position with regard to sugar as Argentina for cereals; developments in this country have a dominating influence on Latin American production figures. However, while post-war production has declined in the case of cereals in comparison with the pre-war period, the opposite has occurred with regard to sugar. Cuba's influence on the total increase was decisive: of an increase of 3.7 million tons in 1945-1949 for all Latin America compared with 1934-1938, almost 70 per cent corresponded to Cuba. Latin America's contribution to world production rose from 20 to 32 per cent between these two periods. The increase in production was general. This is partly the result of official policy, as sugar is one of the products acquiring increasing importance in the post-war period as the balance of payments position has deteriorated.

It is interesting to note in this connection the relatively greater increases in the countries with a deficit in sugar<sup>1/</sup>. Taking 1945 as a

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<sup>1/</sup> Colombia, Ecuador, Honduras, Panama, Paraguay and Uruguay.

base year, production in these countries rose without interruption to 66 per cent over that year in 1949. The lowest increase, in relative terms, occurred in the exporting countries, where it amounted to 32 per cent between those dates.<sup>1/</sup> The countries which are self-sufficient in sugar showed an increase of 40 per cent.<sup>2/</sup> Moreover, maximum production in the exporting countries was reached in 1947 (41 per cent greater than 1945), with a sharp fall in 1948 followed by increases in 1949. In the other two groups the increase was uninterrupted.

Cuba is the only exporting country where the supply of sugar is elastic at present levels of production. It is difficult to increase production in the Dominican Republic, because of the limited capacity in the industrial sector of the sugar industry, and in Peru, where shortages of land and guano do not permit immediate expansion. In Cuba, on the other hand, there is unemployed labour, suitable land not at present being exploited, and unutilised industrial capacity. Production increases in Cuba are achieved at present with a minimum additional investment.

In addition to Government support, a stimulus to sugar production, common to all non-exporting countries, has existed in the increased domestic demand associated with a rise in total income and **population** growth. In other cases, demand has been strengthened by the more moderate rise in the price of sugar compared to that of other food prices.

Mexico provides an example of the considerable role of Government action or that of monopolistic producers' associations in the increase of production. Nacional Financiera, an official credit institution, granted loans to sugar producers for the replacement of machinery and improvement in cultivation amounting to 80 million pesos. The beginning of irrigation in several cane-producing areas, leading to considerably increased yields, should also be noted. With the financial assistance of that institution and investments carried out by the producers themselves, Mexico succeeded in increasing its production capacity to a level sufficient to satisfy domestic demand and provide sizeable surpluses for export. Thus, during the last few years Mexico has replaced Argentina as the second sugar producer within the group of self-sufficient countries.

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<sup>1/</sup> Cuba, Haiti, Peru and the Dominican Republic.

<sup>2/</sup> Countries with a deficit or surplus of less than 10 per cent of production. This group is composed of Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua and Venezuela.

Official aid also contributed to the development of the sugar industry in Venezuela. The Corporación de Fomento (Development Corporation), determined to improve the industrial aspect of the production process, financed the construction of sugar mills. The first effects of this Government action were seen in 1949, when production showed an increase of 10,000 tons over the preceding year.

There was little official intervention in the Brazilian sugar industry during the post-war years. This industry, which had become stagnant and been cartelised during the depression of the 'thirties, began to replace its machinery and expand capacity as soon as domestic demand for sugar commenced to increase. The period of strict regulation of the industry has thus been followed by a stage of free production, which still characterises the industry. The fact that a considerable part of the machinery for sugar mills is at present produced within the country played an important role in increasing the rate of capital formation.

In Colombia, the association of sugar producers assigned the funds derived from setting the price of the domestic product above its cost<sup>1/</sup> to improving production methods and expanding the industry's capacity.

In other countries, e.g. Bolivia and Chile, the introduction of a modern sugar industry is still in its first stages. However, a mill is now under construction in the former (partly financed by the Corporación Boliviana de Fomento (Bolivian Development Corporation)) and there are plans for the establishment of two others. The basic project consists of the construction of a mill with a production which would cover about 75 per cent of the country's present consumption of sugar. The Corporación Boliviana de Fomento has requested a 3 million dollar loan from international banking institutions for the building of this plant.

In Chile, the Corporación de Fomento (Development Corporation) has completed preliminary studies of beet sugar production, assigning forty million pesos in the 1951 budget for the purchase of the land for the cultivation of sugar beet.<sup>2/</sup>

<sup>1/</sup> Domestic sugar costs less than imported sugar and the Government permitted the establishment of a uniform price at the same level of the imported product. The funds obtained with this higher price were received by the Association.

<sup>2/</sup> In Chile, moreover, it is hoped that the production of beet sugar will help to create an atmosphere stimulating technical improvements in other crops.

Summing up the position of the self-supplying countries, it can be stated that the industry is in a condition to increase production at the same rate as domestic requirements and in the case of some countries, e.g. Brazil, there will probably be occasional surpluses for export. Other countries such as El Salvador and Mexico will probably produce permanent surpluses.

Among the exporting countries, the Dominican Republic has drawn up definite plans (which have been partly carried out) to increase its production to about 750,000 tons within a relatively short period. The replacement of machinery in two factories which produce jointly about 33 per cent of the country's total, was completed in 1950. In Peru the situation is not as clear. If, as seems likely, the present ratio of prices between sugar and other crops continues, it is doubtful whether any increase in production will take place. Exports may however be increased by a reduction in domestic consumption. The Government recently lifted controls which had kept the price of sugar at a low level.

Cuba undoubtedly represents the unknown quantity among the exporting countries. The importance of this country is such that the activity of Cuban industry determines the final level of Latin American production and exports. Cuban industry depends, in turn, on producers' expectations with regard to prices and the level of world demand, particularly that of the United States.

In the latter part of 1950, changes in the international political situation brought about an increase in United States demand, which probably reached the level of the highest post-war year and the prospects are that the present level will at least be maintained. The increase in other countries has not been as evident.

Events suggest that external factors favour an increase in Cuban production above the 1950 level, that is, to over 5.6 million metric tons. Assuming an industrial yield of 12.7 per cent - that for the

/previous year was

previous year was over 13.0 per cent - 1951 production can be estimated at between 5.8 and 6.0 million metric tons.

As a result of changes in the industry since the war, such as the increase in productive capacity through replacement of part of the machinery and intensified mechanisation of farm work and transport, it can be assumed that Cuban industry can be adapted to the conditions of foreign demand more easily than formerly. Consequently if the level of world demand is maintained or increases - excluding the possibility of adverse weather conditions - Cuban production may well be close to 6.2 million tons in 1952. The new sowings of cane and the renewed interest of farmers in their sugar plantations help to strengthen this forecast.

#### Coffee

If the importance of cereals and sugar, with regard to the balance of payments problem, tends to increase with the growth of the population and of urbanisation, the importance of coffee is even greater. This is not only because of the number of countries where coffee is the main source of foreign exchange receipts, and therefore of the possibilities of development, but also because the technical conditions of production imply demographic problems of great importance for that development.

After the rise in price, resulting from the lifting of controls in the United States, there was a period of slight fluctuations; and in the second half of 1949, when a general decline in international prices occurred, there was a spectacular rise which has been maintained almost entirely until the present time. This latest price increase took place when it was known that the Brazilian reserves accumulated during the war were exhausted, and that prospects for the forthcoming harvest were not favourable. Heavy purchases by consumers in the United States also contributed to this rise. Although prices dropped slightly in mid-1950 in relation to their peak, they still remained at very high levels and at the end of the year prices for certain types of mild coffee showed new upward tendencies. The prospects are for continued high prices, as neither an increase in production nor a

/fall in demand

coffee, even at present prices, as a field of activity for capital or labour. Moreover, Brazil has experienced adverse effects from substantial increases in supply, on coffee prices, so that the latest price increase, although constituting a strong incentive for increasing production, will probably not raise it to levels capable of causing significant price declines. In general, the poorer the country producing coffee, the greater the relative possibilities of an increase in production (given the necessary ecological conditions). It appears that mechanised crops can provide better wages than coffee, and consequently that the capacity of the countries to absorb population into activities where the use of modern techniques is facilitated will be a factor affecting the development of the coffee industry. If the rate of progress is rapid, it seems unlikely that coffee cultivation can advance much. (The drop in Venezuelan production would appear to be an example of these conditions).

The rise in price at the end of the war arrested the drop in production in some countries and stimulated production in others; but with the progress of inflation the relative profitability of coffee declined again. Subsequently the rise in coffee quotations in the second half of 1949 while other prices fell, and the prospects of their maintenance at a high level for a long period, has evidently represented a good stimulus to production. The Food and Agriculture Organisation's estimate for 1952-53 is an increase in total Latin American production of 160,000 metric tons over the 1949-50 estimate. The volume available for export will not, however, reach the levels of the early post-war years when there were still surpluses accumulated during the conflict.

Except in Brazil, where the centre of production has been shifting traditionally southward, the shortage of good lands and the need for heavy seasonal additions to the labour supply has led to plans based more on increasing the yield of the area already under cultivation than on expanding the area. Progress in research is being made concerning the best varieties of coffee plants, methods of fertilisation, etc., and increases in production can be expected in

/Central American

Central American countries and in Colombia. Expansion of the area under coffee cultivation is also being encouraged by means of small units which a family can farm while at the same time raising other crops. It is hoped in this way, apart from increasing coffee production, to provide small farmers, particularly those with self-sufficient units, with a crop which can be sold for cash and which will provide continuous employment for their families.

The rise in coffee prices and the resultant increase in exchange receipts, has represented a considerable relief for several countries in the region experiencing foreign exchange difficulties. In none of them, however, has the rise caused an increase in reserves, and therefore the inflationary consequences feared at one time have not taken place. This price phenomenon may on the contrary have had a deflationary effect. By permitting an increase in the supply of imported goods, it prevented the continuation of the scarcity prices at which those articles had been sold and also permitted a speeding-up in the development of domestic productive capacity through imports of capital goods.

During the post-war period, Latin America has provided almost 90 per cent of the total coffee production of the world. Nevertheless, at current prices and in spite of their considerable increase in the last few years, the importance of coffee in the composition of Latin American exports declined somewhat in all countries except Colombia and Honduras, between the five year period from 1935-39 and the post-war period.

#### Cotton

Important changes have taken place since the war in the production and consumption of cotton.

World production, which had dropped sharply during the war, reached its lowest point in 1945-46, and later recovered slowly reaching 31.3 million bales in 1949-50, almost half a million less than in the 1935-39 period. Consumption, which had also declined greatly, recovered more rapidly than production, so that it was necessary to use a large part of the considerable reserves which had been accumulated during the war. The level of consumption reached  
/in 1949-50 was



in 1949-50 was however somewhat under that of the 1935-39 period. This level, together with the good harvest that year, enabled stocks to be accumulated once more.

It is estimated that for the year 1950-51, world production will be lower than consumption by 4 million bales, which will affect world reserves before the next harvest can become available.

Expanding world demand and the limited production of the years immediately before the end of the war, brought about a progressive rise in prices until the year 1949-50, when there was a slight decline as a result of good harvests. Later, intensified demand and deficient world production in the year 1950-51 led to an increase in cotton prices, which reached the highest levels of their history.

World production trends and to a great extent those of the United States, have strong repercussions on Latin American production, particularly in the case of countries like Brazil, Peru, Argentina and Mexico, which are exporters. Since the war, just as before the war, limitations imposed by the United States Government on the area sown with cotton, for the purpose of regulating production and preventing a drop in prices, have been an incentive to production in several Latin American countries which, aided by this policy, have intensified cotton growing as much as possible. Brazil and Mexico are among those which obtained the greatest advantage from this means, since the sustained prices of cotton in Brazil partly offset the drop in coffee prices and represented a considerable advantage in cotton growing, especially in the second half of the thirties and during the early part of the war; similarly, in Mexico, the expansion of the area under cultivation and of irrigation took place in the lee of the restrictive United States policy.

In Brazil, the accumulation of large surpluses during the war, as a result of the lack of international transport, the considerable rise in coffee prices in relation to those of cotton, and the progressive decline in yields caused a sharp fall in production starting in 1944 to levels below pre-war. Minimum production was registered in 1948, at 319,000 tons. In 1949, thanks to increased cultivation of a new variety with much higher yield, Campinas 817,

/and an increase

and an increase of over 200,000 hectares in the area under cultivation, production increased by 24 per cent over 1948, and in 1950 succeeded in equalling pre-war-levels.

Mexico, the second producer in Latin America, has tripled its production in the last two years in relation to the pre-war period.<sup>1/</sup> The main causes of this expansion have been the increased use of irrigated lands for cotton growing, together with the introduction of improved technical methods of farming and disease control.

Argentina, in spite of experiencing labour supply difficulties during the last two years, has increased the area sown with cotton. It is estimated that in the year 1949-50 this was the greatest in the history of the country, producing a harvest 25 per cent higher than that of the previous year and similar in volume to the record harvest of 1943-44. It is estimated that the surplus for export this year will be between 160,000 and 185,000 bales.<sup>2/</sup>

In Peru, the cotton situation differs from that of the majority of the other Latin American producers. Since the beginning of the 'forties, production has shown a downward trend, resulting from the forced increase of food crops in former cotton areas, the relative improvement in prices for foodstuffs, the difficulties in obtaining water supplies for the irrigation of the coastal valleys and the shortage of fertilisers (guanos).

Colombian production appears to have increased by more than 50 per cent in the last two years in comparison with pre-war. Nevertheless, difficulties of a technical nature, which are reflected in the quality of the fibre, have somewhat retarded greater development. To counteract these difficulties, industrialists, farmers and the Government formed at the end of 1947 the Instituto de Fomento Algodonero (Institute for Cotton Promotion) which is taking the necessary steps to introduce improved techniques of cultivation, to achieve uniform quality and to intensify production.

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1/ Averaging 334,000 bales in the 1935-39 period, production in 1949 was estimated at 920,000 and in 1950 at 1,110,000.

2/ Foreign Crops and Markets, July 3, 1950.

In Central America, El Salvador, Nicaragua and Guatemala have considerably increased their production in comparison with the pre-war period. The first two countries are net exporters and Guatemala is making efforts to become self-sufficient.

Since the war in Korea began, the panorama of the cotton market has changed radically. The greater requirements arising out of rearmament, the unfavourable balance of world production for the year 1950-51 in relation to consumption, principally as a result of low United States production in that year and the setting of export quotas by that country, have brought about an unprecedented rise in world market prices for cotton.<sup>1/</sup> As a result, Latin American production prospects for next year have improved considerably since, at present levels, there are well-founded hopes that cultivation will be intensified. Thus, in Brazil it is possible that cotton growing will be strongly intensified, since the increase in the price of this product has been relatively greater than in the case of coffee; for example, in addition to which cotton growing has the advantage that very small investments are required and the profits are collected in the same year. Whilst it is true that there is no medium or long-term labour supply problem in Brazil, such a problem may arise in the short run, and if cotton prices continue at their present level there might even be a diversion of labour from coffee towards this crop.

In Argentina, the Government is making efforts to increase the area under cultivation, and has guaranteed higher minimum prices for the next harvest, as well as technical assistance and credits for the purchase of seed and the expenses of cultivation. It is considered that the shortage of labour might in part be solved through mechanisation. Mexico and the Central American countries are also planning considerable increases.

The necessity to maintain and increase output of foodstuffs may represent a serious difficulty in the increase of cotton production.

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<sup>1/</sup>Cotton Type 5 was quoted in Sao Paulo in January 1951 at 0.7074 dollars per lb. in comparison with 0.306 in 1948. In Lima, Tanguis Type 3-1/2 was quoted at 0.4848 dollars per lb. during the same month, for delivery in May/June. The average quotation for 1948 was 0.325 dollars.

### Oilseeds

The Second World War had important effects on the production of oilseeds in Latin America. The shortage of fats and oils during the war and the price policy followed by the Argentine Government led to very high levels for oilseed quotations. This enabled several importing countries to begin growing oilseeds or expand their cultivation. Production therefore rose greatly in the majority of the Latin American republics, just as in other countries after the war, forcing a contraction in Argentine production of over 47 per cent.<sup>1/</sup>

Latin American production of oilseeds reached a post-war maximum in 1948, since the increases in several republics (above all in Mexico, Brazil and Uruguay) more than offset the Argentine decline. Later the total production of the area fell somewhat, reaching by 1950 a level very similar to that of the pre-war period, that is, around 960,000 metric tons in terms of oil.

More recent events, particularly rearmament of the Western Powers, have caused a considerable increase in the demand for oils and fats with the stepping-up of strategic stockpiling and greater consumption for industrial and food purposes. Nevertheless, oilseed prices have not followed those of products such as cotton, wool and coffee; on the contrary, in spite of increases averaging between 25 and 30 per cent over the levels of the first half of 1950, prices have in no instance reached the levels registered in 1947 and 1948.

Production of oilseeds in Argentina has tended to recover after having reached its lowest point in 1948-49. The cultivation of linseed, which represented 1.7 million tons of seed before the war, suffered a considerable decline after the war for reasons given above and, also, because of the Argentine Government's policy of not exporting seed but rather the processed oil, with the result that considerable surpluses were formed. The area under cultivation was lowest in the year 1949-50, but due to good yields production that

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<sup>1/</sup> After the war the increase in Argentine production of sunflower and peanut oil has been more than offset by the drop in linseed;

year was greater than in the previous year. In 1950-51 the area under cultivation was greater, in response to an increase in the price paid to the producer, which rose from 34 to 41 pesos per 100 kilogrammes. Preliminary estimates place production for this year at 770 thousand tons, 90 thousand more than the previous year.

The production of sunflower in Argentina increased considerably in comparison with the pre-war period, rising from 154,000 tons to 1,200,000 tons in 1948-49, thus taking the place of linseed. Nevertheless, in the year 1949-50, due to the fact that the price of sunflower remained at the same level as in the previous year, the area under cultivation dropped to 400,000 hectares below that in 1948-49, but was still greater than in 1947-48.

Production of cottonseed and peanuts during the last two years increased considerably in comparison with the pre-war period and, to a lesser degree, in comparison with the years immediately after the war.

In Uruguay, the considerable increase in prices of oilseeds during and more particularly after the war contributed to an increase in its production. Linseed reached a record volume in 1948-49, but declined steeply in 1949-50 due to a reduction in the area cultivated and to very low yields. It is estimated that in 1950-51 production will be greater than that for the previous year and the pre-war average, but considerably less than that for 1948-49.

Production of sunflower and peanuts in Uruguay rose from an insignificant pre-war level to heights permitting complete self-sufficiency in edible oils (excepting olive oil) and even the export of some surpluses. Production reached its highest point in 1948-49 and, just as in the case of linseed, dropped significantly in 1949-50, to increase once again in 1950-51. It is hoped that future production will remain more or less stable.

Mexico and Chile have shown a constant increase in production of oilseeds to the point of practically eliminating all imports of oils and seeds. The increase in Mexico has been greater because of the possibility of growing a greater variety of oilseeds in that country.

/In the last

In the last few years Mexico practically tripled its production of peanut, cotton and sesame seed. Chile, from practically non-existent levels before the war, managed to produce 69,000 tons of sunflower and 4,000 tons of linseed in 1949-50. It is expected that the 1950-51 harvest will be somewhat less because of adverse weather conditions at the time of sowing and a greater proportionate rise in the prices of other products. Because of this the Government has been obliged to increase the exchange quota for the import of oilseeds. It is estimated that production for the immediate future will be maintained with little change and will at least be sufficient to satisfy almost all domestic requirements for oils.

In Brazil, production has also increased greatly over the pre-war period, not only because of intensified cultivation of oilseeds such as castor oil, peanuts, linseed, soya and sunflower, but also because of the greater exploitation of wild oil-nuts such as oiticica, babasú, tucum and others.

The Brazilian harvest in 1950 was much lower than that of the two preceding years, but there is reason to believe that the 1951 harvest will be greater. The harvest of cotton seed, peanuts, soya and castor oil will be greater by a wide margin, but that of linseed will be smaller. Partial increases are expected in the near future, above all in cottonseed.

Almost all the other countries in the region have increased production of oilseeds. The large increase in production of sesame in the countries of Central America is worthy of note. Sesame is one of the main raw materials for the processing of edible vegetable oils in this region, where the principal producers are Nicaragua and El Salvador.

Venezuela and Colombia have made efforts to increase production, but still have to import substantial quantities of oilseeds, particularly copra.

/Cacao

## Cacao

The relative importance of cacao as a Latin American export has declined considerably since the beginning of the century, but it still continues to play an important role in the foreign trade of countries such as the Dominican Republic, Ecuador and Costa Rica.

As a result of the fall in cacao prices after the First World War and intensified production of cacao in British West Africa, its cultivation in Latin America had to be reduced considerably until it became stabilised in the latter part of the thirties and during the war. With the large price increase which occurred immediately after the war, production received a new stimulus and planting was intensified. At the end of 1946, when controls were lifted in the United States, prices of cacao rose rapidly, reaching their peak two years before coffee prices. In November 1947, prices of this product in New York had increased almost fivefold in relation to the ceiling maintained during the war years. In 1949 they dropped to less than half of the peak level reached in 1947, but rose considerably once more in 1950.

Brazil and Mexico have contributed to increase the production of cacao in Latin America. The first had the largest crop in its history - 163,000 tons - in 1949-50 (in 1934-38 the crop only amounted to 130,000 tons). This exceptional harvest occurred in a year of very favourable weather conditions for cacao, but part of the increase must be attributed to the improvement of the plantations by replacing old trees by others of a higher yield. Production is expected to be much lower in 1950-51, although still above pre-war levels, due to the tendency of cacao trees to yield less after a year of high output. Adverse weather conditions have also contributed to this decline. In Mexico production rose from 1,100 tons in 1934-38 to 7,800 in 1948-49, mainly due to the greater yields of re-plantings. In both countries plantations have been expanded since the war, so that it is hoped that production will increase in the near future.

/The Dominican Republic,

The Dominican Republic, Haiti, Colombia<sup>1/</sup> and Ecuador appear to have increased their production in 1949-50 in relation to the pre-war period. Cuba's production remained practically stable, while that Costa Rica, Panama and Venezuela declined somewhat.

Special interest in this crop has arisen in certain Latin American countries in the last few years. In Costa Rica a foreign fruit company started new plantations and reached an agreement with the Government to provide it with plans for improved yields once its programme for increasing production was completed. Guatemala has been expanding the area planted with cacao and in 1948 this area was 15 per cent greater than before the war. Ecuador has started plantations in order to increase production over a fairly long period. Research has been intensified in the experimental station of Pichilengue to find varieties resistant to diseases and particularly to that known as "escoba de la bruja" (the witch's broomstick) which has caused so much damage to cacao trees in that country. It will only be possible to see the results of these new plantations after a few years.

It is difficult to make forecasts concerning the future market for cacao, but it is worth noting that per capita world consumption is greater than before the war. Latin America has increased its consumption considerably and at the same time has begun to process part of its production for export. The most notable example of this is Brazil. In the 1938-41 period the factories in the state of Bahia processed about 3,000 tons a year; it is estimated that in 1950 they will process more than 15,000 tons. All the other producing countries have had more or less important increases in consumption, which explains the fact that, despite increases in production, the quantities available for export are less than before the war. Only Brazil and Costa Rica exported more in 1949 than in 1934-38.

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<sup>1/</sup> Production in 1949-50 was lower than before the war, but that for the preceding and following years was higher.



## Bananas

Central America, Mexico, the Caribbean area and the tropical countries of South America have in the last few years exported over 80 per cent of the bananas which enter world trade, while the United States has absorbed approximately 60 per cent of world trade in this fruit.

Production had reached maximum levels in several countries before the war, and had to be sharply contracted at the outbreak of the Second World War, with the resultant shortage of maritime freight, which limited exports to a minimum. When the war ended and with the reopening of the United States market to its fullest extent, planting was intensified once more and production returned to normal.

In Honduras, the principal producer, the area devoted to the cultivation of bananas increased by 19 per cent between 1945 and 1948. Almost all of this increase was on the part of the large foreign companies, since the so-called independent producers are progressively abandoning their plantations. This is partly due to their difficulties in fighting the attack of the "Panama disease" and Sigatoka, as well as to the difficulties they have sometimes encountered in selling their production independently of the large foreign companies.

Production in Guatemala practically tripled between 1920 and 1939, when its exports reached over 10 million bunches. This expansion was interrupted by the war, and in 1943 exports were only 2.6 million bunches. After the war production recovered rapidly and in 1947 13.3 million bunches were exported. A large part of this increase took place along the Pacific coast, a region which is free from attacks of Panama disease. Since 1947 production has declined sharply for various reasons: Heavy storms seriously damaged the plantations to the extent that it was feared that a large part of them would have to be abandoned (this did not happen because of the pressure exerted by the Government to keep this important agricultural activity alive); and labour difficulties also contributed to hamper production, particularly in 1948.

/Plant diseases have

Plant diseases have forced the large banana companies operating in Costa Rica to move from the Atlantic to the Pacific Coast. The results of this move have been reflected in a considerable expansion of production. Exports in 1948 and 1949 were almost double those before the war. Costa Rica seems to be the country with the best prospects for increasing its production. According to official statements, with the lands cleared for new banana plantations the country could in a few more years become the principal exporter in the world.

Production increased sharply in Brazil after the war, reaching a level more than double that of 1934-38.

In Ecuador with the maintenance of high prices and strong demand, there has been great intensification of banana production. With the granting of government credit in 1948, new lands were opened up in the Provinces of El Oro and Esmeralda and cultivation in traditional regions was intensified.

In the other countries, while production has been recovering gradually it has not yet reached pre-war levels. Only Haiti and the Dominican Republic show an improvement over the pre-war period.

In 1946-49 Latin American banana exports had not reached the 1934-38 level, but it is expected that they will do so in 1952-53.

It is interesting to observe that banana prices are practically the only ones which have remained stable during the last four years and have even shown a slight downward trend since the first half of 1949. The semi-monopolistic conditions which obtain in the production and trade of bananas may have been a factor in this occurrence.

#### Meat

The livestock situation in Latin America has improved considerably since the pre-war period. The number of cattle increased considerably in several countries, particularly in Colombia, Mexico, Argentina, Guatemala and Honduras. Only in Cuba, the Dominican Republic and Chile were there declines.

The sheep stock, which has assumed extraordinary importance in recent months due to the large increase in wool prices, /seems to have

seems to have increased to a lesser extent than that of cattle. The number of hogs has also increased considerably.

As a result of this general improvement in the number of livestock and of increased demand, meat production has shown a constant upward trend. In the nine countries for which statistics are available, it can be noted that production for the years 1946-1949 was 9 per cent higher than before the war. Preliminary estimates for 1949 show production as 12 per cent above that of the pre-war period.<sup>1/</sup>

Recently published official figures for the Argentine show an increase of 21 per cent between 1937-39 and 1949 in commercial production of meat (excluding that consumed in the countryside), and a decline of approximately 18 per cent in exports. The substantial increase in domestic consumption of meat has placed this country among the three principal per capita consumers of meat in the world. This high level of consumption suggests that there will not be important changes in domestic consumption, but rather an intensification in foreign trade in meat, which has declined considerably in recent years. The change of meat price policy setting higher prices for the lighter steers (preference for those of 470 kilogrammes over those of 500 kilogrammes and over) indicates that Argentine meat exports tend to be extended to wider markets.

In Uruguay, the greater consumption of meat per capita has been achieved at the expense of exports, as the latter declined, representing in 1949, 77 per cent of the pre-war level.

Exports of cattle on the hoof declined to insignificant figures.

In Mexico, in spite of the epidemic of hoof-and-mouth-disease which caused so much damage to livestock, the number of cattle has increased by more than 20 per cent since the pre-war period. Meat production and export trade also improved considerably. The closing of the frontier with the United States played a decisive role in this

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<sup>1/</sup> FAO Development and Prospects of Agriculture for Latin America.

/development. With the

development. With the impossibility of exporting cattle on the hoof to that country, a meat packing industry on a solid basis was developed, which permitted not only recovery of the lost export trade, but also considerable expansion. Exports of meat increased from an average of ten tons in 1934-38 to 58,300 tons in 1949. The gross value of these exports is higher than that of the former exports of cattle on the hoof, and this does not take into account the gains derived from the process of industrialisation and from the by-products.

In Brazil, stocks of cattle have also increased, from 40.8 million head pre-war to 46.2 million in 1949. Nevertheless, meat production declined sharply during the war reaching its lowest point in 1944. Since then it has been recovering slowly and by 1949 exceeded by a very narrow margin the level of the 1935-39 period, reaching a total of 1,105,000 tons, as against 1,090,000 tons.<sup>1/</sup> Exports dropped from an average of 98,000 tons to 43,800 tons between these two periods. Per capita consumption of meat, according to the Food and Agriculture Organisation, declined by approximately 20 per cent due to the large increase in population.

In Colombia the number of cattle increased between the pre-war period and 1950 from 8 to 14.5 million, or 81 per cent.<sup>2/</sup> Official estimates of beef production and estimated data for that of mutton and pork suggest, according to FAO, that for the year 1952-53 this country will be able to increase its per capita supply, estimated now at approximately 29 kilogrammes a year.

Venezuela is probably the Latin American country where meat production has increased to the greatest extent. It rose from 53 thousand tons before the war to 81 thousand in 1949, an increase of 53 per cent. However, the lack of data on the number of animals does not permit any conclusions as to whether the increase in meat production was achieved at the expense of livestock.

Judging by the increases in livestock in Central American countries and increased Paraguayan meat exports, meat production in these countries may have increased.

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1/ Serviço de Estadística da Produção, Ministerio da Agricultura

2/ Foreign Crops and Markets, 1 April 1950.

/On the other hand,

On the other hand, the situation in Chile and the Dominican Republic appears different. In the former the number of animals has declined somewhat, and in order to maintain its levels it has been necessary to reduce slaughtering of domestic animals and replace them with imported cattle. In the latter country, the increase in meat production appears to have taken place at the expense of livestock.

### Wool

Sheep farming in Latin America, as in the case of cattle, appears to have increased considerably in recent years in relation to the pre-war period. Of the countries which have statistics on the subject, only Cuba, the Dominican Republic, El Salvador, Honduras and Mexico experienced small declines in the number of animals. On the other hand, Uruguay, Peru and Brazil increased the total number of sheep by between 2 to 5 million head each. It should be noted, however, that the number of Argentine sheep rose sharply after the war, amounting in 1948 to 54.8 million head;<sup>1/</sup> but, due to the rise in wages and the shortage of agricultural workers, it became necessary in 1949 to reduce the number to a level slightly above that of the pre-war period, that is, to 47.3 million.<sup>2/</sup>

With the global increase in the number of sheep, production of wool reached levels exceeding those of the pre-war period. The FAO estimates that for Latin America as a whole production rose from an average of 273,000 metric tons in the 1934-35/1938-39 period, to 340,000 tons in 1949-50.

In contrast to what has been taking place in Latin America, world production of wool has tended to decline during the last five years. During this same period world consumption increased considerably, leading to almost total disappearance of the enormous surpluses accumulated during the war which had been estimated in 1945 as requiring 13 years to be used up.

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<sup>1/</sup> Monthly Agricultural Statistical Bulletin FAO, Estimate.

<sup>2/</sup> The Review of the River Plate, December 8, 1950, No. 3060 - Estimate.

This disequilibrium between production and consumption led to a rise in prices, which continued to increase fairly steadily until the middle of 1950 and then rose to levels never before known. These increases and the strong market suggest efforts by Latin American breeders at least to recover the peak level of production of 1946. The FAO considers that this can be achieved in the 1952-53 period.

Exports of Latin American wool in 1949 were less than those of the pre-war period, amounting to 157,000 tons as against 206,000. This decline in exports when production was greater is explained by the greater industrial consumption of wool within the region, which increased by approximately 83 per cent. Exports in the years immediately following the war were, however, much higher, due to greater production and to movement of the surpluses which had been accumulated during the war.

The trend of wool production has varied among the producing countries. In Argentina the number of sheep reached the highest point during the 'forties in 1946. From then on various factors, particularly the shortage and high cost of labour and unfavourable weather conditions, obliged sheep breeders to a progressive reduction in their flocks. Consequently wool production showed a large decline until 1948. However, a slight reaction could already be noted by 1949, which was strengthened in 1950, but production is still far below the maximum registered in 1946. Expectations for the next two years are very promising, as weather conditions up to the moment are favourable and the high prices, which have reached levels never before seen, have constituted a powerful incentive for sheep farmers.

In Uruguay it appears that natural pastures have been over-stocked both with cattle and sheep. Thus the number of sheep reached a maximum for the last forty years in the middle of 1949. It may be necessary, then, to reduce this excess stock of sheep to some extent and already some exports of sheep have been made to Brazil for this purpose. The production of wool in 1950 was higher than that of 1948 and 1949, but lower than 1946. It is officially estimated that production in the next two years will be

/lower than the

lower than the average for the last four years, but 40 per cent higher than that for the pre-war period.

Wool production in Brazil has been increasing gradually since the pre-war period. In 1950 it was estimated to have reached a level 33 per cent higher. Prospects for the future appear promising in spite of the fact that production in 1950 was slightly lower than in 1949.

The production of wool in Chile reached its maximum in 1945, but later declined sharply until 1949, reaching levels similar to those before the war. It is estimated that in 1950 production rose sharply again reaching a total of 18.1 million tons, that is, only 800 tons less than in 1945.

## CHAPTER III

## INDUSTRY

Industrial Production

The rate of development of industrial production between 1945 and 1949 has been particularly outstanding in four countries of Latin America. According to published indices of industrial production and those compiled by the Economic Commission for Latin America,<sup>1/</sup> covering a total of eleven countries,<sup>2/</sup> these four are: Venezuela,<sup>3/</sup> with an average annual increase 12.2 per cent; El Salvador,<sup>3/</sup> with an increase of 11 per cent; and Argentina and Chile, with 6.5 per cent. The lowest increases were recorded in Cuba<sup>2/</sup> (1.5 per cent) and in Bolivia (3.3 per cent). In the other six Latin American countries the rate of industrial expansion varied between 4 and 5.2 per cent annually.

Similar differences are apparent in the growth of industrial production during the period 1946-1949. In no country has the rate of growth been uniform. In five of the eleven countries industrial production developed more intensively in the first half than in the latter half of this period, whereas in the remaining six countries development was relatively slower in the period 1946-1947 than in 1948-1949.

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<sup>1/</sup> Some of them cover a very limited number of goods and on the whole their accuracy cannot be depended upon.

<sup>2/</sup> Argentina, Bolivia, Brazil, Colombia, Cuba, Chile, El Salvador, Guatemala, Mexico, Peru and Venezuela.

<sup>3/</sup> Petroleum is excluded from the Venezuelan indices, and the processing of coffee in El Salvador and of sugar in Cuba have likewise been excluded.

/These differences are



These differences are undoubtedly caused by a considerable number of factors among which the most outstanding are: a) the level of income, b) the position of the balance of payments and c) governmental policy. It should also be noted that the percentage changes may to a certain extent, magnify the significance of the expansions and contractions of industrial production, when a very low level of comparison is taken to begin with as occurs in several of the countries studied.

It seems evident that the sharp rise which took place in Cuban industrial production during 1946 and 1947, and the steep fall which occurred in 1948 and 1949 may be ascribed to the increase in income derived from sugar exports during the former period, and to the reduction of this income in the latter two years. This adverse trend in the balance of payments in 1948 and 1949 was not checked by suitable measures. A further factor which contributed to this trend in the last two years, when there was no longer a seller's market, was the increase of foreign competition on the industrial market in Cuba.

Events in Venezuela and the substantial increase of production in 1946-1947 followed by an even greater expansion in 1948-1949 can be explained by the simultaneous occurrence during the whole period of the three factors referred to: a high level of income, a favourable balance of payments and a policy of industrial development. In El Salvador the expansion which occurred can be attributed principally to the first two of these factors.

In Argentina the rise in production recorded in 1946-47 is connected both with the increase in the level of income and the high capacity to import due to the accumulation of reserves and the strong stimulus created by the introduction of credit facilities and of measures designed to protect the country's foreign exchange position. Similarly, the relative stagnation noted in 1948 and the fall in 1949 and 1950 may be ascribed to a reduction in the capacity to import. The same occurred in Chile as in Argentina, though on a /smaller scale:

smaller scale: the contraction in the capacity to import in relation to income, was lower than in the Argentine, whilst the stimulus given to industrial production was also less.

Peru offers another interesting example of this trend. No increase in production took place in 1946, while the capacity to import was used to renew equipment and foreign competition became stronger. A moderate rise began in 1947 and was considerably strengthened in 1948, when the introduction of new equipment and of exchange restrictions began to show results, and an increase occurred in the level of income as a result of monetary expansion. In 1949 there was a decrease in the rate of expansion and foreign exchange receipts diminished, so that in the latter half of that year the government applied a series of credit restrictions.

A somewhat similar trend was noted in Mexico and Brazil; in both cases industrial production expanded vigorously in 1946 as a result of the stimulus provided by the higher level of income and the prevailing export difficulties encountered by the great industrial countries. Both in Mexico and Brazil the rate of expansion tended to decrease in 1947, as a result of a comparatively smaller rise of the income level and the renewal of foreign competition. Both these countries which had become large exporters of industrial products, lost a part of their foreign markets when the traditional suppliers recovered their capacity to export. Brazilian imports rose by about 10 thousand million cruzeiros in that year, that is, by about 75 per cent. In Mexico, imports rose by more than 6 hundred million pesos, as compared with an increase of 1,700 million in the national income. That is to say, while in 1945 imports represented 10 per cent of national income, by 1947 they constituted more than 15 per cent. On the other hand, in 1948 Brazil reduced its imports by about 2 thousand million cruzeiros and its industrial production showed an increase of 15.5 per cent as compared with the preceding year. In Mexico, likewise, the value of imports decreased somewhat after devaluation measures were introduced in June 1948, and a slight recovery was noted in industry. In 1949, Brazilian industrial

/production continued

production continued to expand, though at a considerably lower rate; in Mexico it rose by 10 per cent when a ten million dollar reduction in imports was effected, whilst further devaluation of the peso lent additional protection to industry. In both countries, the increase in 1950 was proportionately smaller than that of 1949. This is a case of two republics employing different methods in an effort to develop industrial production; in both countries development was checked by the competition of imports and increased when imports were restricted, while national income rose and foreign exchange receipts remained at a high level.

Prevailing conditions are similar in each of these cases, though sometimes the influence exerted by one factor has been stronger than that of others. However, the three factors mentioned above are vital to the increase of production and the absence of any one of them causes a decrease of industrial production, or alternatively a lowering of the rate of its development. During 1948 and 1949 Cuba experienced a weakening of all three factors, resulting in a sharp drop in production (about 10 per cent annually). In Venezuela, on the contrary, the three factors occurred simultaneously during this period and production expanded by 23 per cent in 1948 and 19 per cent in 1949. In Argentina, there was a rise in the level of income and protective measures were adopted, but there was an adverse balance of payments and consequently production diminished. In Mexico and in Brazil, the three factors continued to occur in varying degrees in different years of this period. When production decreased in 1947 there was no protection against the competition of imported goods; exports rose, bringing about an increase in the capacity to import. A consequent rise in the level of income in turn led to an increase in purchasing power.

If the different rates of expansion are not taken into account and if Argentina, and Cuba, are excluded, it will be seen that in 1948 and 1949 there was a high rate of expansion of industrial

/production. This

production.<sup>1/</sup> This expansion can probably be attributed to the fact that, due to the exhaustion of reserves, official protection was exercised to a greater extent during these two years than at any time in the past.

Other factors besides those of income level, balance of payments and policy no doubt influenced industrial development in the post-war period: some favourably, others adversely. For example, during 1946 and 1947 there was a relative increase in investment directed towards the production of exportable agricultural goods due to the relative increase in the market price of the goods following the war. Another factor affecting investment was the uncertainty regarding the permanence of official support in industry, due in part to the existence of commercial agreements entered into with the principal exporting countries for the purpose of freezing tariffs. In some cases where the foregoing factors did not play any part, expansion was curtailed in some section by the shortage of equipment immediately following the war.

Thus, at the end of the war, a number of obstacles emerged to hamper the rate of industrial development. It is therefore not surprising that there are few cases in which the post-war rate of expansion was as high as during the war years. Considering the post-war period as a whole, it will be noted that, following a relative decline during this period, industry tended to recover the position it had obtained at the end of the war in its contribution to the national product. In Brazil, for instance, at the end of the war industrial production constituted 45 per cent of the total production of goods. By 1946-47 it was contributing only 43 per cent to this total but by 1948-1949, its participation in total production had risen to more than 46 per cent. In most countries where agriculture and cattle breeding remained at constant levels, or else decreased between 1945 and 1949, industrial production continued to increase its contribution to the total production of goods. This occurred both in Argentina and Chile. In the former, industry expanded not only in absolute terms (that is to say, there was an increase of industrial production itself), but

<sup>1/</sup> The position in Colombia in 1948 cannot be taken into account, since the failure of the index to register any increase can probably be largely ascribed to the revolution which took place in April of that year.

up to 1948 there was also a corresponding decrease in agricultural production and cattle breeding. In 1949 and 1950, however, industrial production showed a decrease in absolute terms, and in 1950 there was also a relative reduction. In Chile, the post-war expansion in the production of goods can be almost exclusively attributed to the increase of industrial production, which rose from 42 per cent of the national production in 1945 to more than 47 per cent in 1948. These are exceptional cases, however, and it is probable that in the majority of the Latin American countries, agricultural production developed at a greater rate during 1945-1949 than during the war; that is to say, there was less disparity between the various rates of expansion during this period. In Mexico, according to official statistics, there was a greater development of agricultural production and cattle breeding than of industry, but the expansion of these activities as a whole is somewhat similar to that which occurred in Brazil.

#### Industrial Population and Productivity

The growth of industrial production in recent years does not appear to have been marked by any noticeable increase in the absorption of labour, as it was during the war. It is well known that the difficulty in replacing equipment made it necessary during the war to obtain the maximum utilisation of existing equipment, with a consequent general and very marked fall in labour productivity. For instance, the statistics available for Argentina show that between 1939 and 1945 the production level per gainfully employed person fell 20.6 per cent in that country. Incomplete data from Brazil reveal that there was a similar reduction of 30 per cent in production per gainfully employed person during this period. Obviously, a large part of this decrease in labour productivity can be ascribed to the extension of the working hours, the adoption of night shifts, the intensive utilisation of equipment, the poor quality of the raw materials and improvised labour, etc. With the renewal of equipment and a return to normal working conditions at the end of the war, this decrease in labour productivity was partially or totally reduced. There was an increase of 12.4 per cent in Argentine labour productivity between 1945 and 1949, and a similar increase of 22.5 per cent in Brazil. This recovery of

/productivity probably

productivity probably occurred in all those countries in which industrial production had expanded considerably during the war, but which could not replace or increase their equipment. Mexico was the most favoured country during the war insofar as purchase of industrial equipment is concerned (frequently secondhand), and therefore the above observations are perhaps less applicable than in other Latin American countries.

The fact that industrial development in recent years has not been accompanied by the displacement of labour from primary occupations to manufacturing, is due to the increase of labour productivity. The general terms of this statement must nevertheless be examined in relation to the varying circumstances of each country. Argentina is again an exception, since the strong stimulus to invest in industry arising from a deliberate credit policy enabled industry not only to increase its productivity but also to absorb a greater amount of labour, though the increase between 1946 and 1949 was only 13 per cent, as compared with 57 per cent between 1939 and 1945. In Chile, where there was a similar stagnation of primary production or, alternatively, a greater expansion of population than of primary production, the development of industry was not sufficiently great to enable the country to achieve its two objectives: the increase of productivity and the increase of employment. In fact, in 1949, the volume of employment was lower than in 1947, and indeed barely exceeded the highest level attained during the war.

The inability of industry to absorb labour at a period in which primary occupations are not expanding, is one of the factors responsible for the increase in the relative importance of services in the national income of various countries between 1945 and 1949. This implies that services of every kind (including, for instance, small business enterprises) are the first to receive the impact of the mass of the population turned away from the rural areas, thus creating a centre of urban under-employment with which it is difficult to deal.<sup>1/</sup>

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<sup>1/</sup> The increase in services is also a natural result of monetary expansion.

In Brazil, the growth of industry coincided with increasing productivity and a minimum absorption of labour; however, since agricultural and cattle breeding occupations developed to the same extent as industry, they absorbed the surplus population not required by the normal development of services. In any case, for agricultural activities to have developed as intensively as they did in Brazil during the period 1945-1949 (2.8 per cent annually in the cultivated area as against a 2 per cent increase in population), it would have been necessary not only for agricultural activities to have absorbed the natural increase of labour, but also to have increased productivity. This applies even more to Mexico, where the expansion of agriculture recorded during the period under consideration, was the greatest in all Latin America.

It is therefore highly probable that the proportion of industrial labour to the total of the gainfully employed population during the past five years, has partially recovered its pre-war level, though with a relatively higher percentage of such labour in services than previously. This would seem to indicate that investments in industry during the past ten years have not been sufficiently great to bring about any fundamental change in the structure of the Latin American economy

Whatever progress may have been achieved in industrial productivity since the war, the basic position of low productivity which prevailed before the outbreak of hostilities still persists. This is partly due to the low capital investment per gainfully employed person. For instance, a detailed analysis, carried out in loco by experts of the Economic Commission for Latin America in various Latin American countries <sup>1/</sup> during the past few months, has proved once again that there is an enormous wastage of labour involved in the methods employed in the spinning and weaving industries. In addition to this conclusion, which confirms the less systematic studies made previously, this study pointed out other equally important aspects of the problem which are generally overlooked. Attention is drawn to the presence of a vicious circle of low productivity and the low cost of labour, the latter being low both in relation to the cost of machinery and to the price of the

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<sup>1/</sup> Document E/CN.12/219. Economic Commission for Latin America  
United Nations.

finished product. As regards the ratio between the cost of labour and the finished product, the study reveals that the average price of a metre of Brazilian cloth is 1.65 times greater than the price per unit of labour, that is to say, than the price per man-hour. On the other hand, the price of a metre of cloth manufactured in the United States is 5.9 times less than the price per unit of United States labour. This being the case, the effects of a reduction of labour on the cost of production in the United States textile industry is 7 or 8 times greater than in the same industry in Brazil. The conclusion drawn with regard to the relative productivity of equipment and labour is equally significant. This point is well illustrated by reference to the Ecuadorian weaving mills, which are equipped with very old machinery, and in which there is a 575 per cent labour surplus in relation to the technical standard of maximum productivity. Nevertheless, despite this old machinery, these mills have attained a productivity level that is 10 per cent higher than the above standard by making greater use of their equipment than would normally be required to obtain optimum labour productivity. This phenomenon, however, is not limited to mills employing old machinery. In the modern spinning mills of various countries, an appreciable labour surplus has been found to exist, together with greater production than would be possible in optimum conditions of labour productivity.

These facts are highly pertinent to the study of productivity and to the directing of investments in industry. The labour surplus which is encountered, even in factories equipped with modern machinery, indicates the lack of incentive to increase labour productivity.<sup>1/</sup>

The problem of productivity, as will have been seen from the foregoing examples, should be considered from two different points of view, namely, that of the shortage of capital and that of the inefficiency of the methods of work. On the one hand, greater productivity can be achieved by increasing the capital investment per labourer; on the other hand, the same result may also be reached by

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<sup>1/</sup> In addition to the weakness of economic stimulants such as institutional factors as the rigidity of syndical control, to be taken into account.



introduction of more rational methods of work, implying a reduction in the number of labourers employed. The experience of the industrial countries shows that these are aspects of the same problem, since the introduction of modern equipment generally involves an improvement in labour technique and, moreover, the stimuli that are conducive to this development, likewise prescribe an increase of the capital invested.

The advisability of substituting labour for equipment in any given economy depends on the relative availability of both capital and labour. Given the rates of the formation of capital and of the increase of the population, it is a question of working out the optimum proportion between ~~extensive~~ investments in labour and intensive capital investments. Apart from this proportion, there may be cases of over- or under-capitalisation, inevitably prejudicial to economic development. No doubt a more intensive capital formation would help to solve this problem, but this is not easy to attain when a very low level of income prevails.

Insofar as the post-war adjustment has enabled worn-out equipment to be replaced and working conditions normalised, the position of Latin America has improved, not only with regard to the increase in productivity but also with regard to preparation for a possible recurrence of the relative shortage of industrial goods which occurred during the Second World War.

All other factors being equal, it may be assumed that a constant process of industrialisation with low productivity levels, such as is encountered in Latin America, will increase the cost structure of export industries and prejudice their competitive position. Consequently the capacity to import which is essential to the process of industrialisation must be maintained by means of special measures to protect exports.

It must be assumed that the increased costs of the export industries, resulting from a process of industrialisation under less efficient conditions than those obtaining in the highly industrialised countries, has been one of the causes of Latin America's exchange difficulties in the post-war period, though it is not possible to estimate the extent of this phenomenon.

/Various factors have

Various factors have contributed to check this rise in costs. These include the increase in productivity of traditional (or established) industries, the low productivity of which had previously influenced the structure of export costs. As productivity tended to increase in the post-war period (it is generally recognised that this occurred in different countries with regard to different products), so the increase of costs, caused by low productivity (higher prices) in the new industries, was correspondingly halted. Furthermore, prices abroad also tended to increase, while prices of export goods rose to an even greater extent. When prices abroad rose, low productivity was checked in Latin America, and as prices of export goods rose still higher, the export industries were able to absorb the increased costs arising from the low productivity of the newer industries.

Inflation appears to be the most important factor contributing to depreciation in Latin America's post-war economy. This factor, more than the low productivity of industry, was responsible for the rising costs of the export industries, since it increased money demand more than the increase in production. In a greater or lesser degree, however, the relatively low productivity of industry raises export costs and the adoption of corrective measures is necessary in order to maintain export capacity, and accordingly the capacity to import. The effect of low productivity is less dangerous in the more highly industrialised countries of Latin America, because the process of raising the efficiency of the established industries may be sufficient to balance the low productivity of the new industries, when measured by a comparison between the prices of their products and prices of imported competitive products. The greater the rate of industrial development, and the lower the productivity of new industries, the more difficult it will be for the production of established industries to offset the effects of low productivity on export costs. When the volume of industrial production is low, as is the case in the majority of the Latin American countries, little progress can be made in raising the level of productivity in established industries, /and therefore

and therefore in order to protect the rate of exchange, it will be necessary to study more carefully the level of productivity in prospective industries.

Increased productivity in export industries checks the adverse effect of low industrial productivity on the capacity to import and on the rate of exchange.

The second point to be considered in judging the effects of low industrial efficiency is that of its productivity as compared with that of other occupations open to the gainfully employed population, particularly agriculture. If the yield per man-hour in agriculture in most Latin American countries is compared with that in countries with a more advanced agricultural technique, it will be seen that the differences of productivity in agriculture are greater than in industry. Nevertheless, the increase of agricultural productivity is limited by the capacity to consume of both the foreign and domestic markets. On the foreign markets, a price reduction caused by the increase of exportable production is likely to cause a deterioration in the terms of trade, so that ultimately the inflow of foreign exchange decreases with the expanded volume of exports. This fact is borne out by past events in Latin America, especially in connexion with coffee and sugar. There is always the possibility of increasing supplies on the domestic market, to the general benefit of the community, but per capita consumption (however desirable) does not increase rapidly.<sup>1/</sup> The necessary increase in the supply of agricultural produce can be achieved without added labour, so that the increased population can be employed in other activities, which provide more than a subsistence level standard of living.<sup>2/</sup>

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<sup>1/</sup> The relative stagnation of agricultural prices in Mexico caused by the increase of production, together with the rise of industrial prices, illustrates this point.

<sup>2/</sup> Undoubtedly, unemployment, under-employment and mis-employment have the same results as low productivity both on prices and the capacity to export, when these factors are a part of monetary economy.

/Though the level

Though the level of productivity in industry should be raised in order to maintain the capacity to import, industrial development (even with low productivity) will provide a better standard of living than subsistence activities (disguised unemployment) or under conditions of unemployment or part-time employment.

In so far as there exist a domestic and foreign market for non-industrial products at remunerative prices and such products may be obtained under better conditions than those obtaining in industry, it would appear that productive factors should be diverted to primary production. The fact that Latin American countries have not always followed this principle during the post-war years has been partly due to **their fear** that the market for primary products would not last.

#### The Financing of Industry <sup>1/</sup>

During the post-war period a large part of the funds employed in the financing of private industry was derived from profits accumulated in the preceding years, during which prices had risen more than costs and in which there were no opportunities for new investments in view of the difficulty in obtaining equipment. But this source of capital was soon exhausted and the inflationary process provoked an

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<sup>1/</sup> Most countries have used every possible means including the granting of Fiscal, Monetary, Customs and Exchange facilities to foster industrial development. Fiscal policies have been adopted involving tax exemptions for new and essential industries and for those which offer employment or are a source of foreign exchange etc. Monetary legislation has been devised to protect these industries by direct financing and by the extension of credit facilities. With the same protective bent Customs barriers have been set up and import restrictions established. Similarly the granting of foreign exchange for competitive products of foreign origin has been controlled and preferential exchange rates created for imports of machinery and equipment and for the exportation of industrial products, etc.

These measures have led to an increase in the relative profitability of industry within the economic structure as a whole with the result that a greater flow of investments has been directed towards industry than would have occurred without this incentive.

/ ever-growing dependence

ever-growing dependence on the credit facilities offered by the banks. Either the demand for an increasing amount of working capital absorbed profits which would otherwise have been invested in productive equipment, or else profits derived from one enterprise were withdrawn to form the basis of new investments. In some countries, such as the Argentine and Chile, industry has become almost entirely dependent on the banking system for essential working capital.

This increasing dependence has assumed such proportions that it has become a fundamental obstacle to the anti-inflationary programmes of some of the Latin American countries.

Before the war, several countries in Latin America had already established organisations for the granting of credits to industry. During and since the war, however, there has been an **extension** in this policy, as is evidenced by the establishment and increased scope of development corporations and institutes and industrial banks. Banking legislation and controls have also been modified in order to encourage the traditional commercial banking institutions to play a more active part in industry.

Few countries can, however, claim any significant improvement in their private capital markets, since the inflationary process has favoured money markets rather than capital markets. Nevertheless, there has been no great effort to create them, although at times new organisations have been founded and old ones strengthened with the purpose of stabilising securities or controlling new issues. In general, the policy followed has tended to guarantee the liquidity of securities, though no very concrete results have yet been obtained. Industry has continued to depend largely on financing by sources other than the stock market. In Latin America the small and medium investor has maintained the traditional preference for urban mortgages and the purchase of real estate. In Argentina, the mortgage certificate market was wiped out in 1946 by the calling up of all such certificates in circulation, amounting to about 1,500 million pesos. But the liquidity thus afforded to the former holders of these mortgage certificates and their efforts to find new investments for their capital produced little effect on industrial shares, since most of this capital flowed on to /the real estate

the real estate market.

The most intensive effort made during the war and post-war periods to create a capital market for the financing of industry was probably that of Mexico, which issued "Certificados de participación" (Participation Certificates) of the Nacional Financiera. These securities provided a specific guarantee in the form of certain assets of the institute and the obligation to redeem, at par, at one to two months' notice. These issues were floated for the purpose of raising funds for the transactions of the Nacional Financiera and also with the object of establishing a favourable market for industrial stock. Undoubtedly the "certificados de participación" have provided a suitable temporary investment for the idle capital of both companies and private individuals, since their liquidity is absolute (they may be redeemed at par, on sight). They have also contributed to the financing of industries partly controlled by the Nacional Financiera. However, their value as a means of promoting savings is open to doubt since they provide a false liquidity and stability which cannot or should not always be possible on the industrial stock market.<sup>1/</sup>

While the Mexican "participation certificates" show up the deficiency of the industrial stock market in a country in which industrialisation has progressed furthest during the past few years, the absorption of savings certificates such as capitalisation bonds shows how modest savings accounts can be utilised in a community unaccustomed to industrial stocks and shares. The element of a gamble which derives from these bonds being drawn for redemption seems to provide a special attraction to medium and small investors, despite their low rate of interest in comparison with other stock on the market. Capitalisation bonds have become popular even on such restricted capital markets as that of Honduras.

The evolution of savings deposits suggests that this medium or long term source of funds tends to expand along with monetary income, except in periods of intense inflation.

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<sup>1/</sup> During the past few months, Mexico made still another effort to strengthen the capital market, by introducing national savings certificates (bonos de ahorro nacional).

The Latin American countries were in the post-war period faced with the problem not only of finding non-inflationary sources of capital to promote industry, but also of ensuring that private funds available for this purpose were in fact invested in industry. It is therefore largely a problem of utilising the funds available. Not infrequently, such capital has been used for commercial loans which offer greater liquidity and higher rates of interest, or alternatively for urban mortgages which appear to offer greater security. This has occurred even in the case of institutions whose principal objective is the development of industry by means of long-term investments. Savings deposits and long-term bank deposits have been drawn upon to grant short-term commercial loans, and funds belonging to insurance companies, as well as savings invested in capitalisation bonds, have also been used for such short-term loans and for urban mortgages. Legislation establishing percentages of the composition of the different portfolio of the institutions as well as the moral authority of governments and Central Banks, has been responsible for ensuring that a part of available funds is utilised for medium or long-term loans to industry instead of for short-term loans. The reluctant attitude of private institutions in this respect may be explained by their preference for the higher profits and greater liquidity of short-term loans and urban mortgages in periods of inflation.

Of the industrialised Latin American countries Argentina shows the minimum official investment, while at the same time providing the highest guarantee of banking credits for working capital.<sup>1/</sup> Official protection in the Argentine seems to apply equally to all industries. Direct financing by the State (or by its autonomous bodies) is more usual in other Latin American countries, particularly Mexico. The Nacional Financiera has made investments (that is, securities of various categories: stocks and debentures) in practically all the leading Mexican undertakings connected with new industries: iron and

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<sup>1/</sup> Nevertheless, in the past few months, there would appear to be a certain shortage of industrial credit in Argentina.

/steel production,

steel production, electricity, paper manufactures, fertilisers, cement, rayon, crystal, electrolytic copper, cinema, etc. There is a definite preference for industries which require large capital outlay and which utilise domestic raw materials (though there are exceptions to this rule). In Brazil, official (or semi-official) financing is less diversified than in Mexico, though more so than in Argentina; the iron and steel industry, the manufacture of paper and of aluminium, and a few other products have been aided in this manner. In less industrialised countries, official assistance to the textile industry seems to prevail and, more recently, the financing of the manufacture of building materials, especially of cement, has been undertaken by the State. Official development organisations have played a bigger part than private enterprises in financing industry. Inflation has, however, compelled some official organisations to devote an increasing part of their resources to supplying working capital for the undertakings which they have financed, thereby reducing the amounts available for the development of new productive capacity.

Foreign capital has played a significant role in government financing of industrial development. As will be shown below, the Latin American countries found that industrial development could not be stepped up to the desired rate by relying solely on funds derived from normal fiscal ~~sources~~ - without involving a budgetary deficit - since these would not release the necessary foreign exchange for imports. Governments have therefore made constant efforts to obtain foreign loans and many projects have had to be postponed, due to the lack of foreign capital.

The chapter on the Balance of Payments also deals with foreign sources of capital and their volume.

#### Industrial Trends

The course of Latin American industry is determined by two basic factors: ~~the extent of the market and the availability of productive~~ factors.

Apart from items such as sugar or the processing of coffee in certain countries, Latin American countries have established industries solely with a view to the domestic market. During the war, part of  
/the productive



the productive capacity of industry was in some countries directed to the export market, when shortages caused prices to rise disproportionately in countries where goods were in short supply. Several industries, however, were set up to cater for the export market: e.g. the manufacture of hard fibre textiles, alcoholic beverages, sweets (candies), etc. In the post-war period, there have been some isolated cases of the utilisation of a surplus capacity for export purposes but in contrast with the war period, the price level of such exports during the last few years has been lower than that obtaining on the domestic market. However, some industries have recently been established mainly for the export market, or at least, depending on exports for their profitability. The latest example of this trend is provided by the steel mill at Huachipato, in Chile, the production capacity of which was double the country's total consumption at the time the factory was built. The important increases in the Mexican industries producing electrical devices were made with an eye to export possibilities and nearly every Latin American country is now exporting manufactured goods, to a greater or less extent. But these cases, though more general than in the past, may be considered exceptional or at least of secondary importance. The extent of the domestic market continues to determine the limitations of Latin American industry. The differences in scope therefore vary considerably as, for example, between that of Brazil, with its population of 50 million inhabitants, and countries with less than one million inhabitants<sup>1/</sup> and different levels of total income are found in countries with equal populations.

Industry naturally begins with the manufacture of those products which have the widest market and for which therefore the minimum of specialized factors are required. Foodstuffs, beverages, and textiles fulfil these requirements to a greater extent than other products, when the level of income is low. Even countries having relatively small markets can, with the prevailing wage rates, generally absorb the production of these industries for which only a medium degree of productivity per unit is required. Considerable increases are recorded in the industrial processing of foodstuffs and beverages which in nearly every case, exceed the

<sup>1/</sup> The size of the market, in the majority of the Latin American countries, depends not only on the number of inhabitants, but also on the existence of adequate means of transport, the domestic market being sometimes limited by transport deficiencies.

increase in ~~milling, the production~~ of sugar (see chapter on agriculture), edible fats and oils, preserved foodstuffs, etc. Furthermore, because the urban population has increased faster than the rest of the population, the market has expanded for a number of products such as soft drinks, beer and cigarettes, which were already obtainable in all Latin American countries before the war. Demand for these products is comparatively inelastic in relation to prices and more in relation to income when the initial level of the latter is very low. While prices of these goods have risen less than those of other articles, the monetary income of the Latin American population is growing considerably. The beer industry, for instance, has shown a substantial increase in several countries. This is the case in Colombia, where investments in breweries represent the densest capital concentration in the country. The index of the value of beer sales increased more than that of any other industrial product, though the price of beer rose less than that of any other article (barely 20 per cent between 1945 and 1949).<sup>1/</sup> In Venezuela the production of beer increased from 14 million litres in 1938 to 40 million litres in 1945, and to 74 million in 1950. The same situation has been apparent in other countries though the relative increase has been less in countries where consumption had already attained a high level during the war.

Of the traditional Latin American industries, textile manufactures have undoubtedly produced the greatest variety of goods and there have recently been striking examples of the extension of diversification in this industry. The cotton industry developed considerably during the war when various Latin American countries became important exporters in this field. In the post-war period, however, some of these countries lost their export market and this fact, taken in conjunction with the intensification of foreign competition, has been responsible for new investments being directed to the renewal of outworn equipment and the improvement of quality rather than to expanding total capacity. Capacity has undoubtedly increased in some cases but not to any great degree,

<sup>1/</sup> In Colombia, there is an added incentive in the prohibition of the drinking of "chicha", thus diverting capital to the breweries. The spontaneous replacement of "pulqui" by beer has been noted in Mexico.

/while in others

while in other instances substantial reductions took place during the first years after the war. In countries where no exchange problems exist, and consequently where industry was not protected in order to conserve foreign exchange, the principal difficulties have been encountered more recently (for instance, in Venezuela, Cuba and Guatemala). In these cases, the change-over from a sellers' to a buyers' market has caused traditional exporters to follow a more liberal and more aggressive policy. Attention should be drawn to the increase of the spinning industry, which has been disproportionately greater than that of weaving. Weaving was already more highly developed than spinning, and this fact constitutes one of the many examples of the Latin American tendency to introduce industrialisation by undertaking the final manufacturing processes before attempting the preliminary stages.

The greatest progress in textile production has not occurred in cotton manufactures but in the rayon industry. In Chile, for instance, the number of looms for rayon increased from 1,000 in 1945 to 3,000 in 1950. In Venezuela, production was five times higher in 1949 than in 1945, and similar trends were noted in other countries, including Cuba, which now figures as an exporter. The shortage of foreign exchange hampered raw material imports for rayon weaving in various countries. At present rayon yarn is only produced in Argentina, though various projects are under way for its manufacture in other countries. It should be pointed out that the competitive possibilities for this industry on the domestic market are greater than those of cotton, since it is easier to supply varying local preferences, whereas the uniformity of cotton goods is greater.

On the whole, the more highly-developed Latin American countries have now practically reached a point of self-sufficiency insofar as the textile industry is concerned, as compared with the substantial pre-war deficits.<sup>1/</sup> In all the other Latin American countries, there is now a much stronger tendency than before to achieve such self-sufficiency. The majority of these countries also aim at self-sufficiency regarding the

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<sup>1/</sup> Self-sufficiency, however, does not exclude imports of textile goods of special qualities or types, which only incur the disbursement of small amounts of foreign exchange.

production of fibres. There is, however, considerable room for improvement in quality and cost.

Latin America has still a long way to go in the field of foodstuffs and textiles though considerable progress was accomplished during the war and post-war periods in this direction. The majority of countries have introduced other types of industries, among the most important of which are light chemical industries and the production of building materials. Pharmaceutical industries and the manufacture of soap and other toilet articles, etc., also developed considerably during the war and progress in this direction has been maintained.

In most countries there is an adequate market for moderately efficient units of production, or else the market is developing together with the growth of population and the level of its income. There is also a possibility of working with a smaller number of more highly specialized factors which most of the countries have or can easily acquire from abroad. The market for building materials has expanded as a result of increasing government activity in public works and the development of private building, caused by the expansion of the urban population and from inflation. Attention must be drawn to the development of cement manufacture, a number of Latin American countries being now practically self-sufficient in this respect, while Mexico exports cement. During the period 1945-49, Argentine and Chilean cement production increased 30 per cent, whereas in Bolivia, Brazil and Colombia there was a rise of more than 50 per cent; in Mexico production rose by 100 per cent and in Venezuela by 150 per cent.

While the production of light chemicals and building materials has been developing, many other industries have emerged in Latin America. These include the preliminary processing of raw materials and semi-manufactured foreign products, and are sometimes limited to assembling all the components of the finished product. Already marked differences among the different Latin American countries have begun to appear with respect to the size of the market, and the variety of products is too numerous to mention in detail.

The greatest differences in development occur in the following stage which includes the heavy chemical industries and the manufacture of iron and steel. Only the larger countries

/have made any

have made any progress or undertaken substantial projects in this field, and they are the only ones in which a market exists for such industries.

The following figures regarding the manufacture of iron and steel show the development which has taken place:

In Brazil, production of pig iron rose 300 per cent from 1938 to 1949, when it reached a total of 508,000 tons. Before the war practically no pig iron was produced in Chile and even in 1950 production was insignificant; the present annual output from the new Huachipato plant is 250,000 tons. From 1938 to 1949, Mexico's production increased from 100,000 tons to more than 350,000 tons and that of Latin America as a whole, rose from 220,000 tons to 895,000 tons during the same period. This tendency to expand continues, and the projects under way ensure extensive future development in this industry. The Brazilian plant at Volta Redonda has already obtained the necessary funds for building a second blast furnace, the daily average output of which is expected to be 1,000 tons. Brazilian plans provide for an annual increase in productive capacity in the iron and steel industry of more or less 400,000 tons annually in the next few years, of which total Volta Redonda is expected to supply three-fourths. The Colombian project, located at Paz del Rio, and the Peruvian "Salta" Corporation plans are also under way, while several countries have developed facilities for the production of special steels.

The pattern of development appears to consist in first undertaking the final stages of production. There are two reasons for this policy: The final stages of production require less technical skill and the final units of production are small enough to be absorbed by the existing markets. As this trend develops, and the number of units for processing semi-manufactured goods increases, a market is created for units producing raw materials which are common to various industries. At this point the heavy chemical and metal industries are introduced. This stage has just been reached by countries such as Mexico, Brazil, Argentina, Chile, and to a lesser extent, Colombia and Peru. The development of a market for the heavy industries, however, does not depend on the completion of all the previous stages of development. Cement provides an example

/of a heavy

of a heavy industry which, at a relatively early stage in the development of these countries has found a market sufficiently large to justify the establishment of units of an adequate size.

Another example is that of electricity, which, apart from being itself a product of growing consumption, is also an important factor in various industries. Its rate of development is on a level with the highest attained in any of the productive occupations of Latin America. Between 1945 and 1950 production (KWH) increased by 40 per cent in Mexico, 52 per cent in Brazil, 62 per cent in Chile and Guatemala, 72 per cent in Colombia, and 133 per cent in Venezuela. Nevertheless in many countries the increased production was barely sufficient to meet rising demand.

These stages of industrial progress follow logically the normal absolute and per capita growth of the market as well as the different status of technical ability in each country. Industry in the various Latin American republics has in the post-war period reached fairly advanced levels both in each separate stage of development and in the various stages, passing from one to another at different rates, in a measure corresponding with the presence or absence of the three main factors mentioned earlier in this chapter: the level of income, the availability of foreign exchange, and government policy.

State intervention has been the essential factor in directing the course of Latin American industrial development since the war.

Government intervention in industry has altered the course which development would have followed if official support had been granted without distinction; if, for instance, industry were protected against the competition of all foreign imports by the levying of uniform ad valorem duties, or all the industries were granted the same credit facilities or the same tax exemptions, etc. In granting protection to industry Governments have been guided by a number of criteria, which often lead to the same conclusion. That is to say, they have protected industries in which private enterprise could not or would not invest, either owing to shortage of capital, or to the absence of technical capacity, or because  
/of a lack of

of a lack of knowledge of the market, or, finally, because of the limited margin of profit which it was deemed advisable or possible to allow. Industries yielding the greatest savings in foreign exchange have been protected, as have those offering wide employment possibilities and producing goods, the general consumption of which is socially desirable.

Direct investment by the State has corresponded closely to the availability of private capital and the attitude of the investors. In Argentina, as stated, where savings were largest and investors adopted a more enterprising attitude, the State has done little direct financing. Adequate conditions for the development of industrialisation along certain lines would appear to be lacking in the majority of other countries. The problem can best be explained by the following example: the Chilean iron and steel plant at Huachipato, which was only recently inaugurated, thus far has cost 85 million dollars, that is to say, approximately 3,500 million Chilean pesos, or 4.6 per cent of annual national income in the period 1947-49. This would correspond to a 10,000 million dollar investment in the United States. If the per capita level of income is low, that of the capacity to save will be correspondingly low, and consequently the difficulty of obtaining such investments becomes proportionately greater. When, for instance, the establishment of a cement factory, or an electric power station, of a given size (efficiency) is proposed in a country with a population of approximately one million inhabitants and a per capita income level which is considerably lower than that of Chile, the problem assumes similar proportions. The installation of the electric power station at Rio Lempa in El Salvador (the population of which is slightly more than two million inhabitants), clearly illustrates the difficulties encountered. Here is a country with a favourable balance of trade during the whole of the post-war period, where there is no inflation worth mentioning and which is wealthy by Central American standards, with a great inequality of income (thus favouring the capacity to save). The capital market in El Salvador is practically unexploited and therefore has a substantial degree of liquidity. The problem consists of raising funds with which to make an investment of 17 million dollars on this market. The shares are backed by a series of first-class guarantees given by the Government, the

/Central Bank

Central Bank and the International Bank for Reconstruction and Development, and the scheme has been cleverly advertised. Yet, despite these conditions, public subscription to these shares (including purchases by official institutions) did not exceed 2.3 million dollars, or, in other words, 14 per cent of the total investment. It would appear that if the installation of these large-scale units is deemed advisable, state intervention (or that of foreign capital) is practically indispensable.

In the majority of cases the resources available for capitalization are severely limited. Undoubtedly this adds to the responsibility of Latin American governments as regards the selection of investments, since they must take measures to ensure that such funds as are available yield the maximum advantage to the community.

The fact that industrial investments are largely dependent on the availability of foreign exchange has frequently influenced the guiding principles in the case of such investments. Government protection in the form of tax exemption or preferential rates of exchange for the importation of machinery, etc., has therefore, as a rule, tended to be more liberal towards industries processing domestic raw materials. In the same way, a considerable number of large-scale industrial projects, executed during the post-war period, have been carried out by means of foreign loans without which they could not have materialized. The programmes for which loans have been requested are always submitted to careful scrutiny by the lenders, some having been rejected because they were considered unsatisfactory. That is to say, foreign credits have not been granted for every programme submitted. Some projects have not even been submitted to possible lenders for consideration, and were abandoned because it was not considered that they would prove acceptable. To a certain extent, therefore, the directives of large-scale industrial programmes have depended on the possibility of obtaining foreign loans for this purpose.

The exchange problem involved in the question of government protection will be considered elsewhere in this report.

/Industrialization and the



### Industrialisation and the Capacity to Import

In countries which are still in a primary stage of development, the introduction of domestic foodstuffs and textile industries becomes imperative once the capacity to import ceases to expand. Since it is not possible to import the increasing volume of foodstuffs and textiles required by the growing population, the only alternative is to establish domestic production of these goods or else alternatively lower the standard of living of the population. The trend of events in Brazil offers a good illustration of this point. At the beginning of this century, foodstuffs and textiles constituted 50 per cent of Brazil's imports. This period coincided with the first crisis provoked by the over-production of coffee. At the same time, the per capita capacity to import contracted, causing a relative shortage of imported goods, which fostered domestic production. This trend which in the past was dependent on factors affecting the market, can now be attributed in part to deliberate measures taken by governments to foster private enterprise. This attitude of governments is also guided by the fact that if shortages are allowed to prevail too long, the general impoverishment may discourage private enterprise; and that, in any case, the shortage of savings and the psychological attitude of the Latin American investors are not favourable to the investment of the large amounts of capital required to improve the situation.

Some of the Latin American countries are still in a preliminary phase of development in which foreign exchange availabilities are, so to speak, monopolized by the requirements for foodstuffs and clothing. This constitutes a hindrance to subsequent development. The need for these countries to increase their production of foodstuffs and textiles, in order to meet the growing demand of an increasing population, arises from the fact that in the absence of domestic production, demand tends to absorb an ever-growing proportion of foreign exchange availabilities. This occurs because the capacity to import does not expand at the same rate as the population and, therefore, at the same rate as income, in the majority of the Latin American countries. Such for instance is the case of Bolivia, where foodstuffs and textiles made up 37 per cent of total imports for the period 1938-39 and 46 per cent in 1948. Venezuela has been

/able, due

able, due to the intense development of import capacity during the last ten years, not only to maintain but also to improve the nutrition standard of its population by means of imports. Foodstuffs and textiles, which in 1938/39 represented 22.6 per cent of the total value of imports, rose to 26.6 per cent in 1948/49. The fact that the greater proportion of the Venezuelan Development Corporation's (Corporación Venezolana de Fomento) investments has been applied to agricultural occupations is indicative of that government's intention to guard against the possibility of an eventual drop in foreign exchange receipts which would cause a lowering of the level of food consumption. The Mexican policy of self-sufficiency, with regard to such foodstuffs as maize, beans (frijoles), sugar and wheat (which has actually been successful regarding beans and sugar in the past few years), should be interpreted as an endeavour to avoid the use of foreign exchange for imports of these products which were often necessary in the past following the frequent poor harvests. Since in nearly every Latin American country, the capacity to import has of late grown more slowly than the population, the replacement of imported textiles and foodstuffs by domestic substitutes is not only a basic condition of development but is essential in order to prevent a deterioration of the present low standard of living of the population until such a time as the export of industrial goods becomes possible.

Insofar as economic development is concerned, such progress is necessary in order to ensure the increase and diversification of consumption over a growing proportion of the population. The increase of demand, arising from the process of development, occurs at a greater rate in regard to products other than foodstuffs; that is to say, industrial products and services (which depend on manufactured goods). As a result of this progress, and the limited per capita capacity to import, the relative shortage increases, giving rise to the establishment of industries which constitute the final stages of the manufacturing process. The development of a pharmaceutical industry which at first was largely dependent on semi-manufactured imported materials, and the development of a machine industry employing semi-manufactured imported metals or restricted to assembling parts manufactured abroad are examples of this trend. Development in this direction is partly influenced

/by the shortage

by the shortage of savings and progress is achieved in those activities which entail only a moderate capital investment. The lack of technical knowledge also influences the course of development by encouraging the growth of those occupations requiring relatively little administrative and directive capacity and a minimum amount of highly-skilled labour. By this means it is possible to conserve foreign exchange availabilities which were formerly used up in importing the component parts of these goods and so obtain a larger volume of available goods with the same amount of foreign exchange. An industrial structure of this order, however, depends fundamentally on imports of foreign goods<sup>1/</sup> and reaches its maximum limits in the capacity to import semi-manufactured products. In order to raise the standard of living, (and assuming that import capacity does not increase), economic development, at a higher rate than that of the growth of the population will involve reducing expenditure of foreign exchange without prejudice to the import of materials which are essential to maintain production of nationally manufactured finished goods.

Argentina has recently encountered difficulties in the metallurgical industry, in the manufacture of basic chemicals, etc. as a result of this problem, and in the study "Hechos y Tendencias Recientes de la Economía Brasileña" (Recent Events and Trends of Brazilian Economy) it is pointed out that Brazil may also have to find a solution to this basic problem.

Government assistance in the development of the iron and steel industries in Mexico, Brazil and Chile, and also in the development of a heavy chemical industry, is also justified by the above reasoning.

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1/ This dependence is twofold: It hinges on the supply of products themselves, and on the productive factors involved in the final stage of processing. This second aspect of the problem is of the greatest importance to many Latin American countries, which in periods of substantial foreign exchange receipts have restricted imports by means of controls allowing the entry into the country of only strictly essential elements for the maintenance of industrial activity. If the capacity to import of these countries is reduced, there remains only a narrow margin for reduction of imports, in order to maintain the supply both of industrial goods, of domestic origin and of the products necessary for their manufacture.

/It is often

It is often left to the governments to take the initiative in carrying out plans for these industries, sometimes directly and other times by encouraging private investors through the granting of special facilities. State intervention is not aimed at altering the course of private enterprise when favourable conditions prevail. The Latin American governments are affected by fluctuations in the strength of the market to as great an extent as private investors, though not always in the same way. That is to say, governments and monetary authorities experience the pressure of the market in the difficulty they encounter in providing foreign exchange for what are considered essential purposes. Though at times their decisions may be influenced by certain extra-economic factors, there can be no doubt that the capacity to import is the decisive factor determining State intervention in industrialization. Should the government not lend its support to this development the shortage of goods in proportion to the population would be still more acute. The establishment of the so-called basic or "key" industries on an economic basis with the present supply of technical skill, is dependent on the availability of domestic raw materials, substantial capital investment and a high level of demand. Few Latin American countries fulfil these requirements. These countries are today faced with the urgent need of finding substitutes for imported raw materials in order to maintain the rate of their development. The present shortage of basic products is largely responsible for the stagnation of development in certain Latin American countries. The recent attitude of the Colombian authorities in controlling exchange is important in this connection. The measures taken include restrictions on foreign exchange for imports of machinery, if the use of such equipment also involves imports of raw materials. The Colombian Government's decision to execute the iron and steel mill programme at Paz del Rio, despite unfavourable reports on the competitive con-

/of the industry

of the industry as compared with imported goods is also significant.

The Latin American countries recognize the need for a wider market than that which exists in the region in order to ensure the economic operation of plants for heavy industry and this need has been advanced as an argument in favour of certain forms of economic integration in Latin America. The "Flota Gran Colombiana" (Greater Colombian Fleet) provides an idea of the importance attached to acquiring an optimum unit in view of market limitations.

The development of industry has, to a certain extent increased Latin American dependence on foreign trade because, though more products can now be obtained within the area, the social repercussions of an interruption in imports would be more far-reaching than formerly. The non-availability of goods caused by an interruption in imports would be less severe, but a serious problem of unemployment would arise, in addition to the non-employment of domestic productive factors which could not be absorbed by a self-sufficient economy. This occurred in the past when exports of primary and particularly agricultural goods were restricted. The development of industry, with its dependence on imports of raw materials, has therefore increased Latin America's social dependence on foreign trade and created a problem which cannot be disregarded.

#### CHAPTER IV MINING

While industry in Latin America is mainly directed towards the domestic market, and agriculture is divided between domestic consumption and export, mining is definitely directed towards the latter. The extent of industrialisation in Latin America is still too limited for any other course. Undoubtedly, with the progress of industry, the processing of metals within the countries concerned is on a larger scale today than it was before the war and this is one of the salient points of the industrialisation policy of Latin America; but, so far, the general pre-war situation has not changed fundamentally.

The production of the majority of the most important industrial metals, and of their respective ores, reached a high peak during the war and continued at a high level thereafter, suffering only temporary setbacks during the brief 1946 recession, which lasted until controls in the United States were relaxed and civilian production was resumed, and again during the slight U.S. depression in 1949.<sup>1/</sup> In Latin America, however, with certain exceptions, there have been no substantial increases in productive capacity, in spite of the existence of natural resources which could be developed without any great financial outlay.

The expansion of existing workings, or the opening up of new ones, involves a considerable capital commitment which the countries concerned cannot meet, while foreign companies engaged in this type of activity have preferred to invest in other areas, principally in

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<sup>1/</sup> This generalisation does not apply to tin; the controls and limitations on the use of this metal were not lifted until 1949, at the beginning of the depression of that year in the United States. Furthermore, the heavy buying for strategic reserves makes it difficult to foresee clearly the market for this particular metal.

the United States and in the British Dominions and Colonies (to which may be added French Africa in regard to lead and zinc). Fairly large foreign investments have been and are being made in some sectors, but with the exception of ferrous metals (iron and manganese) the sole object of most of these investments is to maintain the output of certain mines at its present level, rather than for purposes of expansion. This is certainly the case of the largest copper mine in Chile.

The production of very few minerals is as high today as it was during the Second World War, and in some cases it is lower than it was twenty years ago. This situation is largely due to the exhaustive nature of mining, and the relative limitation of investment. In fact, there are few deposits in the world which can be worked for generations; in general mines are worked out after a few decades. In the Latin American countries which have rich mineral deposits there are, with certain exceptions, sufficient known new deposits in which mining activity could be concentrated. There is, however, a need for capital investment, especially in view of the fact that investments for the development of new mines are generally used to modernise installations and in order to introduce the most modern technique. Consequently, mining production is never stable, the increase or decrease in output depending upon the ratio at any given time between the number of new mines being exploited and the number being abandoned or worked-out.

Before the events in Korea, the failure to open up new mines was causing a decline in production. New iron mines, in spite of considerable investments, could not compensate for the loss in some of the non-ferrous metals, due to the low unit price of iron ore. During this period, there was also considerable expansion in the mining of other metals, mainly in the United States and Africa, and both factors were combining to reduce the share of Latin American mines in future world production. The yielding up to other producers of part of the market quotas formerly filled by Latin America, and the failure to exploit virgin deposits known to be rich, signifies

/many years delay

many years delay in the utilization of available resources.

The fact that the large foreign mining companies have not invested in Latin America is attributed by them to a number of factors, which include: restrictions on the imports of items necessary for production and on the remittance abroad of profits on service and capital; insecurity regarding labour conditions; excessive taxation; and, finally, the existence of taxes the amount of which is not clearly defined in the laws which introduced them and which automatically increase in proportion to the inflation in the various countries.

In a few cases, which are the exceptions, there is also a shortage or a progressive impoverishment of the mineral reserves necessary for the installation of new workings. Undoubtedly, however, the most important factor is the exclusion of Latin American mineral products from many markets, coupled with the increasing tendency for the consumption of industrial metals to fluctuate according to the cyclic variations of industrial activity.

This dependence of metal consumption on cyclic variations affects all producers, but particularly Latin America, and the importance of this factor to the mining countries warrants a more detailed analysis.

In a study made by this Commission<sup>1/</sup> of the conditions affecting the principal industrial metals, it was shown that the consumption of all except aluminium, which is of no interest to Latin America, has shown a constant though at times fluctuating decline throughout the last 25 years and that consumption is still dropping.

The falling off in demand is due to many conflicting factors, which differ in each case. In general, however, the increasing use of plastics and aluminium in place of copper, tin, lead and zinc in the manufacture of many consumer goods, both durable and non-durable (containers, cutlery, household utensils, etc.) is an important factor. Metals are being reserved more and more for the manufacture of capital goods; the

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<sup>1/</sup> Hechos y tendencias recientes de la minería de los metales industriales, 1950.



production of which is subject to more pronounced cyclic variations than is the case with consumer goods. The instability is increased by the growing influence of scrap metal in supplying the markets. In the case of zinc the importance of secondary metal is still slight, representing only 10 per cent of the total, but in the case of lead the figure is 40 per cent, whilst copper and tin fall between the two. The cost of refining scrap is very low, so that it is not greatly affected by drops in prices which tend to paralyse marginal mining during a depression. Furthermore, during falling-off periods, a number of establishments cease to operate and the amount of secondary metal employed is therefore greater. At these times virgin metal consequently takes a marginal place in relation to secondary metals, and since relative importance of secondary metals increases within the total supply, it may be inferred that future variations of industrial activity will affect the demand for virgin metal more than the demand for the secondary product.

This situation, while affecting all producers, will be particularly acute in the case of Latin America due to the increases in production which are taking place within the consumer markets. In the United States, which is at present the principal market, plants are being installed and mines brought into operation in order to increase production within the next few years to approximately 40 per cent over the 1948 figure. The cost of working these mines will be high compared with pre-war mining, either because the grade of ore is low, because it has to be extracted from great depths, or because of other technical complications. In any case, their total production will not be sufficient to meet United States requirements at peak periods, and at such times the United States will again have to import, especially from Canada and Latin America.<sup>1/</sup> On the other hand, during depressions, the productive capacity of the United States will more than meet demand, and past experience shows that at such times tariff protection is intensified.

A similar situation is arising in the Sterling Area with regard to copper and zinc, but this does not affect lead and tin, which this area

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<sup>1/</sup> Tin must be excluded from this conclusion because the United States has no domestic supplies of this metal.

/has always exported

has always exported in considerable quantities. The increase in industrial activity envisaged as a result of the Marshall Plan will probably raise the demand for copper and zinc to such an extent that, in spite of the substantial expansion of the mining industry, the Sterling Area will probably continue to be a potential importer of small quantities of these materials during the peak periods of future cycles. As in the case of the United States, however, there will probably be surpluses available for export during depressions and, therefore, unless there is some definite international agreement Latin America cannot expect to maintain her market for copper and zinc to the Sterling Area during these periods at the same level as during peak periods.

The situation with regard to the industrial countries of Western Europe is less pessimistic from the Latin American viewpoint, though still complicated. In spite of the efforts made to increase production in Continental Europe and in French and Belgian territories in Africa, Western Europe still needs to import metals even during depressions, although in much smaller quantities than during peak periods.

The mining production of Latin America is therefore more dependent than other sectors of its economy upon the rise and fall in the industrial activity of the major consumers. When this declines there is a drop in the production of capital goods which in turn affects metal imports, and this is reflected in both the prices and the volume of Latin American exports.

Since Latin American imports and economic development depend largely upon the export of minerals, these will in the future be influenced to a greater degree by cyclic variations affecting the industrial countries which buy these minerals.

In the past, particularly before the great depression, the United States, taking advantage of low production costs, invested heavily in Latin American mines, with the principal object of exporting production to Europe. This type of investment has almost completely disappeared since the war. Latin American production from the large mines operated with foreign capital is now almost entirely destined to meet the deficiencies which occur in the production of the large consuming

/countries or

countries or their dependencies.

The fact that the consumption of minerals has increased in some of the great mining and importing countries, and that reserves have diminished while production costs have risen, has not substantially altered this situation, which has been developing since the 'thirties.

During the post-war years there have been no changes in ownership of the mines producing the principal metals. Only in Mexico has an important mine passed into the hands of nationals, but on the other hand a great effort is being made to encourage small and medium-scale mining by nationals. Protection of national mining has been achieved by various means, such as tax exemption, reduction of taxes, preferential exchange rates, credits, the installation of concentration plants, and by compelling foreign firms to work on a toll basis etcetera.

Peru and Bolivia are probably the countries in which these efforts have progressed farthest and have been the most successful. In addition to the assistance given to the small producers of tin, gold, silver, etc., the various miners' banks have established a small lead-mining industry the production of which is growing in importance.

The protection of the small and medium mining industries stresses the increasing significance of marginal foreign exchange income in the Latin American countries, and also the difficulty of finding remunerative employment for the increasing population (a consequence of the low rate of capital formation). The small mining industry, which does not generally extend beyond the process of concentration and only in exceptional cases includes the refining of metals, is exposed to more severe fluctuations than those which affect the prices of the metals themselves. Furthermore, they can seldom trade independently, since the sale of their products is bound by contracts with the large companies which control the world markets.

With regard to secondary minerals, the Export-Import Bank has granted a loan of 30 million dollars for the development of a manganese project to a Brazilian company which receives technical assistance from a large United States steel firm. This same Bank announced, moreover, in March 1951, that it is prepared to grant loans for mining expansion and has suggested to various countries the advisability of studying the /intensification of

intensification of sulphur production. In general, these secondary minerals for which the market expanded considerably during the late war, and subsequently declined, have begun to recuperate with the recurrence of re-armament.<sup>1/</sup>

Excluding petroleum, the proportion of minerals in the exports from Latin America has fallen from 15.3 per cent. in 1936-39 to 9.3 per cent in 1946-49. If petroleum is included, the percentages are 30.8 in the former period and 25.5 in the latter.

In the countries where minerals constitute an important factor in the balance of payment, there have also been changes in the proportion of exports, some of considerable importance; as in the case of Mexico, where the figure fell from 77.7 per cent of the total exports in 1936-39 to 36.8 per cent in 1945-49; in Peru the decline was from 59.6 per cent to 34.5 per cent; in Chile from 78.5 to 77.9. On the other hand in Bolivia minerals showed an increase in the proportion of total exports from 91.6 to 96 per cent.

Before the war (1936-39) Mexican exports of minerals amounted to 8.7 of the total for Latin America, while in 1946-49 they accounted for only 7.2 per cent. The differences are even greater in the post-war period.

The following is a brief description of the post-war situation with regard to the chief minerals produced in Latin America.

#### Copper.

During the period 1945-49, the average annual production of fine copper in Latin America was 525,000 metric tons, compared with 447,000 in 1938. That is to say, there was an increase of 17 per cent. The highest figure was reached in 1945, with 582,000 tons, and the lowest in 1946 and 1949 (average 473,000 tons). In 1946 the drop was mainly

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<sup>1/</sup> The increase in the demand for sulphur does not arise from armaments, but from the agricultural requirements in the United States, and the change in the industrial structure which is taking place in Europe.

/due to the

due to the effect of strikes in the Chilean mines and in 1949 to the United States recession. The value of the production, which was 98.7 million dollars in 1938 averaged 200 million dollars in 1945-49, with a maximum of 264 million in 1948 and a minimum of 142 million in 1946.

Apart from the present international tension, the main factors affecting minerals in Latin America, taken in order of international importance, are: the declining importance of the traditional European copper markets since the war, and the greater dependence upon the United States market. This is partly due to the increased industrial activity in the United States, to which the consumption of copper is closely related. In addition, if the European programmes for industrial development planned in 1948 and 1949, are carried out, the consumption of copper must increase. These facts point to an increase in the demand for copper in the coming years. However, both groups of consumers are being supplied in increasing quantities from sources within their own countries or their dependencies.<sup>1/</sup>

On the domestic side, some of the Latin American mineral deposits are gradually being exhausted, while there are not sufficient projects in hand to maintain the present level of output. Still less available are the means to expand production by exploiting the numerous deposits, the richness of which is already known. With the present high rate of demand and existing prices, resulting from the high consumption of copper by civilian industrial activity and the manufacture of armaments, it is certain that production and exports will maintain a maximum level so long

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<sup>1/</sup> The United States, which consumed 1,105,000 tons of virgin copper in 1948 and produced only 775,000 tons, expects to produce approximately 1,080,000 tons in 1953 as a result of new investments. Western Europe, including the United Kingdom (and dependencies in both instances) consumed some 820,000 metric tons in 1948 and produced 557,000. With projects now going forward, mainly in Africa, (as has been stated) it is expected that a production of 910,000 tons will be achieved in 1953.)

as this intense activity continues.

After the "unfreezing" of the price of 11.771 cents U.S. per pound in 1946, the price of copper began to rise, and from February 1947 to April 1949, it held at over 20 cents, often rising to more than 23.4 cents per pound. At the beginning of 1949 the first indication of the changing situation in the non-ferrous metal market was a substantial drop in the demand for lead and zinc. In the case of copper this change was not at first so evident due to a strike which occurred in the United States mines in Utah, but by March the contraction of the market was apparent and prices began to fall, dropping as low as 16.525 cents per pound in June. In August, when the stocks held by the refiners were exhausted, prices began to recover. In October of 1950, copper was quoted at 24.5 cents, at which figure it was stabilized at the beginning of 1951, although transactions are still taking place on the "grey market" at 30 and 40 cents per pound and even higher.

The development of post-war copper production in Latin America has not been the same in all producer countries. In the case of Chile, the most important, the low production figures in 1948 and 1949 were due firstly to strikes and secondly to restricted production. (This restriction was voluntary on the part of the foreign firms, while the national concerns, although they increased their output, could not make up the drop in production). Production in 1946 was on the whole good in the majority of the other countries, though in Peru there was a sharp decline (22 per cent) which was due to the gradual closing down of the old refinery at Oroya and its replacement by a new plant which began to operate during the second half of 1948. 1949 therefore appears as a year of considerable recuperation in Peru, while the remaining countries in the region registered a slight decline.

The importance of copper was greatest in Chile, where it provided 56.2 per cent of the total foreign exchange receipts from exports in 1946-49 as against 66.8 per cent <sup>1/</sup> in 1936-39. Peru ranked next with 5.4 and 9.8 per cent respectively for the two periods. The great

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<sup>1/</sup> Percentage of the nominal value of exports.

/interest which

interest which both these countries have in maintaining their copper exports, is explained by the fact that their capacity to import depends largely on these exports. The Peruvian policy in regard to the devaluation of the sol was induced by the fact that it was uneconomic to export minerals at the old rate of exchange. (After the devaluation in 1948, exports recovered rapidly). Chile, faced with the threat of a decline in production, granted to the foreign companies a more favourable rate of exchange for the purpose of new investments in the copper industry<sup>1/</sup> than that granted for operating expenses. Small scale national mining industries are also granted special rates of exchange.

In general, however, the investments which were planned in 1950 in Latin America do not suggest that there will be any immediate increase of importance in production; in fact there will probably be a tendency to decline until 1952, after which moderate increases may be expected. The only investment being undertaken to increase production is in Matahambre, Cuba, but the annual increase anticipated from this outlay is insignificant (2,000 tons) and it is more than offset by the reductions in output of other mines and other countries. If military requirements reach a stage where considerations of costs and conservation of deposits take second place, Latin American production may increase by between 50,000 and 80,000 tons per year by means of forced extraction in certain mines.

Substantial capital investment would undoubtedly change this outlook, particularly in Chile where production could be doubled with the addition of new installations which would cost between 200 and 300 million dollars. In February 1951 conversations were entered into between the Government and foreign producers on this subject.

Lead. The average annual production of lead in Latin America in the years 1945-49 was 235,000 tons against an average of 330,000 tons in 1936-38. This was equivalent to the average decline of 45,000 tons in Mexican production, which fluctuates sharply. In the post-war period it fell to a minimum of 140,000 tons in 1946 and rose to a maximum of 223,000 in 1947, with 220,000 in 1949. The Mexican share of Latin

<sup>1/</sup> The new investments contemplated in one of the mines amounts to 170 million dollars over ten years.

American lead production has fallen from an average of 78 per cent in 1936-38 to 69 per cent in 1945-49. In Argentina and Peru production appears to be stabilized, while in Chile and Bolivia it is on the increase. In spite of the foregoing, Latin America's contribution to world production has increased from 19 per cent in 1936-38 to more than 25 per cent in 1948-49. (Mainly due to the fall in European production).

Mexican production and exports have decreased since the war, partly due to the exhaustion of certain mines which have not been replaced by others, and partly due to difficulties in transportation of the ores and equipment, as well as to strikes and stoppages caused by labour disputes. In 1950 conditions appear to have improved in regard to transport and labour. A close study of the Mexican picture shows how the decline in production experienced during the post-war years could easily be overcome by the opening-up of new mines. Investments are being made with this end in view, but the mines in question are not yet in production. The fall in output in 1949 was also partly due to a spontaneous reduction caused by the accumulation of stocks and the low prices prevailing from March of that year until October 1950.

The greatest increase in lead mining since the war has taken place in Peru, stimulated by the high prices which prevailed from 1947 to 1949. It is interesting to note that the greater part of Peruvian production comes from the growing number of medium sized mines, working with Peruvian capital aided by the Banco Minero del Peru, which has also established flotation plants. In addition to this, La Cerro de Pasco, which is the largest company in the country, is carrying out a seven year programme involving the investment of 25 million dollars, of which seven million will be provided by the Export-Import Bank.

This is the only important investment programme aimed at increasing lead production being carried out in Latin America at the present time. The increase which has taken place in Bolivia is due to the protection given by the Banco Minero to the small mines, which has enabled them to increase their production from 2,400 tons in 1945 to 16,900 tons in 1949. The latter figure represents 64 per cent of the entire production of the country. In Chile, although the percentage increase is considerable, the actual increase in tonnage is insignificant.

/The world demand



The world demand for lead is not so closely related to the re-armament programme as is the case with other minerals, and therefore the world consumption will largely depend upon the extent to which this programme interferes with civilian activities. However, restrictions placed on the use of copper, zinc and aluminium will result in a greater consumption of lead, which will be used to replace these metals in the manufacture of many articles for civilian use.

In reviewing lead consumption as a whole, it is interesting to note that the technological changes which caused a reduction in lead consumption for many purposes (in the United States) took place before the last war, but, with few exceptions, the substitution of other products for lead ceased in 1945. On the other hand, the post-war lead consumption in the United States is almost double the pre-war figure for those purposes for which its use is on the increase. For example, the 1946-48 lead consumption for the manufacture of electric batteries in the United States was 137,000 tons greater than in 1936-38, and the percentage increase in the production of lead tetra-ethyl has been even greater. The total postwar consumption in the United States, although 400,000 tons higher than the immediate pre-war period, is only 150,000 tons greater than in 1927-29.<sup>1/</sup>

Although this increase is not remarkable when compared with the other period of great prosperity in the United States, it is of great significance to Latin America, since before the war the United States did not import more than 5 - 6 per cent of its total consumption, while since the war imports have constituted a considerable percentage (32 per cent in 1946 and 49 per cent in 1949).

United States lead production, which is costly, is tending to decline, with no improvement in sight. The balance available for export from the Western Hemisphere has fallen from some 420,000 tons in 1936-38 to 115,000 in 1946-49.

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<sup>1/</sup> In 1946-49, scrap metal constituted the greatest source of supply in the United States, providing 425,000 tons as against 346,000 tons produced by mines in the country and 204,000 tons imported.

/On the other

On the other hand an increase in production may be expected in the Sterling Area (due to the investments being made in Australia, Rhodesia and South West Africa). It is also probable that a greater quantity will be mined in Algeria, Morocco, French Equatorial Africa, Tunis and the Belgian Congo. This increase in productive capacity outside the Western Hemisphere is being achieved with the assistance of private United States firms and European Governments using Marshall Plan Funds. As in the case of copper, the decline in Latin America's share in world production as a result of the increase of mining in Africa and Australia will make the lead export trade more vulnerable to economic cycles.

#### Zinc.

The mining of this metal has increased in Latin America since the war, but it has not yet reached the level of 1945, the last year of the war. All producer countries have had a share in this increase, in varying degrees.<sup>1/</sup>

In absolute figures, the average production was 192,000 tons in 1936-38 and 227,000 tons in 1945-49. The value of the production rose from an average of 20 million dollars in the former period to 50 million in 1945-47 and 70 million in 1948-49.

The Latin American share in world zinc production was 12.4 per cent in 1936-38, 18.6 per cent in 1945-49 and fell in 1948-49 to 17.6 per cent, due to the recuperation of European production and certain increases in Africa. As from 1947 Latin American production as a whole was stabilized.

The increase in per capita consumption of zinc between 1938 and 1948 was extraordinarily high. It is interesting to note that only in Latin America, Australia, and New Zealand has the per capita consumption of lead shown a greater increase than that of zinc. In many countries the per capita consumption of lead has fallen, but only in few cases has this occurred in regard to zinc. The production of alloys has been responsible

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<sup>1/</sup> The differences are partly due to the fact that zinc is produced together with lead, the price of which has shown a greater increase, so that the mining companies in the different countries have varied the respective percentages where this has been possible.

/for these greater

for these greater increases in the consumption of zinc.

The relative importance of Mexico in Latin American zinc mining has declined from a maximum of 95 and 94 per cent in 1928 and 1929 to a minimum of 60 per cent in 1946, which was an exceptional year in this respect. Mexico's average post-war share was 67 per cent. Both in absolute and in relative terms, Peru is the country in which the increase in production has been greatest, rising from an average of some 15,000 tons per year in 1936-38 to 71,000 in 1949. There is also a plan to replace the small pilot refinery, which has a capacity of 1,800 tons per year, by an industrial plant to be constructed in stages and which by 1957 will have a capacity of 70,000 tons of electrolytic zinc. Because of the geographical situation of the mines, not all the ore will go to the new refinery and, therefore, in order to keep the plant working to capacity it will be necessary to increase ore production. In the Argentine, where production has fallen since the war, and where today the refining capacity is only 3,200 tons, a new plant is under construction which will have a capacity of 15,000 tons. The Mexican refining capacity of 49,500 tons dates from the late 'twenties.

#### Tin.

In 1945-49 Latin American tin production averaged 38,700 tons, including the high production in 1945 (44,500 tons). However, the problems relating to this metal affect one country almost exclusively: Bolivia, which in the post-war period was responsible for between 96 and 98 per cent of the entire Latin American production. The importance of tin to Bolivia is clear from the fact that it represented 72 per cent of the total exports of that country in 1949, and that Bolivia devotes a considerable part of her foreign exchange receipts to the import of foodstuffs and textiles. Bolivian tin production averaged 37,557 tons in 1945-49 as against 26,283 in 1937-39. Although this represents a considerable increase over the pre-war figure, it shows a fall when compared with the war period, and the 1950 production (up to September) is less than the average for 1945-49.

The most important factor in the world tin situation is the increasing use of the electrolytic process which replaces the immersion process in the manufacture of tinplate. This has reduced tin consumption

/for this purpose

for this purpose by some 66 per cent. The increased consumption in the manufactures of bronze and brass, although quite important, is not sufficient to offset this reduction in demand. In 1942 only 3.3 per cent of the tinplate produced in the United States was manufactured by means of the electrolytic process, whilst in 1949 this process was employed for 56.6 per cent of production. A saving of over 19,000 tons of tin was thus effected.

Technical progress in the processing of tin therefore received an impetus from the shortage which occurred during the war, while at the same time the use of tinfoil for wrapping was practically discarded. The effect of the price increase which took place was less evident because the possibility of substitution by other metals (as in the case of tinfoil) is limited. Even if the price increase had not occurred as a result of the influence of the international cartel, the substitution would still have taken place since the alternative metal - aluminium - has always been cheaper. In spite of the fact that the rise in the price of tin was similar to that of lead and zinc, there has been a reduction in tin consumption and ensuing surpluses over civilian requirements, which are temporarily being absorbed by the United States for strategic stockpiling.

The future of tin consumption is not very clear. The International Tin Study Group which compiles careful statistics of the production and consumption by countries according to its principal uses has expressed the opinion that world consumption has fallen sufficiently to cause a surplus in productive capacity. Nevertheless, in view of the price variations which will be described below, articles published in trade journals express doubts regarding this theory, pointing out that the restrictions on the use of tin continued to be in force until 1949. The relaxing of these restrictions coincided with the slight depression which occurred in the United States and the exchange shortage in Europe. These articles maintain that this was not the time for the reconversion of plants in order to return to the use of tin for those applications where its advantages justify its high price. The recovery of industrial activity coincided with the events in Korea, which resulted in the re-establishment of restrictions on the use of tin, and it is therefore  
/extremely difficult

extremely difficult to form any idea of the extent to which this metal had recovered its old markets during the six or eight months of great industrial activity when its use was unrestricted.

At the end of the war the price of tin commenced to rise, starting at 52 cents per pound for fine metal in New York, and rising to a maximum of 1.03 dollars per pound at which it was stabilized from June 1948 to September 1949. During this period, and in view of the news that free trading would be established on the London tin market, the price began to fall until it reached its lowest monthly average in February 1950 of 74.352 cents per pound, rising again to 77.688 cents in June. The United States re-armament programme caused a rapid rise in price to 89.715 cents in July, and 1.46 dollars in December 1950.

Prices would undoubtedly have fallen to a much lower level had it not been for United States strategic stockpiling which absorbed most of the surplus stocks. These purchases lessened the effects which temporary over-production, caused by the lack of artificial restriction on supply, might have had upon the market.

In 1941 on the eve of the outbreak of hostilities in the Far East, and with the prospect of the Western World being no longer able to depend on supplies from that region, steps were taken to step up production with a view to increasing stocks. In that year, due to the pattern of the pre-war demand and to the great industrial activity in the United States and certain European countries, consumption rose to the highest level ever recorded, but mining output exceeded demand by 70 thousand tons, or 40 per cent. Due to changes in the structure of consumption, demand has never again reached such a high level, in spite of the intense industrial activity; nor has world production, though production in the Far East has been recovering slowly. It seems probable that the 1941 production level gives a fair indication of what may be expected in the future. During the war Bolivia, Nigeria and the Belgian Congo supplied the tin requirements of the Allied Countries. Also, in spite of incentives in the form of subsidies paid by the United States over and above the basic prices, the average Bolivian production in the years 1942-45 was 5 per cent lower than in 1941 and 15 per cent lower than the 1929 figure.

/The failure to

The reason for the failure to increase of Bolivian production is probably to be found in the nature of the mines. In Bolivia tin is principally mined from seams whereas in the Far East washing is the more general method. Production in the Far East can therefore be increased by using dredges or sludge-pumps, while in Bolivia increased production entails additional machinery, as well as the building of new galleries, ventilation shafts, etc., in many cases requiring several years.<sup>1/</sup>

These differences, added to the uncertainty of the market and other factors, tend to discourage investment in Bolivia, where in the event of a slump heavy expenses would have to be incurred in maintenance in order to protect capital investment while the mines were out of operation. In the Far East, on the other hand, mining production can be curtailed by stopping the machines in operation.

The average quality of Bolivian ore has been slowly but surely deteriorating since 1929, the year in which the highest production was achieved. However, recent technical improvements especially in so-called "large mining" have helped to check this decline, with the result that labour productivity was as high in 1948 as in 1940, and in fact greater than during the war years. This productivity, which is measured in tons per man per year, was much higher in Bolivia in 1948 than it was in the Belgian Congo or Nigeria. Labour productivity in Bolivia fell below that of Malaya or Indonesia, the difference being reduced if only the production of large and medium scale mining is included in this comparison. In any case, there appears to be room for cost-cutting in Bolivia, especially by increasing the percentage of mineral at present recovered from tailings.

Bolivian tin policy since the war has been characterized by an intense struggle between the Government and the great mining interests, centred round the differences in the Bolivian exchange system. The following two basic factors must be considered: the rate granted for foreign exchange derived from the exports of tin, and the percentage of this foreign exchange which must be returned to the country. The

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<sup>1/</sup> It is estimated that an annual investment of 700 dollars per ton is required.

policy and the regulations in this respect have been modified as a result of increased production costs brought about by inflation in Bolivia and changes in international prices. Finally, at the end of 1950 a complicated system had been evolved whereby a different procedure was followed for the first 75 U.S. cents quoted for tin and for quotations over that figure. An agreement was also reached between the Government and the firms concerned with the object of increasing investments and production.

An effort has also been made on the part of the Government to encourage small-scale tin mining, both by granting preferential rates of exchange and by means of credits by the Banco Minero de Bolivia. This Bank has obtained a loan of 6 million dollars from the Export-Import Bank for the construction of a concentrating plant. This plant, with a capacity of 20,000 tons, should help considerably to improve productivity by increasing the metal content recovered from the ores.

### Iron

The expansion, real or projected, in the production of iron-ore in Latin America during recent years arises out of the recognized depletion of mineral reserves in the United States consequent upon the expansion of the steel industry in that country, particularly since the beginning of the last war. The expansion is also due to the growth of the steel industry in Latin America which provides a domestic mineral market.

Certain European countries, in particular Spain and Sweden, have been traditional importers of high-grade ore which has been used to improve the average grade of their own deposits. Since the war mining in Algeria, which has 50 per cent grade ores, has been expanded to meet this need. Consequently in spite of the increase in European steel production, in accordance with plans operating since 1948, no steady market for American ore can be foreseen. The average grade of ore exported from Itabira in Brazil is 68 per cent, and with steel production being forced to the limit, it is possible that Europe may import a certain amount of this type of ore. It is a fact that the addition of small quantities of such rich ores produces an immediate increase in the output of European blast furnaces, amounting to as much as 10 to 15 per cent without any further technical processes. Similar steps are already being taken by several well-known steel firms in the United States.

/The following

The following figures show the extent to which Latin American iron mining and pig iron production have developed. Production and exports of ore have doubled in comparison with pre-war figures (reaching three and two million tons respectively), and the output of pig iron has quadrupled, reaching a figure of 900,000 tons. This production has enabled the region to produce approximately 28 per cent of its total steel requirements.

Up to 1949 Brazil had invested 70 million dollars in the development of the Itabira deposits in spite of the fact that prospects for export have been halved. Today it is hoped to export 1,500,000 tons annually, though this figure can only be achieved by mechanization of the workings. In Chile new mines are being opened up as the mines at present in operation are approaching exhaustion. In Chile it is hoped to maintain an annual production of three million tons of ore until 1952, and to increase this to four million tons from 1952 to 1956. The exploitation of ores in Venezuela, which is better situated than Chile, for export to the United States may affect Chilean production. There have been no important developments in regard to Mexican or Cuban iron ore production. Though hopes have been raised of finding considerable deposits in El Salvador, the most important development in this region is taking place in Venezuela, where at the beginning of 1951, an important United States steel firm began to export ore from its concession at El Pao. This deposit is believed to contain more than 300 million tons of ore with a grade of 60 per cent. It is planned to export 3 million tons per year, and the investment is estimated to be 50 million dollars. A project is also being undertaken by another United States firm with a concession at Cerro Bolivar (estimated at 300 million tons of ore). There is no precise information regarding the programme of this company, but it is believed to aim at mining 10 million tons of ore annually; and their investment is estimated at 200 million dollars.

#### Petroleum

This industry calls for a high initial investment of foreign exchange. In order to save foreign exchange by reducing imports, or to increase /income by means



income by means of exports, an outlay of foreign exchange beyond the capacity of Latin American countries is required.<sup>1/</sup> In the prospecting of new fields, even if surface indications are favourable, the expenditure required in order to prove the existence of commercially workable petroleum, and the attendant risk of failure, involves capital investment which is very high in relation to the economic capacity of the countries concerned. For this reason there is no petroleum industry of any importance in Latin America which has been financed with national private capital. This field is covered almost exclusively by Latin American government and foreign capital. In spite of the fact that in the exploitation of petroleum there are various activities, such as refining, which are free of all mining risks, and which would allow economies in foreign exchange, Latin America has today only in a very few instances been able to obtain international loans for the purpose of developing the petroleum industry in all its aspects.<sup>2/</sup>

Natural resources and organization differ in the various countries, and the following groups may be established - a) Those which have at present no petroleum production and have to import their requirements; b) those whose production meets part or all of their needs, and c) those which, after meeting their own requirements have varying surpluses available for export. These three groups are faced with different problems, and even within the producing groups there are further differences, depending upon whether the exploitation is carried out by the State or by foreign companies.

Although the group of countries as a whole has a considerable exportable surplus, which amounted to 58 million cubic metres in 1949, this is mainly due to the large export capacity of Venezuela, which exported 73 million cubic metres, and, to a lesser extent, Colombia which exported 4 million in 1949. The value of Latin American imports in 1949 totalled nearly 300 million dollars.<sup>3/</sup>

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<sup>1/</sup> The petroleum investment programme in Mexico which was announced at the beginning of 1949 requires 490 million dollars, or one and a half times the entire National Budget.

<sup>2/</sup> During the war a small loan was granted to the Bolivian Government.

<sup>3/</sup> With the higher prices prevailing, the value of Latin American imports in 1948 was 350 million dollars.

Between 1946 and 1949 the consumption of petroleum in Latin America had increased by 15 per cent while production had only increased by 7.3 per cent.

It is probable that the demand will continue to increase, as progress is accompanied by an increase of petroleum consumption per capita, similar to the increase in consumption of electric power. Should there be a slowing down in the production rate, as has happened during the past few years, the result will be that the exporting countries will have less foreign exchange available, and the importers will have to spend an increasing percentage of their foreign exchange receipts on petroleum.<sup>1/</sup>

Consumption levels differ widely in the various countries. Venezuela has the highest per capita consumption with 386 litres, and El Salvador the lowest with 40 litres. The per capita consumption in 1948, in order of importance was: Venezuela, Cuba, Uruguay, Mexico and Chile (in the latter case it was 264 litres). Taken over a longer period, 1938-1948, the highest percentage increase was in Ecuador, with an accumulative annual increase of 12.8 per cent, followed by Venezuela with 11 per cent and with Costa Rica showing the lowest figure of 2.7 per cent. Consumption has therefore increased faster than the population. The conviction of the governments that this trend will continue, explains the considerable efforts they are making to achieve their own sources of supply. In the cases of Argentina and Brazil, for example, the value of present annual imports is nearly 100 million dollars.

Total Latin American production rose from an average of 47 million cubic metres in 1937-39 to 68 million in 1945, 97 million in 1949, and 110 million in 1950, the total contribution to world production rising from 15 per cent in 1937 to 18 per cent in 1949 and 1950.

The producer countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Venezuela, and of these Colombia, Ecuador, Mexico, Peru and Venezuela have a surplus available for export. These five countries, with the exception of Peru, produced more petroleum in 1950 than in 1937, Venezuela showing the greatest percentage increase with an index (1937 = 100) reaching 294 in 1950 as

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<sup>1/</sup> The problem of terms of trade is not dealt with here.

against 166 in Colombia and 154 in Mexico. Venezuelan production represents 81 per cent of the group as a whole and therefore Latin American production has more than doubled in the last ten years, the general index for the five countries rising to 245. Within the exporting group, with the exceptions of Venezuela and Mexico, blocked reserves have diminished in the course of the last few years; that is to say, the old deposits which are drying up have not been replaced by new ones. In some countries, such as Ecuador, foreign companies have been very active and have invested in prospecting for new fields, but without success. In other countries the incentive has not been sufficient to encourage foreign companies to make new investments, except in Venezuela where the industry has been more profitable. It is estimated that petroleum investments in Venezuela including the amounts set aside for the building of refineries and pipelines, amounted to 1,280 million dollars in the last six years. In 1950 there was a sharp fall in investments in Venezuela which caused a considerable decline in the country's foreign exchange reserve. The changes in markets brought about by increased production in the Middle East and the policy of self-sufficiency in the Sterling Area, were probably responsible for the reduction in investments in Venezuela. In Colombia, which is next in importance, accumulated investments up to 1949 have been estimated at 176 million dollars.

Mexico's efforts to increase production were mainly directed at meeting the increased domestic consumption and ~~avoiding~~ the necessity to import, rather than to become an exporting country. Domestic consumption in 1937 accounted for 54 per cent of the production, while in 1949 it rose to 81 per cent. The expansion programme in 1949 and 1950 has given rise to the hope that the country will again become one of the major exporters. With the purpose of attracting foreign capital for prospecting and exploiting petroleum deposits, Mexico has in the last few years concluded agreements with certain foreign oil companies which have agreed to provide the necessary capital, to hand over to the State for exploitation any deposits found, and to accept reimbursement in the form of a percentage of the petroleum obtained in addition to participation in the profits at a later date.

/The petroleum

The petroleum industry in the exporter countries, with the sole exception of Mexico, continues to be preponderantly foreign, though the countries are now endeavouring to retain a greater proportion of the petroleum produced. An outstanding example is the case of Venezuela. In 1938 the Government received 3.97 bolivares per cubic metre of petroleum produced, or 21.6 per cent of the value at the port of shipment. In 1945 the Government received 8.83 bolivares (43.2 per cent) and in 1948, 17.43 bolivares (34.9 per cent). The salaries paid by the industry have also increased.<sup>1/</sup> Finally, the foreign companies have been compelled to refine a certain proportion (10 per cent of the output) in the country, thus increasing the country's participation in the final price of the product.

As a result of this, Venezuela's refining capacity has increased from 19,000 cubic metres per day in 1945 to 49,000 in 1950 which represents 24 per cent of the production of crude oil in 1949. In the last six years 425 million dollars have been invested in new refineries in Venezuela.

Argentina, Bolivia, Brazil, Chile and Cuba produce petroleum solely for their own requirements (total or partial) and with the exception of the last named, the industry is a State monopoly.<sup>2/</sup> Production in Brazil and Chile is only just beginning, and is unimportant as regards total demand, but in the remaining countries the production and the proven reserves have not increased in proportion to the demand.<sup>3/</sup>

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<sup>1/</sup> In 1948 the extraordinary price increase caused a drop in the proportion of the tax.

<sup>2/</sup> In Argentina, foreign companies established prior to 1925 are allowed to continue exploitation until existing fields are exhausted, but they are not allowed to prospect for new deposits outside their concessions.

<sup>3/</sup> This is only partially true in the case of Bolivia which has surpluses in its eastern fields but imports petroleum derivatives in the west for its mining and industrial regions. The completion of the pipeline from Camiri to Cochabamba is a first step towards the solution of these internal transport problems. Drilling activity in this area has also been limited in recent years.

This inadequate development of state-owned petroleum industries has been due to their inability to allocate from their normal foreign exchange income a sufficient proportion to meet the needs for expansion. This state of affairs will probably become more serious in the future if consumption continues to increase at the same rate as it has done in the last few years.

Some of the countries which import either part or all of their requirements are endeavouring to reduce foreign exchange expenditure on petroleum by importing only crude oil and refining it in the country. By this means expenditure can be reduced by between 15 and 20 per cent. Uruguay has been refining almost her entire consumption since 1932; Brazil has completed a small refinery with a daily capacity of 400 cubic metres and has plans for three more which are expected to handle 12,000 cubic metres per day. Argentina has increased her 1943 refining capacity of 7,980 cubic metres per day to 11,300 in 1949 and approximately 22,000 in 1950. Finally, Chile has called for tenders for the construction of a refinery with a daily production of 1,900 cubic metres which it is hoped will be in operation by 1953, using either domestic or imported crude.

## CHAPTER V INFLATION

Inflationary Phenomena

It is well-known that the majority of Latin American countries have been subject to strong inflationary pressures since the beginning of the Second World War.

Undoubtedly, within the general picture, there are great differences in degree between one Latin American country and another, since inflation in some republics was not as great as in the United States, for example. This is understandable in view of the different degrees of development of the countries in the area, their different types of production and, in particular, the differences in the degree and direction of official intervention. Moreover, several republics have since the war passed through various stages of the inflationary process, or else have experienced changes in the intensity of inflation in different years. However, in every case inflation was evidenced by a rise in prices and inflationary pressure was accompanied by increases in the quantity of money, which facilitated expansion of money incomes.

From 1940 to 1943 the rate of growth of the currency in circulation continued to increase, exceeding 30 per cent per year in the majority of countries during the last two years of this period. In the following years the rate of growth diminished, reaching its lowest point in 1947, after which there was a new rise which became sharper in 1950. After the war ended in 1945 the countries which showed the greatest average annual increase in money in circulation were Paraguay, Argentina, Chile, Venezuela and Colombia. However, in 1950 the rate of increase in these republics declined, while in the majority of the other countries the opposite occurred.

The different sources of monetary expansion (balance of payments surpluses and banking credit in its different forms) were, in turn, the main factor in bringing about this increase in the amount of money.

/During the period

During the period from 1941 to 1945, the main incentive was the accumulation of reserves, but in five countries (Brazil, Chile, Peru, Costa Rica and Nicaragua) banking credit to private individuals and businesses had considerable influence, and this was the principal factor in the period immediately preceding the war.

On the other hand, although the accumulation of reserves continued in some countries until 1946, during the period from 1945 to 1949 as a whole balance of payments surpluses were the most important factor in only three countries (Cuba, El Salvador and Venezuela). In the remainder, bank credit took first place in its different forms and destinations, that is, to private individuals and businesses and to the governments and their autonomous institutions. In general terms this period was, for the majority of countries, one of liquidating the reserves accumulated during the war.

There are few countries where bank credit to private individuals and businesses follows a continuous upward trend throughout the 1945-1949 period, nor does any one year show a greater relative increase for the different countries. Many of them reached their maximum expansion in 1946, and in the majority of cases 1949 showed a falling-off in the rate of increase, while in a few there was a decline in absolute terms. There was a new upward trend in the rate of increase in 1950, either as a reaction against the straitened situation in the preceding year, or else because of optimism concerning the balance of payments position which arose in some republics as a result of a rise in international prices and the strength of foreign demand.

While in the years immediately before the war budget deficits, measured by bank credits to the government and official institutions, were in the majority of countries almost insignificant, they rose considerably in a few countries during the war, and in the majority after the war. Nevertheless since 1947, with few exceptions, budget deficits tended to decrease, and some republics even achieved surpluses.

In other words, whereas during the war the surpluses in the balance of payments were chiefly responsible for increasing the quantity of money, since the war the main factors have been internal. In examining the total figures of money in circulation, it should be remembered that the degree of domestic expansion during the postwar period has at times

/been underestimated

been underestimated in the amount in which international assets have declined.

As stated above, in 1950 the rate of increase of money in circulation again rose rapidly. This was in some cases due to the fact that internal expansion was not counteracted by loss of foreign exchange, and in others, to an increase in exchange reserves.

The extent of monetary expansion undoubtedly does not indicate the intensity of inflationary pressure, which is derived from a variety of circumstances linked to the relative shortage of goods in comparison with income, as well as to the propensity to invest, consume and maintain liquid assets. For example, it is a well-known fact that, in the majority of Latin American countries the increase in the money supply during the war was accompanied by an increased preference for liquidity (the inclination to maintain liquid assets) and that since the war the smaller increase in the money supply was partly counteracted by a decline in liquidity preference.

There is therefore no reason why increases in the money supply should correspond to an increase in prices. In 1938-1941 while the amount of money in circulation increased prices fell or increased at a much lower rate in all the Latin American countries (except Bolivia); in 1941-1945 the differences between the rates of increase were not so marked; and in 1945-1949 the increase in prices equalled or exceeded that of the quantity of money in the majority of countries. However, in 1950 the situation apparently reverted to that obtained during the war period. The year of the greatest increases in prices (1947) was also the year of the smallest increases in money supply.

In any case in Latin America increases in the quantity of money suggest, *prima facie*, an increase in money income, and thus a rise in prices, even though they may not be proportionate. 1/

In the Latin American countries, when no overriding non-economic factors are present, the degree of inflation in relation to other

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1/ In some Latin American countries the war and postwar periods have seen large masses of the population incorporated into the monetary economy, as well as the extension of banking customs. This, together with the increases in population, has been advanced in some quarters to explain why the increases of money and prices have not coincided.



countries can probably best be gauged by the degree of disequilibrium in the balance of payments. Since the marginal propensity to import is very high, any increase in income tends to have rapid and intense repercussions on the demand for imports. However, this could only have been used as a basis of comparison if inflation had been allowed to operate freely on the balance of payments of the different countries. With this criterion, it could be said that the republics which did not suffer a disequilibrium in their balance of payments (e.g. El Salvador and Venezuela) experienced a degree of inflation equal to or less than that in the United States. The United States can be used for purposes of comparison during the postwar period with the majority of Latin American countries, since it is the country which can probably supply imports at the lowest prices. Price movements, however deficient, thus appear to be the most suitable basis for measuring the intensity of inflation.

The period from 1938 to 1941 was one of relative price stability. Few countries had an annual increase in prices exceeding 5 per cent. <sup>1/</sup> Following the United States entry into the war and until 1947, rises in prices were greater, very few countries having average annual increases of less than 10 per cent. In the years 1948 and 1949, the rate of increase declined. However, in certain countries such as Argentina, Chile, Paraguay and Peru, the rise continued at annual rates exceeding 10 per cent.

On the basis of partial information, the rate of increase in prices in the majority of cases was greater in 1950 than in 1948 and 1949. However, Chile, Peru, Uruguay and Venezuela, showed slight reductions in their price indices in comparison with 1949. The most notable rises were in Argentina, Bolivia, Colombia and Paraguay. This last country experienced the highest rise in the whole region.

The rates of increase indicated by price indices do not reflect accurately the intensity of inflationary trends in the different countries. Prices are affected not only by inflationary pressure, but also by changes in international prices, indirect taxation and subsidies.

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<sup>1/</sup> All percentages are simple averages not compounded.

/Moreover, they are

Moreover, they are also influenced by such factors as price controls and preferential exchange rates for the import of essential consumer goods.

During the war substantial increases in international price indices took place, in some cases exceeding those shown in the United States indices, which are generally used as a basis for comparison. The prices actually paid for United States products were at times higher than those shown by these indices. Many countries before the war had a heavy trade in consumer goods with European countries and Japan, where prices were lower than in the United States. During the war, it became necessary to shift certain purchases towards the United States and towards the Latin American countries themselves, where prices were even higher. Nevertheless, international prices probably helped in some cases to reduce the rise in price indices, since in the four countries for which official data are available (Costa Rica, Chile, Peru and Venezuela), import prices rose less than those of domestic products, and to this extent the inflationary pressure was greater than that indicated by the indices. On the other hand, at the end of the war, when price controls in the United States were lifted, international prices rose as much or more than domestic prices in certain Latin American countries, and to this extent the Latin American indices over-estimate the degree of inflation. This is particularly so from 1946 until the end of 1948. In 1949 international prices declined, indicating that the increases in the Latin American price indices once again tend to underestimate domestic inflationary conditions.

The indices are also influenced by export products, the prices of which were determined by circumstances unconnected with domestic inflation. It seems that, with certain exceptions, export prices rose more than import prices.

In general, then, the rise in price indices would have been greater if goods which are internationally traded were excluded, and this increase would have been more marked during the war than in the post-war period. Moreover, inflationary pressure is further underestimated due to the inclusion in price indices of goods officially listed at controlled prices which, however, are not always observed.

Comparing the rates of increase of the Latin American and United States indices, it appears that Latin American active inflation was

/much greater than

much greater than that of the United States during the war, although this increase was not so marked after the war. This was due to the fact that while the inflationary pressures were very strong in the United States during the war, they were kept in check by the efficient use of controls. After the war, when controls were relaxed, it is possible that inflation in the United States was greater than in certain Latin American countries. If in spite of this the effects on the balance of payments were considerable in the postwar period, this was due to the fact that the inflationary pressure in that period was added to that of the war, giving rise to absolute price differences. At the same time there were factors such as the increase in income and the diversion of expenditure towards capital formation and durable goods which called for a high proportion of imports, at the same time as these became more readily available.

International events in the second half of 1950, together with the hope of increasing the rate of development, pose the possibility of new inflationary pressures. On the other hand, the improvement in the terms of trade increases the margin of possible capital formation for increasing productive capacity; and on the other, the possibility of restrictions on exports by the supplying countries suggest that a new period of shortage of goods may arise simultaneously with an increase in income. The Latin American countries are faced with the need to take the fullest possible advantage of their capacity to import in order to increase their production.

Measured by prices, Latin American inflation since the war can be said to be considerable, whether or not it is higher than that experienced by the great powers. Consequently, it can be assumed that prices, production and the composition of income have been affected considerably.

#### The structure of prices and production

If the economy were left absolutely free, differences in the price elasticity of supply and the income elasticity of demand for different goods would cause the prices of these to be altered in varying degrees; and technical and institutional elements would also cause the prices of the different groups of factors of production and finished goods to vary /in different ways.

in different ways. At the same time, changes in the prices of the factors and in the selling prices of the products would alter the relative profitability of each branch of economic activity, engendering changes in the structure of production. An inflationary process therefore necessarily implies a distortion in the structure of prices and production.

In Latin America, during the period under review, other influences helped to alter the picture, particularly government intervention. In view of the significance of rises in the cost of living to governments, they made continuous efforts to combat this development introducing controls which took different forms according to the country and the time. In the same way, policies for promoting food production were often influenced by other motives than those arising out of the free play of the forces mentioned above. It is therefore possible that in some cases in Latin America official intervention was successful in lessening the price distortions which would otherwise have taken place and even reversing their direction.

Information has been obtained concerning the distortions, or differences in degree and direction of the changes which have taken place in relative prices paid by consumers, taking the cost of living indices as a guide. In eight of the eleven countries studied there were strong price distortions between 1945 and 1949 (Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay), and in three only slight distortions (Colombia, Costa Rica and Guatemala), although in these three the distortions were more acute in 1949. Nevertheless, no correlation has been discovered between the degree of price distortion and the degree of inflation (measured by the rise in the general indices).

In nearly all cases, the distortions have been greatest in the case of rents, which have declined in relation to the cost of living in all countries except Colombia, Costa Rica and Guatemala. In Argentina the rental index has fallen 50 per cent below the average level of prices, and in Bolivia 35 per cent.

Among industrial products clothing prices are the only ones on which there is enough information in a sufficient number of countries, to make comparisons. These take second place in regard to degree of /distortion, although in

distortion, although in Colombia, Costa Rica and Uruguay the deviation of clothing prices in relation to the general index has been unimportant. The greatest relative increases in these products were in Argentina and Chile. In contrast to the situation as regards rents, which show a downward deviation in most cases, the price of textiles shows no regularity in the direction of distortion: in Argentina, Chile, Paraguay and Bolivia the distortion is upwards, whereas in Peru, Brazil, Mexico and Guatemala it is downwards.

Of the three groups of products which can be compared, foodstuffs experienced the least distortions in prices. Only in Brazil, Guatemala, Mexico and Peru did these prices deviate from the average shown by the indices, and in all these cases the deviation was upwards. There was no important downward deviation.

It is very probable that prices of foodstuffs would have risen much more than they did in Argentina, Chile and Peru had it not been for the influence of direct subsidies granted to domestic producers in Argentina, to importers in Peru, and for preferential exchange rates in Chile. For example, in the case of Chile, the increases in the price of tea, yerba mate and sugar, which represent a high percentage of the index, would have been almost double if the import of these products had not been assisted by favourable exchange rates.

In the case of rents, the effects of controls are even more obvious, since they have been more widespread and efficacious. It is evident that the indices do not reflect the rise which has in fact taken place in the cost of building, nor the frequent evasions of controls. Nevertheless, it is clear that the controls were fairly efficient in this respect and that rents provide the most outstanding example of distortion in the opposite direction to that which would have been expected from the free play of an economy in a period of inflation. It is also evident that the price of clothing, or textiles, would not have risen so much had it not been for the protection provided against imports. International prices of textiles have shown a downward trend since 1948, but this trend is not evident in the Latin American countries except in those such as Cuba, Guatemala or Venezuela, which can trade freely without experiencing difficulties in the balance of payments or /without a very

without a very strict protectionist policy, or those which, like Mexico and Brazil, have a surplus of productive capacity.

It cannot be stated exactly whether the changes which occurred in sectional prices closely reflect the variations in relative profitability of the activities which they represent. This is due in the first place to the distortion of the prices paid by the consumers not necessarily being parallel to that which takes place in the cost of the factors and raw materials. Nevertheless, in the case of the four countries where there was a rise in the prices of foodstuffs (Brazil, Guatemala, Mexico and Peru), it appears that in all except Guatemala (where costs rose considerably) the relative profitability of the production of foodstuffs rose in comparison with that of clothing.

In the case of Chile, changes in the prices of consumer goods favoured textiles, but as stated before, these prices were influenced by the subsidies granted to imports of foodstuffs. If the prices of domestic foodstuffs are compared with those for textiles, it is clear that food prices are favoured, which goes to prove that there has been an evident improvement in the relative profitability of food production in Chile since the war.

It has already been stated that in Argentina the relative price of clothing rose in comparison with that of foodstuffs and, at least until recently, this reflected the relative profitability of both activities and helped to explain the rapid growth of textile production. Argentina should perhaps not be taken as a general example, because changes in the composition of production might be influenced by factors other than relative profitability, probably depending more on the absolute profitability and mobility of the factors of production. However, it does in fact appear that the relative changes in production of foodstuffs in comparison with clothing have followed variations which can be noted in their relative profits.

As regards building, volume rose sharply in all the countries except Peru and Paraguay until 1946, after which it declined in some countries. In Colombia, Cuba, Mexico and Guatemala there was a continual rise throughout the postwar period. It is clear, then, that the volume of construction does not follow the movement of the rental indices, since  
/these naturally do

these naturally do not represent the prices of rents for new buildings. <sup>1/</sup> This is so, both because controls do not generally affect such buildings, or only to a lesser degree than old buildings, and because the volume of building is probably determined much more by the inflationary prospects and the availability of funds than by their immediate profitability. During the five years from 1945 to 1949 building has tended to increase more on an average than the production of foodstuffs or textiles.

The fact that the production of foodstuffs and textiles seems to follow the movements of their relative profitability does not mean that this holds good in general for agriculture in comparison with industry. While the fact that industrial wages rose more rapidly than agricultural wages and that the prices of agricultural raw materials rose at a relatively rapid rate suggests that the profit of agricultural production rose more than that of industry, it does not seem as if this has caused any great displacement of resources toward agriculture. It can be stated that in 1945-1949 industrial production rose more rapidly than agricultural production because the differences in the rates of increase were less than during the war.

It is very difficult for industrial resources to be diverted to agriculture, no matter how much the relative profitability of the latter increases while absolute profitability continues to be much lower. In fact, it appears relatively easy to divert resources in the opposite direction, from agriculture to industry. Where agricultural production has risen considerably, as in Mexico, this has been the result of the combination of many factors, such as government investments, technical improvements, use of better seeds, expansion of the area under cultivation, etc., in short, favourable influences very largely derived from factors other than the relative or absolute profitability of agriculture. It could be stated that in Mexico, without the government effort which was guided largely by social considerations, the relative prices and relative profitability of agricultural products would have been even more, but production would have increased less.

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<sup>1/</sup> Many of the new buildings are not made to let.

/When there are

When there are changes in profitability favouring agriculture, there seem to be displacements of resources among the different kinds of agricultural production. The clearest example of this is the increase in production of certain types of foodstuffs, particularly vegetables and protective foods in general, in comparison with increases in general agricultural production in the majority of countries.

Certain changes also appear to have taken place in industry. There has been a more than proportional increase in the manufacture of producer goods and industrial raw materials, and there have also been substantial increases in favour of consumer goods for high income groups (for example, novelty goods and jewellery, clothing, nylon, etc.), particularly in countries with difficulties in their balance of payments. In the smaller Latin American countries the production of luxury articles for the mass of the population (e.g., beer, gaseous beverages etc.) seems to have increased more than that of articles for high income groups. (On this subject see the chapter on industry).

There is little information concerning services in the Latin American countries. However, it appears that their importance has increased in comparison with other activities, at least in certain important cases. Surveys on the national income of Chile show that commerce and personal services considerably increased their share of the national income between 1944 and 1948. Data on Colombia indicate that commerce and banking increased their share in the national income between 1945 and 1948, while in Argentina there has been a heavy increase in the income generated by government activities. In Mexico, between 1940 and 1946 the number of employees in the categories of "communications and transport" and "commerce and others" rose by 68 and 49 per cent respectively, while the total gainfully employed population only rose by 15 per cent, and the number of workers in construction and industry rose by 25 per cent. However, it is unwise to generalise for all the countries on the basis of these and other figures, since statistics for the national income of Peru, for example, do not show any relative increase in services between 1944 and 1947.

The changes which have taken place in the structure of prices and production have undoubtedly been different from those which would have  
/resulted from an



resulted from an inflation which was not controlled to the same extent, but the distortions do not appear to be very serious when the intensity of the inflationary phenomenon is considered. Moreover, it is probable that the direction of changes in the structure of production has been the same as that which would in any case be expected within a normal process of development. Certain points relating to the official programme of the countries are studied in the chapters on agriculture and industry.

#### Inflation, distribution of income and capital formation

When the war began the Latin American countries experienced an increase in their income because of the higher value of their exports. This increase could not be compensated by an increase in imports, which are known to have declined. The increase in income through favourable results in the balance of payments was accompanied by a scarcity of imported goods. At the same time the price of those imports which could be purchased rose. Governments increased their expenditures over receipts and had to resort to the central bank financing. The currency expansion resulting from the credit balances in the balance of payments and the budget deficits provided banks with the means to expand their credit operations, and banking took advantage of the situation, making it easier to meet the public's desire to invest. Not all these financial operations were accompanied by a simultaneous or commensurate increase in wages. However, since the war, international prices rose sharply on the one hand, while on the other, the effort of the groups whose real incomes had declined to reestablish their relative position and of the investors to maintain and improve theirs, tended to create a wages-prices spiral which helped to increase the inflationary pressure. Thus, the evolution of inflation since the war is to a certain extent the consequence and continuation of that which occurred during the war period; it is the increase in international prices and the greater pressure of wages and salaries which gives it its distinctive characteristics.

This subject will be dealt with more fully below.

It may be said, at least for purposes of analysis, that before the war, say in the 1938-41 period, there was no inflation in Latin America

/of any degree

of any degree worth mentioning; in fact, during that period prices either rose moderately or fell. It can therefore be supposed that the economies were adjusted to a certain pattern of distribution of income between consumer expenses and savings.

Among the inflationary pressures during the war there was a part - the accumulation of international reserves - which was derived directly from the war itself and which could only have been avoided by a compensatory policy. Actually a tentative attempt was made in Colombia to absorb the income derived from the accumulation of foreign exchange by the forced purchase of bonds, and in Mexico too relatively large sums in gold were sold to absorb money. However, in both cases the measures did not last long and were insufficient to counteract the inflationary pressures arising out of the surpluses in the balance of payments. 1/ The first source of inflationary pressure is thus the increase in international reserves. 2/

However, the inflationary pressures arising out of domestic factors have more interest.

During the war, a considerable part of the increases in production took place without increasing capital formation, that is, they were achieved on the basis of more intensive use of the existing capital equipment. To the extent that this was so, the time which elapsed between the expenditure of additional income on factors of production and the appearance of more available goods on the market was short, and the inflationary effects of investment would have been negligible.

Possibly the inflationary character of this expenditure was increased due to the necessity of competing for the factors of production needed to obtain the fullest use from existing equipment, and to the fact that, in terms of physical output, the productivity of these factors was lower than that of the factors already employed.

When production can no longer be expanded in this way and the expansion has to be based on the acquisition of equipment, as was the

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1/ Paraguay and Peru were the only countries which did not substantially increase their reserves during the war.

2/ Another, although less important, factor was the increase in prices of those imports which could be purchased.

case after the war, the period between the creation of income and the production of goods lengthens, and inflationary pressure increases. That is to say, when the period of production is lengthened, the inflationary pressures on the demand side grow, even though they may be reduced on the supply side by greater productivity.

During the war, there were relatively few opportunities of making investments in acquisitions of equipment, since this requires imports which were not available (as well as at times presupposing a technical skill which did not always exist). The period in which the market largely depended on domestic production, when there was exchange available to purchase equipment and when prices were a powerful incentive for expanding productive capacity, could not therefore be fully utilized by the Latin American republics. The shortage of imports and of technical skill brought about a diversion of expenses towards commerce and certain services.

Future prospects also played a most important role. The shortage of goods on the market and high prices could be a transitory phenomenon; this situation might result in the diversion of expenditure towards non-reproductive purposes, particularly real estate, which seem to offer better profits over a longer period.

As the useful limit of existing productive equipment was approached, all these activities became more attractive, and banking, fed by the surpluses in the balance of payments and the budget deficits, facilitated the process. The resultant increases in income were accompanied by proportionate lower increases in production. In this first stage of inflation, however, prices rose much more rapidly than wages, that is, the share of consumption within aggregate income was reduced. The real income of wage-earners declined at least in relative terms, and in many countries also in absolute terms.

When the war ended, the pressure tending to reduce the relative share of consumption within income continued, but there was more and more resistance from the wage-earners to any decline in their real income. Where the race between price and wages became more favourable to the latter, attempts to increase investments were counteracted, or inflation advanced at a faster rate.

/In Argentina the

In Argentina the pressure of wages and salaries was apparently more obvious than in other countries. Real wages in Argentina remained relatively stable until 1944 and the proportion of consumption to income did not change significantly. 1/ However, after 1944, real wages in industry began to rise so rapidly that by 1947 they were 51 per cent higher than at the first date, and after 1946 agricultural wages rose even more rapidly, although they always remained at much lower absolute levels. The rate of increase of real wages began to decline in 1948 and from 1949 onward wages dropped in absolute terms as a result of the fall in real income per capita. 2/

Information available in Chile regarding distribution of income suggests that real wages increased until 1944 and have tended to drop slightly since then. 3/ This means that, in contrast to other countries, the maximum pressure on costs took place in Chile during the war.

However, the acuteness of the pressure of wages on costs has not been similar in the other countries, where increases of wages either have not been sufficient to prevent the proportion of consumption in relation to income from declining in relative terms or else have stabilised it. In these other countries it is probable that the real income of wage-earners follows a certain upward trend as a result of the increase in production, that is, that the deterioration in the position of the wage-earners is relative and not absolute, as was the case in the majority of cases during the war.

In Mexico, for example, the proportion of consumption to income, which seems to have remained relatively stable between 1940 and 1944, dropped from approximately 89.5 per cent in this last year to more or less 85.5 per cent in 1946 and remained from then on at this new level. 4/ This process could be interpreted as the adaptation of consumption to the change in distribution of income which took place during the war. Between 1941 and 1945 prices rose at an annual rate (not compounded) of 26 per cent, and real wages experienced a sharp drop, particularly

1/ All statistical information used in this section is in the nature of rough estimates, and therefore conclusions should be drawn with the necessary caution.

2/ These statements are based on the figures on Argentine physical production and foreign trade.

3/ According to the calculations of national income of the Chilean Corporación de Fomento.

4/ Figures for the years 1940, 1943 and 1944 are based on a survey made by the Nacional Financiera and published in El Mercado de Valores No. 37, September 1950. Figures for 1946-48 are taken from unpublished sources.

these in rural areas and those of civil servants. The increase in the proportion of investments in relation to income which took place between 1944 and 1946 was accompanied by a diversion of capital from non-productive to productive investments. This helped the wage-earners to recover their old absolute position to a certain extent, since the real total income increased as a result of the consequent increases in production. In spite of this, however, wage-earners had not by 1949 re-established their real pre-war income.

Brazil experienced its maximum period of inflation between 1941 and 1947. Here real wages declined, at least between 1945 and 1947 (the years for which data is available), and inflation arising from the surpluses in the balance of payments and fiscal deficits was checked after this last year, before the wage-price spiral started. However, in this case it should be remembered that inflation declined in force at the same time as a considerable increase in production occurred, together with a substantial improvement in the terms of trade, which increased the availability of consumer goods.

There has been a substantial increase in productive investment of goods since the war in El Salvador and Venezuela. Venezuela is possibly the Latin American country where the proportion of investment to income has risen most rapidly, particularly since 1944. This rapid increase was accompanied by a sharp rise in real industrial wages, which increased by 65 per cent between 1944 and 1948. There is no information regarding agricultural wages, but the indications are that these have also risen. Neither increases in wages nor the peak of investment, however, have brought in their train a serious inflation problem for Venezuela. The reason is undoubtedly that the greater part of the increase in investment was financed with funds from abroad and that part of the investment (in petroleum) did not require a large investment, while at the same time it provided foreign exchange which allowed the volume of available consumer goods to increase considerably. Venezuela is an example of a case where the increase in investment was accompanied by an increase in the availability of goods with no time-lapse taking place between the two.

It would be interesting to learn whether the coincidence of former peak

/periods of exports

periods of exports with an absence of difficulties in the balance of payments tended to be accompanied by heavy investments of foreign capital, which would allow consumption to increase while at the same time acting as a stimulus to investment. Venezuelan exports in 1950 were greater than during any other postwar year, but the country's international reserves dropped very sharply, which would appear to suggest that the increase of maintenance of Venezuelan consumption requires the continuance of foreign investments.

If the years 1941 to 1945 are compared with the immediately preceding years in the countries which it has been possible to investigate, it would appear that in Argentina and Guatemala inflationary pressures arising from sources other than capital formation were of the greatest relative importance. A change of this kind also took place in Colombia, but the situation was remedied sooner than in the other two countries. In Argentina the inflationary effects were not so serious, since that country already possessed a well developed industrial structure and an elastic supply of foodstuffs. The inflationary effects of re-distribution were much stronger in Guatemala. The information available for other countries suggests that in these the diversion towards capital goods investments occurred sooner after the war than in Argentina and Guatemala. This assumption is supported by the increases in production in Mexico and Brazil, for example.

Summing up, then, it can be stated that during the postwar period the intensity of inflationary pressures (internal private investments, budget deficits and surpluses in the balance of payments) in relation to income, declined or increased less than during the war, and that during this period there was an increase in capital formation in relation to other expansionist influences.

The significance of this last fact is however doubtful, since during the war the Latin American countries could not increase or maintain their imports of capital goods, and after the war the abnormal replacement requirements made it practically inevitable that the proportion of gross capital formation should increase in relation to the inflationary pressures. The increase in capital formation, in other words, would probably have taken place with or without inflation, in view of the need to replace equipment. It can be remarked, however, that

/although there are

although there are few available examples, the proportion of capital formation has tended to increase more in those countries when inflation was not brought about by increased costs.

#### Development during inflation

It is a well known fact that per capita incomes are small in the great majority of Latin American countries, while the proportion of savings in relation to incomes is low. It would seem then that the rate of economic development which these countries could afford would have to be very low if it were limited by the voluntary savings available. In actual fact, the rate of economic growth could be so low in comparison with the rapid growth of the population that the real per capita income of the latter could scarcely be maintained. Whenever outside incentives have been lacking which would increase investments over and above domestic voluntary savings, or which would increase incomes out of which more could be saved, or whenever there has been no deliberate attempt to force capital formation, Latin American production has tended to follow a very low or negative rate of per capita progress. Capital formation has thus been the touchstone for hopes of economic development.

During and since the war a factor in Latin America which was already evident in previous periods acquired greater importance. That was the pressure of important social-political forces in favour of a greater rate of development than that permitted by voluntary savings. Moreover, when the war ended there was an important change of attitude among the high income groups. The greater opportunities for spending money on durable goods imports and of investing in luxury buildings, as well as the uncertainty of being able to compete in domestic markets, caused these groups to be less inclined to use their own income for increasing productive capacity. Consequently the authorities were thus faced with the problem of the extent to which economic development could be hastened by inflationary procedures, adding to capital formation from voluntary savings a capital formation with forced savings. Possibly it was thought that after a re-distribution of income achieved in this way, savings and investment would represent a greater proportion of income, and investment after a temporary decline would be more productive of new consumer goods. If the re-distribution of income thus achieved were /maintained, inflation would

maintained, inflation would be arrested and economic development could proceed at a faster pace.

The most important limitation of the increase in capital formation through these inflationary pressures was the balance of payments. The increase of savings in terms of national currency was not sufficient to encourage investment through a re-distribution of income, since it was also necessary to increase the availability of foreign exchange to acquire capital goods from abroad. Consequently, it was necessary to increase exports (or obtain foreign credits), or else to reduce the average and marginal propensity to import consumer goods. There is no reason to think that a redistribution of income in favour of the higher income groups would bring in its train a reduction of imports of consumer goods or an expansion of exports. In fact, it is probable that the opposite would occur, since on the one hand the relative profitability of export industries is reduced, and on the other, the redistribution of income necessary to bring about an increase in savings would be accompanied by an increase in the expenditure on imports (unless these were limited in some way). If imports of consumer goods are not reduced and exports do not expand, the efforts to increase capital formation will result in a reduction in foreign exchange holdings; however, this reduction has a limit which was reached by the majority of Latin American countries soon after the war. Many countries managed to counteract to a large extent the increase in the demand for imports of non-essential consumer goods by means of exchange control systems and customs regulations, which at times were responsible for serious social-political tensions. In any case, however, even with the demand for imports of consumer goods, being limited, available foreign exchange was often insufficient for the desired capital formation, after paying for minimum imports essential to maintain the standard of life and activity of the different countries. Thus some countries probably reached their limit of capital formation not only because of preferences on the part of the savers but also through an absolute shortage of exchange.

Several other factors relating to the structure of Latin American economy also led to the point at which inflationary procedures ceased to be an effective incentive for productive investment. For instance,

/particularly in the



particularly in the underdeveloped Latin American countries, a large part of the population is self-employed (as small landowners) or receives wages in kind, so that the degree to which a change in the distribution of income can increase savings is limited. This means that the proportion of the population from whom forced savings can be obtained is less than in other countries. This section of the population, particularly the peasants, should profit by the inflationary process to the extent that it tends to improve the terms of trade for agricultural products (as occurred in several countries after the war) but since these are low level income groups, it is not likely that they will increase their savings. Bolivia, Guatemala and Peru are three of the countries investigated in which this situation is most clearly demonstrated (particularly in the first) where a system of forced savings can have very limited results. In all three countries, small businesses absorb a very important section of the population, and a high proportion of the agricultural workers receive payment in kind; while, industrial workers are strongly organised. The changes in income which have taken place in these countries have been largely at the expense of the employees, and to a lesser degree of the industrial workers.

In the second place, the exclusively rentier class in Latin America is very small in general terms; the greater part of income in the form of interests and rents goes to the investing class with high incomes.

In the third place, while the marginal propensity to save of the high income groups is greater than the average for the community as a whole, it may still be quite low. Consequently, in order to increase savings a greater change in the composition of incomes than is sometimes possible would be necessary. Moreover, recent Latin American experience would appear to prove that, as inflation develops, the groups which benefit from the resultant redistribution of income change their preferences in favour of investments which do not produce new consumer goods for the market, such as property, stock and foreign liquid assets, the value of which increase more rapidly.

Moreover, the experience of the majority of countries has been that once the inflationary process starts, the classes which profit from it want the redistribution of income in their favour to continue. Inflation

/does not tend

does not tend to work itself out but rather once it starts, forces are created which tend to perpetuate it. During the first phases of an inflationary policy, during a period largely determined by social-political factors, investment is in fact increased. In the beginning consumers accept the fall in their real incomes and private investors do not reduce the proportion of capital formation within their investments, perhaps even increasing it. However, a point is reached where an increasing part of voluntary savings is diverted towards non-productive objectives and that section of the population which suffers as a result rebels against the relative fall in real income. From this point inflation caused by the primary incentive is added to by inflation derived from the vicious circle of costs and prices (wages prices), and it becomes very difficult to maintain an increase in the proportion of investments within the total income.

The point at which the section of the population which suffers a loss of income rebels is determined by a number of factors, some very obvious, such as the degree of organisation of workers and the strength of the trade unions. Other factors, such as the distribution of population by trades, the relative importance of the moneyed classes, the consumption habits of the higher income groups and the nature of investments, are less obvious.

If the investment to which savings are directed is non-productive of consumer goods and increased incomes cannot be spent on more goods in the market, the wage-price spiral will be reached sooner than if new investments increase the supply of available goods, because the reaction of the losing groups will take place earlier. On the other hand, if in a relatively short period the supply of consumer goods (which had been relatively reduced when the investment was made) is re-established, then the consuming section of the population can recover its former real income without causing a reduction in the income of the investors. In this way the new investments might continue to be encouraged without provoking a wage-price spiral on a scale to hamper the pace of development.

In résumé, it can be said that in the majority of Latin American countries there was evidence of the difficulties inherent in a continuous process of development by means of inflationary procedures, and that the experience gained is being used to seek more suitable methods of  
/increasing real income.

increasing real income. The degree of inflation following its course in several countries is due, in the majority of cases, to social-political pressures from each of the two groups struggling to maintain a privileged position when final steps are taken to curtail it, and to the fear that the end of inflation will bring about unemployment. The depth and gravity of the problem go beyond the sphere of economics.

#### Anti-inflationary policy

It was suggested in the previous section that in many Latin American countries the inflationary pressures of the war and postwar periods may have arisen not only from the increase in favourable balance of payment, budget deficits and the private accumulation of capital through inflationary measures or the increase of costs, but also from a change in the composition of expenditure towards non-reproductive purposes.

In the post-war period the annual rate of increase of government expenditures was as much as 50 per cent in Argentina, 42 per cent in Paraguay and 40 per cent in Venezuela, and of the 11 countries for which data are available, only Mexico has shown an annual increase lower than 14 per cent. Even in real terms government expenditure in nearly all the countries rose at a rapid rate. In other words, the governments, as well as investors, have tried and managed to obtain a greater share in the available productive resources. Thus, the process of expansion of government expenditure has changed the composition of the gross national product in almost all the republics, increasing, in relative terms, the volume of services and reducing that of goods.

Undoubtedly part of the increased state expenditures has generally been directed towards productive investments. Nevertheless, most of these have been very long-term productive investments which produce considerable inflationary effects. This structural change has been made possible by the delay in increasing the wages of civil servants in comparison with receipts and with wages paid in private activities. However, even with the delay, it has often been necessary to make adjustments in wages (there has also been a wage-price spiral, although less pronounced, in the case of civil servants) just as in private enterprise and this has sometimes taken place when fiscal receipts were barely sufficient to meet current expenditure at the previous wage levels. When this

levels. When this has occurred, there has been a deficit without a corresponding increase in long-term productive investment, and therefore of an even more inflationary nature.

The inflationary influence of the change in the direction of savings towards non-goods-producing investments has been implicitly or explicitly recognized by all the Latin American countries, which have as a result tried to counteract this influence by different methods, some of which have been described in other chapters.

Probably no country in Latin America has fought so hard against inflation as Mexico, and it has done so with more tangible results since the war. When the war ended, the first measure introduced was an increase up to 50 per cent in bank reserve requirements, which was more than compensated by expanded government credits, especially to agriculture. In other words, over and above the quantitative limitation on credit there was a selective expansion. This expansion, financed by the central bank, together with the persistent budget deficits, provided commercial banking with the means to expand credits to non-productive activities in spite of the constant pressure of the authorities in the opposite direction. Shortly after devaluation, measures were adopted to prevent the diversion to commercial activities of funds of privileged industrial credit institutions, and rediscounting by the national agricultural banks was suspended. Measures were also adopted to strengthen the capital market. However, the stabilisation of the exchange rate produced an inflow of foreign exchange so great that it strained the methods introduced these having led to a fair-sized budget surplus in 1949 and 1950.

Strong measures were taken to combat this menace. Banks were required to maintain a reserve of 100 per cent to cover increases in their deposits over the figure reached in September 1949. Exceptions were made in the case of investments in government bonds, share certificates in the Nacional Financiera (industrial securities), in bonds of the Banco Nacional Hipotecario and financial bonds, agricultural loans at different terms and other securities representing productive operations, all in fixed proportions. Some of these securities which the banks were able to acquire came from the portfolio of the central bank itself, so that there was no expansion in circulating currency. As a result of these measures, between September 1949 and November 1950 loans from private

/Mexican banks to

Mexican banks to commerce fell from 46.7 per cent of their total loans to 41.6 per cent, the difference being absorbed in loans to productive enterprise. Credits to industry increased by 45 per cent, to agriculture by 27 per cent and to stock-breeding by 21 per cent; at the same time, by the end of 1950, investments in securities of different types and in medium term loans reached almost 1,000 million pesos.

The Mexican attitude is not typical of the policy followed by other Latin American countries, but it is typical of the fear of having to experience once more the monetary adjustments which might be necessary if, after the expansion of investments resulting from increases in the surpluses in the balance of payments, a draining away of reserves were to occur. It is also an important example of a policy designed to achieve a change in the structure of investments in favour of those which increase the availability of goods.

In the majority of other countries there have also been attempts at selective control of investment through credit control, although more countries have emphasized total investment than have made efforts toward selective control.

Countries with no great inflationary problems and no balance of payments difficulties, such as El Salvador, have since 1946 adopted anti-inflationary measures such as raising the re-discount rate, issuing certificates to banks in order to halt their tendency to invest reserve surpluses, increasing reserve requirements by 20 per cent, and formulating a gentleman's agreement between commercial banks and the central bank to restrict credit and direct it towards productive activities.

Uruguay, which has a conservative banking legislation, increased the minimum legal reserves and issued Deflation Bonds and Certificates of Currency Defence. In small countries with serious inflationary problems affecting the balance of payments, increasingly stronger measures were taken to restrict credit. Thus, in Costa Rica the payment of interest on current demand deposits was stopped, and the rate on time deposits was reduced, in order to lessen the incentive of banking to expand credit. There was an expansionist policy in 1946 and 1947, but by the latter year a new attempt at stabilisation was

/launched by freezing

At the end of 1948, countries such as Peru had already decided to put an end to the inflationary process while by allowing the economy to adjust itself at the existing level of income, without extending the controls. Controls, were used, however, to prevent the adjustment at this level of income bringing about an excessive redistribution in favour of the higher income groups (e.g. businesses were obliged to increase wages and salaries).

In 1949 many of the coffee producing countries, and by the second half of 1950 some of the other countries, found themselves in a more favourable position with regard to foreign exchange, which enabled them to combat inflation by increasing the availability of goods, and in some cases controls were considerably relaxed. On the other hand, the situation in certain other countries (particularly those which do not grow coffee) was so serious at the end of 1949 that stronger efforts than ever before were made to end it. Nevertheless, the political possibilities of action were at times limited and the most complete plans to combat inflation could not be put in practice.

Among the plans worth mentioning because of their high technical level were those drawn up for Chile by experts from the United Nations and the International Monetary Fund. Both, as was natural, aimed at equalizing savings and investment, but there were differences in method. In the United Nations plan the objective was to be achieved by increasing savings to the level of investment, whereas in that of the International Monetary Fund, equilibrium was sought by reducing investments (through credit) to the level of savings.

According to the United Nations experts, the active factor in Chilean inflation is the attitude of the businessman who, with a prospect of high profits in view, plans investment in excess of his savings, meeting the difference with bank credits. The resulting expansion of money incomes causes prices to rise, and consumption to be reduced. The programme consisted then, in stabilizing the level of prices and re-establishing equilibrium between monetary demand and the supply of goods and services available. The former was to be achieved by controls, the second by means of a compulsory savings plan, consisting of a given percentage of all incomes being arbitrarily assigned to the promotion of production. Thus the savings would be authentic and

/investment would be

and particularly during 1947 and 1948, it was based on the granting of subsidies in the case of certain essential goods, such as bread, sugar, oil, meat, dairy products, etc. But in 1948, when the prices of Argentine exports dropped and when the differences between domestic and foreign prices did not leave the same margin with which to pay the subsidies, these were abandoned and the problem was approached from the side of profits. These were frozen at fixed percentages, with the understanding that the margins allowed were sufficient to encourage production. The profit margins had already been set by October 1947, but in February and August 1949 they were very substantially reduced. The principal manufacturers included cement producers (these were authorized a profit of 0.50 Argentine pesos per bag of 50 kilos) and textiles, with profit margins on sales of from 12 and 11 per cent for spinning and weaving mills of cotton and woolen goods to 8 per cent for factories of seamless stockings (3 per cent for wool washing, but this is an exceptional case). Profits were also reduced to 5 per cent for importers and wholesalers who sold on credit and to 3 per cent for wholesalers making cash sales. In August 1950 the retailers were granted a profit of up to 20 per cent (formerly they were allowed a net profit of 8 per cent). In addition to these measures, and after the withdrawal of subsidies, official prices were fixed for essential articles, and in September 1949 tradesmen were obliged to deduct increases in wages from their profits. In spite of these measures Argentine prices have continued to rise, but this is due to revisions of the ceiling prices, as well as a limitation in the number of articles subject to control.

An attempt has thus been made in Argentina to control the effects of inflation by using on a larger scale the methods followed in other Latin American countries during and shortly after the war. Argentine inflation is a controlled inflation which aims at reducing - at least in real terms - the spontaneous investment resulting from private enterprise. Thus the old-established productive activities have experienced a considerable reduction in that part of their income (profits) which is most likely to foster savings. The problem of directing voluntary as well as forced savings towards productive activities is therefore all the more important.

/At the end

launched by freezing the deposits of importers, fixing ceilings in portfolio investments, and directing credit towards production. The principal measure taken in Ecuador was the utilization of exchange taxes (1947) to amortise the public debt in the hands of the Central Bank.

But in the majority of cases these attempts have been insufficient to control investment. In the majority of countries the pressure for the constant expansion of credit has been greater than the ability of the authorities to control it, while the capacity for selective control has not always been as high as was desirable.

Some countries also followed a deliberate policy of expanding credit to production. It was stated in Argentina in 1947 that the monetary policy followed by the Central Bank was that of deliberately assisting all businessmen who required funds for the production of goods or the provision of services necessary to the country. But these tendencies, which were also evident in a lesser degree in other republics in the area have been ineffectual in practice because of the difficulty of exercising selective control. Even in Argentina, in 1948 it was necessary to make an effort to prevent the diversion of credit expansion towards speculative aims, such as the hoarding of raw materials and operations in fixed assets. At the end of 1948, apart from expressly condemning all speculative loans, the Government reduced rediscounting and increased the rate. It was also decreed that the Banco Industrial would not grant loans for new industries or the expansion of existing ones, except in those cases where they were thought to be in the national interest or where they entered the country bringing with them the necessary personnel. In short, the Government thought that the time had come when the limit of increase in industrial investments had been reached. The wage-price spiral conspired, however, against the freezing of the volume of credit, although in 1949 the rate of increase was much less than in 1947 and 1948. 1/

Argentine anti-inflationary policy has not, then, been based on the limitation of credit to the same extent as that of other countries. But there has been an anti-inflationary policy. Until the middle of 1949

1/ In 1950 loans have again begun to increase at a growing rate, but they are not directed toward agriculture.

/and particularly during



investment would be channeled towards capitalization.

According to the Monetary Fund experts, inflation in Chile arises out of factors such as the wage-price spiral and an excess of investment over savings. To prevent the latter, they proposed that a ceiling should be set for bank credit, raising the rediscount rate to 8 per cent and keeping it at this level until a non-inflationary atmosphere is created which modifies the present prospects of continuous price increases. The provision of a substantial fiscal surplus was recommended as well as the preparation of a plan for both government and private investment, drawn up in accordance with social priorities.

Neither of these plans was adopted, although the Government submitted to public discussion a plan which coincides substantially with that drawn up by the United Nations experts.

## CHAPTER VI THE EXCHANGE SYSTEMS

The majority of the Latin American countries have since the war taken various measures to protect their balance of payments. In most cases these measures have been adopted with multiple objectives in mind and have not been confined to that of preventing losses of reserves or devaluation of the currency. Protectionist aims, fomenting production (with or without protectionism) and concern with social-economic or social-political problems are mingled with the defence of the balance of payments, so that at times it is impossible to determine which of the objectives has had priority.

The problem faced by the Latin American countries with balance of payments difficulties was not merely one of elimination which could not be financed in view of the exhaustion of international reserves, but of eliminating this deficit without adverse effects on economic development and without creating social or political problems, considered to be more serious than the deficit itself. The difficulties inherent in this task were practically insuperable, given the available instruments, as to a certain extent the immediate economic, social or political sacrifices implied in the use of adequate methods appeared excessive in comparison to the benefits to be obtained in a distant future. This applied particularly in cases in which there were doubts within the direction of economic policy as to the reality of these future benefits. Discounting of the future has increased in recent times.

The social and political (and administrative) limitations encountered by governments in dealing with balance of payments difficulties have, in the post-war period, been added to other circumstances which must be mentioned in order to complete the picture. Of particular importance is the fact that the orthodox solutions such as devaluation, have been usually adopted to deal with these problems in cases of the simultaneous existence of several circumstances; in the case of Latin America in the last few years these circumstances have, rather, appeared successively. More concretely, with the increase in demand, the need to restrict imports became urgent, while at the same time exports increased in volume and in price and, consequently, devaluation did not appear advisable. In addition, the need to restrict imports occurred

/in a period

in a period in which it was desired to encourage the entry of producer goods which devaluation would have made more expensive. Export difficulties arose sooner for some products than for others (since movements in international prices or the intensity of competition were not uniform), so that the devaluation which some goods would have required would have provided unjustified profits for the others.

In the course of time, however, these differences diminished. The inflationary consequences of monetary expansion were affecting the costs of all exports. The necessary restriction on imports was no longer limited to luxury goods, but affected even capital goods and gave them a scarcity value, in view of which the justification for maintaining such preferential conditions for their import was lessened. Increased prices of domestic foodstuffs, in countries which also imported in order to cover the deficit in supply, reduced the justification for maintaining special facilities for similar imports. The difficulties in importing European merchandise, because of the shortages of these goods and their high prices, diminished with the recovery of European production and the devaluations of September 1949. Before this process was completed, through successive adjustment of the economies to post-war conditions and more uniform distribution of the effects of inflation throughout the economy, the change in the international situation brought about by events in Korea gave it new impulse.

The accumulation of measures and countermeasures in Latin America during the post-war period can only be explained in terms of the background of social and political considerations superimposed on economic factors, the objective of economic development, and the fact that adjustment of the different sectors of the economies to change has been gradual. With regard to the balance of payments, there appears at times in the same country the desire to encourage exports together with export prohibitions, the admitted advisability of restricting imports together with the granting of facilities for the import of articles whose production could be fomented; and the laborious attainment of budget surpluses or immobilisation of private funds together with credit expansion.

The general policy could be described as characterized by the

/adoption of

adoption of measures which arouse lesser resistance, though they may not always be the best measures; it appears as a struggle against fluidity in the economy and the repercussions which events in one sector provoke in the others.

#### Control of Foreign Exchange Payments

A firm conviction has developed in Latin America with regard to the balance of payments, to the effect that the availability of foreign exchange will for many years be insufficient to meet the total demand for imports. That is to say, it is necessary to make an effort to ensure that a minimum of foreign exchange is expended on imports or payments which do not contribute to the development of the countries. Monetary, fiscal and exchange policies throughout Latin America since the Second World War have all been directed towards achieving this purpose, with varying degrees of success; for it must be recognized that while there is clarity in ideas, all Governments have been forced to temporize to a greater or lesser degree with vested interests. Thus, the policies followed are the result of all the forces acting within the complex of society, although this result may diverge from that which the free play of market forces would give.

In monetary policy there is noted a desire to combat increases in circulation, in order to prevent the consequences which greater income may have on the demand for imports, while at the same time there is evident interest in preventing a shortage of money from creating an obstacle to production. The attempts at selective control of credit outlined in other chapters of this report are a result of this attitude. There is an effort in fiscal policy to prevent a budget deficit, for the same reasons as in the case of monetary expansion; at the same time, there is growing pressure of the tax system on the foreign products contributing least to economic development and on that part of income which is most likely to be spent in acquiring them.

The most radical example of the trend towards selective control of available exchange is found in the import prohibitions which have been set up in all countries faced with balance of payments difficulties. It is natural that strong protectionist elements should enter into the

/restrictions:

restrictions: confronted with balance of payments difficulties and the consequent necessity to curb the expenditure of foreign exchange, there is more severe restriction of those goods considered less essential to the life of the nation and of those which can be obtained in the country, particularly if these imports, besides absorbing foreign exchange, create unemployment.

Prohibitions began soon after the war ended, for by 1947 several countries had already introduced them in considerable number (Peru in June, Mexico in July, Chile in August) and they are still in effect in the majority of countries with balance of payments difficulties. In addition to luxury goods, several regulations specifically restrict those already produced in the country. There are only a few cases in which the adequacy of domestic production to satisfy demand is made a condition for the validity of prohibition (Bolivia in January and February 1948).

Undoubtedly the prohibitions have been more numerous than their specific establishment indicates, since in various countries the entry of certain imports has been refused by including them in categories or groups which do not receive official import licences or exchange. Several countries passed through periods of very acute exchange shortage and established temporary prohibitions which were much more far-reaching than the normal ones, while several other countries have imposed prohibitions applying solely to merchandise from the hard-currency areas.

In all the countries where import prohibitions have been established and maintained over a long period, an atmosphere of considerable tension has been produced which has often led to the total or partial elimination of these restrictions. In general, the breaking of the prohibitions (legal or de facto) has been brought about through authorizing imports on the free foreign exchange market (sometimes created by legalizing the black market).

There have usually been two types of justification for this policy: first, in view of the pressure for the elimination of prohibitions it has been considered advisable to make use of the foreign exchange traded

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1/ This idea is implicit in the Mexican prohibition of the import of assembled automobiles.

on the free or black market, obtaining something for the country; and second, since exporters of products which were to be encouraged had been selling their foreign exchange receipts on this market, an increase in demand for that exchange by permitting imports to be made with it would further stimulate those exports.

The improvement of the exchange situation in Mexico, as well as the fact that prohibitions had not been very effective and encouraged contraband, led the Government to eliminate prohibitions (in December 1950) for 200 items. At the same time, the Government announced that they would be substituted by heavy Customs duties.

There is no doubt that prohibitions of imports ~~considered to be of~~ secondary importance have saved Latin American foreign exchange (it was estimated in Mexico that the saving in 1948 may have been about 100 million dollars), and that there would in their absence have been less possibility of importing producer and other goods. However, as in the case of other controls, it must be admitted that the price paid for the prohibitions was a greater inflationary pressure, as those goods whose import was forbidden became more expensive and the demand for other goods increased, apart from the administrative tensions to which they gave rise.

The import restrictions which have been established, without actual prohibition, have all implied the setting up of a scale of priorities according to the relative importance attributed to the merchandise. The most common practice has been to establish large groups of imports, each receiving different treatment according to availability of exchange and judgment as to the requirements of the country. Sometimes, with a change in the availability of exchange or the relative scarcity of merchandise, goods have been transferred from one group to another while maintaining the same rules for granting exchange to each group. It seems clear that in order to have manageable classifications, it has been necessary to group and give equivalent treatment to merchandise of very different types and values for the different economies. Nevertheless, in practice, discrimination among imports has been more subtle than the group classifications would suggest. In granting exchange, the imperfections in the classifica tions

/established for

established for control purposes have to a certain extent been corrected. It is not possible to enter into detail here as to the systems followed for this purpose.

In general, foreign exchange has been granted in accordance with historic criteria. That is to say, quotas have been granted to importers on the basis of their imports in previous years, and certain formulas have been used in establishing the restrictions.<sup>1/</sup>

It can be stated that in several cases the complexity of the systems became excessive for the authorities. Moreover, as a result of the necessarily arbitrary nature of some decisions and the discretion which must be given to those in charge of administration, in order to avoid uneconomic rigidity arising from strict application of formulas, situations of resentments and frictions have been created of varying types and gravity. In some cases, there has been a lack of co-ordination between those administering the import control systems and those administering the foreign exchange, or between both and those negotiating international payment agreements. This has led to delicate situations, such as the accumulation of commercial debts abroad through the granting of import permits and/or exchange to pay for merchandise whose import had been stipulated in an international agreement.

Such situations have been more frequent when there has been intensified government demand for foreign exchange at times when its shortage has been particularly great. Some countries, particularly Chile, Bolivia and Brazil, have followed the system of exchange budgets, in order to prevent maladjustments and excessive imports on the part of Governments themselves and their autonomous agencies, and in general in order to achieve the necessary co-ordination between the granting of import permits and the availability of exchange. Setting up a budget provides an opportunity to establish a scale of priority for imports. Once this is known to the public, the officials in charge of controls are to a large extent freed from the criticism to which they

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<sup>1/</sup> In March 1950, Bolivia changed the historic system of exchange allocation for one in which priority is given to importers obtaining the best terms from foreign exporters.

might otherwise be open.<sup>1/</sup> Grouping of merchandise for control purposes varies considerably from one country to another and reveals the different circumstances encountered in each. The pattern, however, is almost always the same, with priorities being given to major articles of popular consumption (flour, wheat, edible fats and oils, sugar, medicines), as well as to others (i.e. newsprint) whose restriction could have social implications. These have been followed by producer goods - machinery, fuels, raw materials and, in general, goods necessary to maintain and expand the country's productive activity -, followed, in turn, by consumer goods which are considered less essential. It can be observed that, particularly in the years immediately following the war, despite the general orientation of quantitative controls towards economic development, the principal priority has corresponded more to consumer goods considered essential than to producer goods.

It is also worth noting that not only have quantitative import restrictions been established in the post-war period by countries with balance of payments difficulties, but also by Republics such as Cuba and Venezuela which have used them for the purpose of developing local industry.

In addition to prohibitions and restrictions, several Latin American countries used exchange-rate manipulation to arrest the outflow of exchange and reinforce the selectivity of their imports. In fact, nearly all the republics which employed prohibitions and restrictions for balance of payments purposes, also resorted to multiple exchange rates or devaluation. Developments in exchange rates are too complex to be described in detail here. In general terms, multiple exchange rates (that is, the application of different exchange rates to different goods) have represented a partial recognition of the inadequacy of the official par value, and have been used as much for monetary and fiscal purposes in the sense of an instrument in exchange policy, when the possibilities of action by orthodox monetary and fiscal methods were not, or were not believed to be, politically feasible.

The multiple rates for imports introduced, for example in Ecuador

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<sup>1/</sup> This does not prevent the budget being modified during the year, in view of possible differences between the estimate made and reality.



in 1947 and Costa Rica in 1948, may be considered instruments of monetary policy, insofar as the funds obtained from sales of exchange at rates above par were largely used to reduce the Government debt to the banking system and thus contract money supply and income. That is, a method was sought for obtaining a budget surplus. In this case it was expected that the system of multiple exchange rates would have a double effect on the balance of payments: a direct effect derived from increasing the cost of imports or, which exchange premiums had to be paid, and an indirect effect derived from contraction of income as a result of the drop in money circulation. In both countries, the protective aspect of the system has been practically inoperative. Exchange techniques were used to affect the balance of payments by means of their monetary effects. This is even more evident in the case of Costa Rica than of Ecuador, since, while no quantitative restrictions were introduced in Ecuador on imports of goods which had to pay the exchange surcharge, in Costa Rica these continue in effect, and it was not expected (at least when it was introduced) that the reduction in the exchange rates for imports would in principle be sufficient to keep them within the limits of the availability of exchange.

Exchange procedures have also been used to influence the balance of payments through their effects on money supply and income, by requiring of the importers prior deposits in local currency equivalent to the total or a given percentage of the value of the import. This system was followed, for example, in Nicaragua, Costa Rica and Paraguay, with the object, in the first place, of preventing credits extended by foreign exporters from enabling importers to obtain products for a sum greater than their available funds; in the second place, of hampering imports made with black market exchange; and, finally, through immobilizing the funds deposited while exchange was being obtained, acting as a factor in contracting income and thus the demand for imports.

All the systems of multiple exchange rates have been used to facilitate the task of the Governments in the sense of permitting them to make a greater contribution towards the development of the countries

reduction in money supply (as mentioned before) and partly to cover State expenditures; in other cases they were used entirely for this latter purpose.<sup>1/</sup> In both cases, and to the extent to which it was considered necessary to spend the funds collected, an exchange procedure was being used to relieve the pressure on the balance of payments, directly, by increasing the cost of imports, and indirectly, by preventing or reducing its ultimate deterioration, as income derived from the multiple rates helped to avert a budget deficit.

In the case of multiple rates, either for purposes of reducing money supply, or of increasing the funds which the governments could spend, there is no difference in principle between these and Customs tariffs or taxes on consumption. Still less does the difference exist in those republics in the area which have been accustomed to taxing imports with uniform tariff surcharges in order to cover specific expenditures: port works, hospital construction, etcetera. The preference for multiple rates, instead of tariff increases or taxes on consumption, has been partly due to their flexibility. That is to say, their introduction has prevented the need to undergo the complex administrative processes implicit in tax reforms of an internal nature. This was partly influenced by the fact that, in general, the conditions leading to their introduction were considered or stated to be transitory, while tax reforms (tariff or other) are reserved for more long-term needs.<sup>2/</sup> At the same time, in several republics there has been an obstacle to the introduction of other types of taxes on imports in the existence of trade agreements which froze the duties applying to a considerable number of goods whose entry it was desired to limit.

That is, acting through the exchange system does not represent an advantage in principle (except, perhaps, in certain cases, the possibility of taxing non-merchandise transactions), but rather in terms of expediency in view of the urgency of the situation and the actual conditions in many countries. It must be noted that there are further considerations involved besides those outlined in the preceding paragraph.

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<sup>1/</sup> In several cases, the funds collected were assigned initially to specific objectives, but often in the course of time they have been used both for these aims and for others not foreseen at the time of introducing the multiple rates.

<sup>2/</sup> Multiple rates for imports were eliminated in Colombia in July 1950, and incorporated in the duties established in the new tariff schedule.

The monetary and fiscal aspect of multiple rates, whether for creating budget surpluses (exceptional situation) or for preventing or reducing deficits (the most common situation) has been their distinguishing feature in Latin America in comparison with other exchange control systems. The manner in which events have led to the use of multiple rates will be described in the following pages. It will be seen that this has been due at times to ineffectiveness, either implicit or explicitly admitted, of the taxation systems, sometimes to the political impossibility of introducing fiscal systems which would obtain for the State the extraordinary profits made by importers as a result of a shortage of imports; at times because it was the quickest and most abundant available source of government income; and at times to the extent of tax evasion. All these circumstances occurred while inflationary pressures on the balance of payments were being produced in part by the monetization of deficits caused by growing burdens in expenditures weighing on the governments. In the face of this reality, other considerations appear very secondary.

The same criteria established for the application of quantitative restrictions have been used in the classification of merchandise for multiple rate systems. Very different types of products are included under broad groupings. Consequently, a given surcharge probably serves to limit effectively imports of certain goods, within the limits of the amount of foreign exchange which it is desired to allocate for this purpose (so that the quantitative restriction in fact becomes inoperative). On the other hand, it is probable that the same surcharge will not restrict adequately imports of other merchandise within the group. Ecuador is the only country in Latin America in which a system of multiple exchange rates for imports has not been accompanied by quantitative controls. In all the other countries, the mere classification of products in preferential groups has not necessarily implied free access to the exchange required to pay for their import. Generally speaking, in all the countries with multiple rates there has been a small group of merchandise which has been imported with no restriction other than that of demand, at the prices which arise from the exchange rates, and quantitative restriction has been necessary to limit all other imports. The multiple exchange rates have thus not reached the point of

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being an effective brake on the import of these goods. The authorities have not wished to go as far as would have been necessary for the import rates to fulfil their orthodox purpose of limiting demand to the exchange available. This objective has been attained by administrative procedures.

In those countries where inflation has advanced most and which maintain multiple rates with quantitative restrictions, the scarcity price of imports is often much higher than that which would result from adding the exchange surcharge to the other components of the price of acquiring them. In this case, access to the necessary exchange becomes the determining factor for imports and the exchange surcharge takes second place as a limitation on demand, thus increasing the importance of the taxation aspect. In fact, when the multiple rates are inadequate to restrain imports within the limit imposed by the availability of exchange and those limits are provided by quantitative restriction, the exchange policy aspect of the system disappears almost entirely and the fiscal character is accentuated to the same degree.

Under these circumstances, the justification for the multiple rates is in their fiscal character, and not in their effect on the balance of payments, although they may provide an important means of controlling the latter. The fact that these methods were used instead of the fiscal instruments customary in other countries is due to the reasons set forth previously.

It is interesting to note that in spite of the foregoing, very few countries in the area (in fact, only Argentina and Paraguay) have in the post-war period resorted to the auction system. This originated in Argentina at the beginning of the war and was introduced during the war as legislation in the monetary systems developed in other countries (Paraguay and Guatemala) in collaboration with specialists from the United States Federal Reserve Board. This system should provide a maximum of receipts for the treasury, as well as limit effectively the exchange payments to the amount available. The fact that it has not been adopted more widely is due, in some cases, to the reluctance of the International Monetary Fund to accept fluctuating exchange rates; in others, to the complexity of the system itself when it is necessary to apply it

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to a very large number of goods, and to the scarcity of the funds it provides when it is applied to few; and, finally, at times, to the fact that it might indicate too clearly the deterioration of the exchange situation due to internal expansion of money incomes.

The control of exchange payments has been very imperfect in invisible transactions and many governments, after passing through stages of strict regulation, chose to legalize their sale on free markets. This was not the case with transactions corresponding to interest, dividend and amortization payments on foreign investments, although there is a difference in attitude (tending to diminish) between that regarding outflow of foreign exchange resulting from investments in export activities, and that referring to activities directed towards the domestic market. Controls have tended to be stricter in the latter instance, although there is evidence of the ever increasing importance given to achieving a higher proportion of the value of exports of foreign enterprises returned to the countries. In general, it has been attempted to limit such payments to certain maximum percentages of the value of the investment. For example, this limit was of 12 per cent in Argentina (in August 1955) interest payments up to 5 per cent of the investment were authorized); in Bolivia, 30 per cent for amortization; in Brazil a total of 20 per cent for transfer of capital and 8 per cent for dividends; in Nicaragua, 10 per cent for amortization; while in Peru the authorities may set a limit not under 10 per cent for the remittance of interest and other payments abroad of the foreign firms established in the country (December 1947). Moreover, in several countries special permission has been required in each case in order to remit funds abroad, although the laws generally establish a high priority for these sales of exchange within the general allocation of the amounts available. Some countries restricted those payments severely in the periods of emergency which occurred in the post-war years.

#### Control of Exchange Receipts

Efforts to increase receipts of foreign exchange complement those designed to equilibrate the balance of payments by restricting exchange payments. In all the countries exercising exchange controls the

/requirement was established

requirement was established from the start of selling the receipts from exports to the central banks or authorised agencies, as well as those derived from other payments made to nationals from abroad. Nevertheless, in those countries with foreign investments in export activities, this regulation was limited by the authorization granted to retain abroad the sums in excess of their payments within the country where the investment was made, although at times there was the obligation to return to the country a minimum of exchange for the exports made. The minimum was sometimes fixed in accordance with the tariff valuation of the export (as in Costa Rica with banana exports), or on the basis of the so-called legal cost plus taxes (in Chile), while in others it was according to the volume or value of exports (as in Bolivia).

As the post-war period advanced, however, the position of the currencies of many countries deteriorated as a result of inflation, export prices ceased to rise, and later began to drop, while there was for the same reason an ever-growing demand for imports, both in absolute and in relative terms. Then the emphasis which had been placed on imports was, relatively speaking, displaced towards exports. The decline in exchange receipts then becomes doubly serious and marginal exports acquire much greater importance than formerly. When the war ended, many countries accepted, without taking significant defensive measures, the fall in the exports of manufactured goods which had developed during the conflict, but as the exchange situation became more strained, there was no longer the same passive reaction to these declines as existed during the early post-war years, and efforts of every kind were made to maintain exports. Exchange rates, which had been manipulated particularly for imports, were modified more and more for the export trade. The necessary conditions were being created for the acceptance by the countries, willingly or not, of a system which in many respects is more orthodox. The rate of exchange required to permit the flow of exports was approaching that needed to restrict imports. Examples of the granting of exchange rates ever more favourable to exports are too widespread to require citing here. Other facilities

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Other facilities to the export trade have been no less numerous, and several parts of this Report have referred to measures for fomenting exports. However, in almost all cases there can be noted the intention of not giving exports a greater stimulus than is actually considered necessary. This attitude is largely derived from the resistance on the part of governments to deprive themselves of the receipts obtained from maintaining less favourable exchange rates for exports together with rates penalizing imports.

In the chapter on the balance of payments, several observations were made with regard to the attitude of the Latin American countries towards entries of foreign capital. It is sufficient to mention here that exchange control systems have tended to favour these entries, giving guarantees of authorization to withdraw investment proceeds from the country but keeping a relatively liberal control on receipts. An attitude not typical of the practices followed by most countries is seen in the granting in Chile of an exchange rate favouring imports of capital on the part of the copper companies. This rate is much more favourable than that which these same companies receive for the exchange which they sell to meet current expenditures. This particular example relates more to the fiscal character of multiple rates in Chile than it does to the attitude towards foreign capital. All countries with exchange control require registration of the entry of capital in order to have the right to make payments of interest and dividends. In many republics with multiple rates and a free market, imports of capital by the large foreign enterprises established therein have been granted only the parity rate, which is not the most favourable. There are relatively frequent cases of legislation establishing the option for new importers of capital to bring it into the country via the official market (with a less favourable exchange rate) or via the free market, guaranteeing, if the former method is adopted, the return of interest, dividends and amortization also at the official rate. This is set forth, for example, in the Brazilian, Costa Rican and Colombian laws on foreign capital.

/Control of

Control of the Direction of Payments and Receipts

The object of controls during the post-war period was not solely to maintain the balance of payments in equilibrium, but also, as a result of the inconvertibility of certain currencies, to affect the geographic distribution of payments and receipts. This need was naturally more acute in those countries whose trade is directed preferably towards Europe.

At the beginning of 1947, Argentina already considered it necessary to restrict the import of certain goods requiring payment in hard currency if the domestic supply of these goods was considered sufficient. In September of 1947, in setting up a classification of high priority goods, it was stipulated that their import would be permitted from neighbouring countries and from those with which Argentina had payments agreements, but that imports from other countries would require the study of each particular case. The classification of goods made in June 1948 followed the same criterion of influencing the origin of imports, ensuring that these should be from countries for which exchange was available; in the same month it was laid down that exports to neighbouring countries should be paid for with dollars (excepting Uruguay in view of the agreement with that country), or with Argentine pesos from special export accounts to be opened in authorized institutions. When the situation became most serious, imports from the United States were restricted (May 1949) to 25 per cent of their average value in 1947-1948, while those from various European countries, the sterling area and Brazil were restricted only to 50 per cent. The exchange reforms of October 1949, in adjusting exchange rates to European devaluation, also involved a greater devaluation with regard to the dollar than to the pound sterling and other European currencies, and exports to the dollar area were favoured by preferential exchange rates. In accordance with the regulations of August 1950, the granting of official exchange for imports depends both on the classification of goods and on the country of origin. In Brazil, the policy of discrimination in favour of imports not requiring payment in hard currencies was mainly carried out through the use of discretionary powers in



powers in administering the granting of import licenses; but starting in March 1949, the policy of saving scarce currencies became more explicit. A very restricted list of "permissible imports" was issued, applying solely to hard currency countries (a description which varies according to the availability of exchange), and these hard currency imports were strictly limited according to the exchange budget, and only permitted when they could not be paid for in soft currencies.

Peru is another country which has discriminated against imports from the United States in an effort to achieve bilaterally the equilibrium which it could not attain by multilateral compensation.

The need to direct exports towards soft currency areas also forced certain countries to accept imports other than those most in demand. Argentina, Brazil and Uruguay have at times been in this position with regard to their bilateral agreements. There have been cases of international friction, however, through reluctance to accept goods included in the agreements but which the Latin American countries preferred to do without, in order to reserve their foreign exchange for other purposes considered of greater importance to their economy.

In 1950, with the increased United States demand for imports and the resulting greater supply of dollars, there was some relaxation of controls on imports from the United States. In November, Peru added over 500 items to the list of imports permitted from the United States.<sup>1/</sup> Starting in July of that year Uruguay issued a series of regulations lifting more and more the controls on imports from different countries; by September there was freedom to import all goods considered essential regardless of origin, and in November certain non-essential imports from the United States were authorized.<sup>2/</sup> With the European devaluations of 1949 and the increasing capacity of Europe to supply imports, the surplus of soft currencies generally tended to disappear, turning at times into a shortage which forced the application of discrimination against imports in such currencies also, in order to avoid a deficit.

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<sup>1/</sup> Early in 1951, all prohibitions on imports were eliminated.

<sup>2/</sup> In January 1951, restrictions on sterling imports, stated to be of a temporary nature, were again imposed.

### Free Markets

As the post-war period progressed, free exchange markets or systems became more widespread. These have taken a wide number of forms which could not be described here without going into excessive detail.

However, it is of fundamental importance to remember throughout that the only justification for the establishment of free markets was that the controlled exchange rates did not represent the equilibrium rates which would have developed in the absence of controls.

The countries which set up free markets did so under pressure of the demand for foreign exchange and not as a result of improvement in the circumstances determining the control of foreign exchange. Moreover, free exchange systems are a response, at least at the time of introduction, to a breakdown through the weakest sector in existing exchange systems (generally due to the persistence and increase of inflationary pressures). The objectives which these are intended to attain vary from one country to another, and several may be found at the same time in one country.

The introduction of a free market with fluctuating exchange rates<sup>1/</sup> has also been in response to the desire to favour certain exports which have been in difficulties because of the effects of inflation on their costs or because of a relative fall in their price on international markets. The most outstanding example of this is gold, which has been influenced by both circumstances. In Colombia, for example, the promotion of gold production by this method (that is, by giving freely negotiable exchange certificates for the value of the gold) is of importance for the balance of payments, to which gold contributes between 9 and 12 million dollars annually. In Chile, on the other hand, where a similar system was introduced, gold production provides a more secondary contribution to the balance of payments relative to total exports. In both countries, however, the social problem which would be created by unemployment as a result of selling gold at par in terms of local currency, is as important (in Colombia) or more important (in Chile) a consideration as that of the benefits which it is hoped to obtain for the balance of payments; and the two problems cannot be separated without giving an erroneous picture of the motives leading to

/the adoption

the adoption of this practice.

Free markets have usually appeared first for the part of exchange receipts which is most difficult to control, such as the tourist trade, diplomatic expenditure, payment of commissions etcetera. Moreover, from time to time, when the shortage of exchange has been very acute, the repatriation of capital held abroad by nationals has been legalized, provided repatriation takes the form of imports, more or less essential according to the degree of exchange shortage. This type of free market has at times existed in the form of allowing importers to use their "own exchange" (*divisas propias*), this term not always being clearly defined, and often implying the de facto legalizing of previous black market operations.

In general, in those countries where the exchange situation has been or continues to be very unfavourable, "secondary" exports have been allowed access to free markets (in other words, the right of exporters to sell on these markets the exchange they have obtained for certain exports). The term "secondary exports" is, however, quite elastic. In Colombia, where their number has increased continuously, the resulting receipts of exchange have been actually for gold (a very special case), of secondary importance, but in other countries, such as Nicaragua or Chile, they have been substantial.

Some republics have followed the practice of allowing access to the free market of an established percentage of the exchange obtained from certain exports, this percentage to be calculated in accordance with the relative deterioration in production costs.<sup>1/</sup> Others have followed the procedure of permitting barter transactions. There are recent examples of this in Brazil, which in September and in November 1950 extended the

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<sup>1/</sup> In some countries (Argentina, Bolivia, Paraguay), the term "free rate" has been applied to a special exchange rate fixed by the authorities.

<sup>2/</sup> This practice is really a substitute for that of mixed rates, that is, the purchase of a certain percentage of exchange obtained from exports at one rate, and the remainder at a more favourable rate. When the second proportion goes to the free market, the government saves the exchange premium involved in the more favourable rate.

number of goods which could be exported by barter transactions.<sup>1/</sup> The system has existed in Chile, since 1947, when private compensation transactions were permitted with gold (from mines) and certain agricultural exports. In the same year, the system was also adopted in Paraguay. This method has been widely used and in contrast to the free market supplied with receipts from invisible transactions, indicates clearly the decision to make maximum use of exports in order to obtain imports, even of luxury goods (thus relieving the pressure on the authorities). In the case of barter, the existence of a free market is to a certain extent obscured by the fact that there is no sale of exchange; but this difference is little more than formal. The buying and selling operation is effected implicitly by the same person, the exporter, and is equivalent to permitting the exporter to use his "own exchange". On occasions when these barter operations have been accepted, the transaction of purchase and sale of exchange has been effected through the purchase by the importer, at a high price, of the favoured goods which are then sold abroad at a loss, in terms of legal parity. (This has occurred, for example, in Nicaragua.)

It has been stated above that the establishment of free markets while systems of control are in effect, represents a partial breakdown of exchange systems. This statement perhaps requires some explanation. The need to give certain exports a rate higher than parity or than the highest official rate, together with the fact that demand for foreign exchange is so great that the foreign exchange sold on the free market actually obtains this higher rate, appears in itself a good indication of the divorce between the official rate or rates and the equation of supply and demand for exchange at this rate or rates. The very history of the appearance of free markets with fluctuating rates in the post-war period shows them to be the result of a crisis. At times it is a crisis in the administrative capacity for control; at others a crisis in the capacity of the fiscal system to favour exports, that is, a lack of funds to provide subsidies; or, finally, of the availability of foreign exchange. Thus, as has been stated, in many cases free markets have commenced as a result of the legalization of black or grey markets.

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<sup>1/</sup> Barter transactions were suspended in February 1951.

These had been supplied by receipts derived from invisible exports, beyond the administrative capacity to control; from evasions of the obligation to hand over exchange derived from exports; or from over-estimation of the value of imports made at the official rate. When these circumstances coincided with a shortage of foreign exchange, some governments tightened controls, but others legalized the black market and allowed it to operate for imports of essential commodities only if the shortage were very considerable, or also for luxury or non-essential goods if the shortage were less acute. Crises in fiscal capacity to favour exports have been noted in certain countries where goods were allowed access to the free market after having passed through various increasingly favoured stages within the system of multiple official rates (Chile), or in those where a growing proportion of the exchange obtained from their sale was allowed access to this free market.<sup>1/</sup> Finally, there have been cases where a major factor in the decision to create a free market or expand its functions has been, on the one hand, the recognition that the system of control had become, either altogether or in part, too complex to be dealt with by the existing administrative organization, or, on the other, the fact that the latter was subjected to undesirable pressure which impaired the administration of the system. The establishment or extension of free markets in all these cases, of which there are various examples, has thus been a sharp disparity between the official rates and what would be the equilibrium rate, and have been a manifestation of the desire to relieve some excessive pressure: that on the State of the need to subsidize exports (leaving this task to importers); that on the Central Bank of the necessity of providing exchange for certain imports or payments; that on the controlling authorities from the applicants for exchange for specific purposes.

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<sup>1/</sup> A system found only in Bolivia is that in which exporters are permitted to retain for their own use a higher percentage of the value of exports when these exceed a certain quota.

Employment of Orthodox Methods<sup>1/</sup>

It was stated at the beginning of this chapter that the problem which the Latin American countries had to solve, lay in achieving equilibrium in their balance of payments without prejudice to their economic development and without creating social problems considered to be more serious than the deficit itself. Were these objectives attained by exchange control, or were they achieved in greater measure than if that control had not existed? It is probably impossible to give an answer to this question. However, supposing monetary policies to have remained as they were and the adjustment of the balance of payments left to the spontaneous evolution of exchange rates, it appears that the social problems would have been more serious than they actually were and that the availability of foreign exchange for economic development would have been prejudiced. Given the monetary policy which was, in fact, followed in Latin America and its effects on income, the defence of the balance of payments by means other than pure and simple devaluation would appear necessary if the results desired from such a policy were not to be annulled by counteractive forces. Whether the monetary policy which was followed was most adequate for economic development, is another problem.

It was indicated previously that exchange methods were employed in Latin America where the use of fiscal measures (Customs duties, income taxes, taxes on consumption etcetera) and of monetary techniques would have been more orthodox and, in the majority of cases, more subtle methods for achieving the desired objectives. However, the greater feasibility of action through the exchange system compensated for the difference in results. It is evident that a tariff reform permitting

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<sup>1/</sup> Orthodox methods are understood here as the traditional instruments of economic policy: for example, promoting exports and curbing imports by means of devaluation and Customs duties; obtaining budgetary funds by means of higher taxes, or issuing State bonds to the public; acting on money supply by influencing the volume of credit through rediscount rates, or allowing the deficit in the balance of payments to act on circulation and so on.

the imposition of duties affecting individually the price of importing each article, in accordance with the conditions of demand for such an article and its substitutes, is more adequate as a protectionist instrument for development, for the balance of payments, and as a fiscal instrument, than the grouping of all commodities in three or four categories. However, the governments found that, for various reasons it was easier and quicker to introduce multiple rates than to reform tariffs to the necessary extent. It is evident that by means of a good system of taxes on income and excess profits, the State would have recovered to the desired degree the profits which exports could obtain through devaluation, or which importers obtained from the quantitative restrictions on imports, better than by a system of multiple rates. Nevertheless, in several cases governments considered that the necessary fiscal reforms were not feasible in the degree required to obtain such results. It also seems evident that monetary effects achieved through requiring prior deposits by importers could have been assured to a greater extent by orthodox banking procedures, but here again, the exchange method was more expedient. In general exchange techniques have found more acceptance than the others, in spite of being less adequate in some cases.

However, in all Latin American countries which experienced exchange difficulties during the post-war period, there has been a gradual approach towards the orthodox practices usually employed in other periods. This was due in large part to the judgment that some of the results which it was desired to obtain through the different systems of exchange control did not represent a temporary but a long-term need. Another influencing factor has been the recognition that fiscal and monetary methods<sup>1/</sup>, applied directly, may better serve the purposes in view. Finally, the possibilities of action by more orthodox procedure increased as the systems of control became more and more complex, that is, as the governments reached the point of considering the situation ripe for the use of more adequate methods.

At times, the partial return to more orthodox systems, such as free markets in their various forms, that is, their existence side by side with practices of control by fixed multiple rates and by other procedures, gives

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<sup>1/</sup> For example, combating by means of income taxes and tariffs the high propensity to consume imported luxury goods; or exerting influence on the balance of payments by limiting investment through credit restrictions. In general, these represent more indirect methods acting on the origin of disequilibrium rather than on the disequilibrium itself.

the present Latin American exchange systems an even more unorthodox appearance. Actually, these mixed régimes should be interpreted rather as a gradual approach to techniques in accord with traditional views than as a withdrawal from them.

Those countries, such as Mexico, which from the first rejected exchange control as a means of dealing with disequilibrium in the balance of payments, had soon after the war to employ traditional methods, such as increases in Customs duties (Mexico in July 1947 and July 1948), but even the countries using exchange control have also, to a certain extent, been substituting multiple rates for the more discriminating method of Customs duties, or superimposing these on the former. Peru resorted to this procedure in 1947 and 1949, Colombia in July 1950 and Argentina in August and December of the same year. Countries such as Cuba, which did not have exchange control or balance of payments difficulties, intend to introduce substantial reforms in their tariffs, and Guatemala has also expressed a desire to do so.

Mexico is, perhaps, the only country which has followed an anti-inflationary monetary and fiscal policy with the object of remedying the disequilibrium in its balance of payments; but the fact that it has been possible for governments or other official bodies in several countries which have experienced and are still experiencing inflation to propose such policies openly (in Chile for example), seems a strong indication that the search for an orthodox solution is more active now than during the early post-war years.

The adjustment of the balance of payments by devaluation pure and simple, met at first with strong resistance, as already stated. However, since the beginning of the post-war period, the process of devaluation has followed its course and, in the last few years, several countries have reduced the multiplicity of their exchange rates. Multiple rates and free markets, to which receipts from some exports and certain imports have access, represent advanced stages of this process, particularly the latter. Resistance to arriving at complete unification of rates at a lower level, however, is still strong, and as a result, adoption of the most adequate methods is not usually very thorough. In most cases they continue to be used partially mixed with more expedient and less subtle procedures. Only in a few cases, if any, would devaluation be indicated



means of achieving an adjustment, if not used in conjunction with other measures to counteract some of its effects, i.e. the pressure which it might create by increased credit, wage adjustments, or greater budgetary expenditures.

All Latin American countries with acute balance of payments difficulties have had some devaluation of their currency (either total or partial) since the end of the war.<sup>1/</sup> This has sometimes occurred on the official market, or on the free market, and sometimes on both. In none was there an adjustment of the balance of payments to the end of 1945 or 1946 exchange rates by the simple use of quantitative controls. In some countries, devaluation has been minimum and only partial, as in Brazil while in others it has been small, as in Uruguay. In others, as in the case of Argentina, Chile, Bolivia, Peru and Mexico, there has been significant devaluation.

Mexico provides the most interesting example of adjusting the balance of payments by means of a substantial devaluation. This country according to express statements by the authorities, did not resort to exchange control to avoid the inconveniences implied in administration of the controls. In view particularly of the proximity of the United States, and the high proportion of travel to total receipts of foreign exchange, it was anticipated that the bureaucratic and policing system necessary to make the control effective, would be excessively complicated. It is worthwhile studying the process in greater detail for purposes of comparison with other countries in the area.

In view of the loss of reserves in 1946 and 1947, Mexico began by employing the method of import prohibition and of increasing Customs duties. It was also intended to achieve results by avoiding budgetary deficits and credit expansion, but this was not actually effected. The efforts to avoid a budgetary deficit and credit expansion (principally of official institutions) were inadequate, since the expansionary forces had attained too great a momentum to be halted in a short period. There was, moreover, the conviction that mere stabilization of credit at

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<sup>1/</sup> Panama is an exception, but this is due to the nature of the monetary system of that country.

existing levels would not be sufficient, since the level of income permitted by the existing credit was excessive, at the exchange rate of 4.85 pesos to the dollar, for adjusting the demand of foreign exchange to the supply. In addition, the idea of carrying out credit contraction was considered to be not only impracticable politically but also harmful from an economic viewpoint. Restrictions on imports by means of prohibitions and higher Customs tariffs were frequently evaded and to this was added the outflow of capital. In spite of utilization of up to 37 million dollars of the United States Stabilization Fund and 22.5 million dollars of the International Monetary Fund, the reserves of the Bank of Mexico fell during three consecutive years by more than 300 million dollars, until they reached critical levels not only from the legal point of view (in proportion to the Bank's obligations) but also from the economic. To all this were added certain export difficulties due to increased costs and growing foreign competition on both the international and domestic markets. This competition was particularly sharp in the case of industry, which had developed to a great extent during the war.

This situation caused a crisis in July 1948. Mexico abandoned the parity of the peso and allowed it to fluctuate, under the vigilance of the Bank of Mexico. For several months, an attempt was made to maintain the quotation at about 6.90 pesos to the dollar, and certain aspects of economic policy were adjusted to this quotation, such as export taxes instituted at the time of abandoning parity (with the object of recovering for the State half of the increased prices of exports in terms of national currency and mitigating the increase in prices of export commodities on the domestic market), and the subsidies on wheat and lard. However, after a period of relative stability of the exchange rate, the peso showed new signs of instability, attributed in Mexico to the excessive use of Central Bank credit by the Government and official institutions. At the beginning of 1949, the Bank of Mexico had to sell the exchange which it had acquired since July 1948, and in the face of the insistent pressure of demand it withdrew once more from the market. In May, there was a period of violent fluctuation, partly due to speculative movements, and in June a new par value was set at 8.65 pesos to the dollar. It is known that at this exchange rate (although the specific figures were not /revealed),

revealed), the Bank of Mexico has considerably increased its reserves, despite having repaid its drawings of 37 million dollars on the United States Stabilization Fund. At the beginning of 1951, the reserves of the Bank of Mexico reached levels comparable with those achieved during the war.<sup>1/</sup>

Mexico followed a more orthodox policy than the other countries in the adjustment of its balance of payments. Nevertheless, this orthodoxy is principally one of method. Traditional weapons were used to obtain the same objectives which other countries pursued by means of more varied methods of action. Thus, Mexico carried out its tariff reforms and established prohibitions on imports when other countries did the equivalent with multiple exchange rates and prohibitions; tariff increases took the place of the multiple rates and fulfilled the same function in a very similar, although more selective, fashion. But, just as in the countries with multiple rates (excepting Ecuador and possibly Peru), tariff increases and prohibitions were insufficient. Then Mexico devalued its currency, but it was not a pure and simple devaluation, rather a devaluation with multiple rates superimposed on those already created by the tariff. That is, in devaluing, it introduced a system which was, in fact, one of multiple buying rates, by means of an export tax of 15 per cent. This tax was later selectively reduced for those exports which in spite of devaluation continued to encounter difficulties on the foreign market. In fact, this policy was equivalent to a greater devaluation of the selling than the buying rate, a policy comparable, for example, with that of Colombia in December 1948, when the parity of the peso was devalued by 10 per cent and surcharges on the selling rate were introduced, that is to say, on imports. The similarities do not end here; the result of the Mexican system of export taxes is an inflow of funds for the government of the same nature as those obtained by countries through multiple buying rates, and these receipts, just as in the case of the others, were used to contribute to budget expenses and to obtain a surplus which, in contracting income (in relative terms), would contribute to adjustment of the balance of payments. It is interesting to note that while in the

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<sup>1/</sup> According to Mexican sources (El Mercado de Valores, 25 December 1950, and El Nacional of 12 January 1951), reserves rose to 338 million dollars, this figure undoubtedly including reserves in silver.

majority of countries with multiple rates these were established at a level insufficient to exercise their exchange function; which was achieved by administrative methods, in Mexico fiscal and monetary procedures prevented the exchange policy from achieving its full effect; that is, the rise in domestic prices of exported goods, excessive profits for the exporters, and the full restrictive effect of the devaluation on imports.<sup>1/</sup> The Mexican policy differs from that of other countries in not requiring the handing over of exchange obtained from exports and other transactions abroad and when it complements the exchange policy with a monetary policy also designed to contain the pressure on the balance of payments. It was understood by the Mexican authorities that devaluation and the other methods adopted would not serve more than as a transitory measure in adjusting the balance of payments if the expansion of incomes continued. An effort was therefore made to prevent the credit policy from counteracting the effort being made through the budget. The majority of the other Latin American countries with balance of payments difficulties did not consider it wise, for various reasons, to follow as cautious a monetary policy as Mexico, and in the absence of such a policy devaluation without quantitative controls would not have prevented the deficit.

The Peruvian experience provides another example in the field of developments in Latin American exchange systems which may be useful to review here. The problem in Peru was particularly acute after the war, firstly, due to the fact that it was one of the few countries in the area which could not accumulate international reserves during the war and thus absorb the first impact of the deferred demand for imports; and secondly, because a considerable part of the exchange receipts were in inconvertible currencies of countries which were not in a condition to supply Peru with the goods most in demand. To the import difficulties were added the adverse effects of inflation on the possibility of export prices covering the cost.

Since 1946-1947, Peru has been moving by stages from a system based on restricting imports through import licensing and a single fixed exchange rate (with a tolerated black market) to a system with freedom to import and a fluctuating exchange rate. The process has not yet ended, because there are still prohibitions on imports and restrictions on transfers of funds abroad for purposes other than the imports permitted.

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<sup>1/</sup> That is, the devaluation was followed by numerous reductions in tariffs.

The abandonment of the system of quantitative restriction and the decision to allow the exchange rate to find its level on a free market was due to a large number of reasons whose relative importance it is not possible to measure. However, it can be stated that the ones of greatest weight were, in the first place, that the complex system of import licensing made their administration appear deficient, and in the second, the growing difficulties of exports.<sup>1/</sup> An idea of the magnitude of the problem as a whole can be gathered from the fact that freedom of exchange involved a rise of over 100 per cent in the price of foreign exchange, in spite of the restriction on the demand for exchange through maintenance of import prohibitions and increases, on two occasions, of the Customs duties.

This policy was accompanied by a series of measures of a domestic nature. On the one hand, there has been gradual elimination of the subsidies covering the sale to the public of certain imports and basic products for general consumption, and the prices of these have been left to find their levels as determined by supply and demand. On the other hand, a policy of budget equilibrium was followed and, for several months, one of credit restriction.

The Peruvian experience, points up, as does the Mexican, some of the typical difficulties of the methods of action available to the Latin American authorities, as well as the dependence of their economies on the outside world. Quantitative controls were eliminated for the same reasons which led Mexico not to introduce exchange control, that is their excessive administrative complexity; subsidies were eliminated on certain imports considered to be essential, because also, as in Mexico, they proved to be too heavy a burden in the budget; it was necessary to fight against the rise in the cost of living, compensating the abandonment of the subsidies by increasing wages and salaries; exports had to be maintained even at the cost of being unable to obtain in exchange for them the most desirable goods, and so on.

Through devaluation leaving the exchange rate free to find its own level, the balance of payments was equilibrated (by definition).

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<sup>1/</sup> The fact that the exchange rate was allowed to fluctuate was partly due to the difficulty of deciding on an equilibrium rate.

Individual incomes did not increase sufficiently rapidly to bring about a deterioration in the quotation of the sol with respect to the level it had reached, given the relative inelasticity of the demand for permitted imports, and with the assistance of a restrictive credit policy in the period when the international recession caused a decrease in foreign exchange receipts. The restrictive credit policy came to an end at the same time as international prices began to react, and then expansion of income was more than compensated by the increase in foreign exchange receipts. This reached the point where, in order to prevent an improvement in the exchange rate, the Central Bank was obliged to buy exchange on the market, in spite of the increase in imports. It should be noted that devaluation provided a stimulus to exports, which increased in volume (particularly minerals), thus giving a double influence in increasing foreign exchange receipts. The improvement in the exchange situation led the Government to remove 500 articles from the list of prohibited imports in November 1950, and to eliminate the prohibition early in 1951. In summary, first devaluation, later the restrictive credit policy and, finally, international events, have produced stabilization in the Peruvian balance of payments, and the exchange rate has been maintained approximately at the level formed on the market at the time of devaluation.

## CHAPTER VII THE BALANCE OF PAYMENTS

The balance of payments has been the most sensitive gauge of the economic situation of the different Latin American countries in the post-war period. It has reflected promptly the rate of development, fluctuations in production, changes in inflationary pressures, foreign and domestic price movements, etcetera. The necessity for maintaining equilibrium in the balance of payments has been a deterrent to plans for rapid development and has led to complex policies of state intervention affecting large sectors of the different economies. The Latin American Governments have been particularly concerned in recent years, more so than in the past, with maintaining their balance of payments at a constant rate of exchange, primarily because equilibrium at a fixed rate is considered a favourable factor in economic development and for maintaining certain social objectives (distribution of income).

### The Problem as a Whole

The shortage of available foreign exchange for imports has been the main problem affecting the balance of payments in Latin America. This shortage is, of course, relative. This is to say, the volume of Latin American imports in absolute terms (total and per capita) was greater in the post-war period than in the years immediately preceding the war, when the pressure on the balance of payments was less intense than it has been recently. Even if the year 1947, which was exceptional, is not taken into account, there are very few Latin American countries which have imported less, per capita, after the war than in the 1936-39 period. Nevertheless, the pressure on the balance of payments was greater in the post-war period; that is, there was a greater disparity between effective demand in local currency and the availability of foreign exchange. Stricter exchange controls, devaluation, import prohibitions and increases in customs duties were therefore necessary in order to avoid an even greater deficit than actually occurred.

/This deterioration

This deterioration took place, moreover, following a period of expansion of industrial production, when the domestic food supply situation had not worsened, when the unit value and volume of exports (total and per capita) were greater than before the war and when, in comparison with the earlier period, the terms of trade had improved. In other words, this occurred at a time when, given prevailing conditions, a favourable balance of payments might have been expected, discounting the effects of deferred demand.

This last factor cannot, however, have been the sole cause of the persistent pressure on the supply of foreign exchange, as not all the imports suspended (during the war) were actually postponed to be effected at the close of hostilities.<sup>1/</sup> The reason must, therefore, be sought in the expansion of income and the high marginal propensity to import which prevails in Latin America.

The fact that foreign exchange receipts were insufficient to meet demand cannot be attributed to a reduction in the volume of exports which, as has been stated, increased considerably in the post-war period (more than 20 per cent) as compared with pre-war figures. This applies also to the unit value and terms of trade.<sup>2/</sup> Argentina is one of the few exceptions, adverse weather conditions ruining its harvests precisely when it was encountering the greatest difficulty in placing its products at favourable prices. However, the principal factor in the decline in export prospects appears to have been the reduction in the area under cultivation, the result to a large extent of industrialisation policies which diverted factors formerly directed to exports towards the cities and industrial crops.

Nicaragua is perhaps the country in which a bad harvest (coffee, in 1948-49) has caused the greatest relative fall in foreign exchange receipts, necessitating a greater sacrifice of imports. However, though there are few cases of a severe contraction in the volume of exports (offset in the case of Argentina in the years immediately following the war by price increases), various countries have, at different times, and more frequently since 1948, suffered reductions in some exports, or in the foreign exchange obtained in return for these. In view of the limited

<sup>1/</sup>It should be remembered that the terms of trade between exports made during the war and imports effected with the resulting surpluses in the balance of payments were unfavourable to Latin America.

<sup>2/</sup>See Economic Survey for Latin America 1949, Document E/CN.12/164/Rev.1  
in Nov 1949



supply of foreign exchange already existing in these countries, the declines were of much greater significance than their absolute magnitude might suggest. The margin, therefore, became increasingly important.

The significant increase in production for the domestic market which took place in the Latin American economies during the war has undoubtedly reduced the dependence of these countries on the outside world, in the sense that a greater variety of goods can now be obtained within the region. At the same time, however, Latin America's dependence on other countries has increased in a socio-economic sense, which has acquired, perhaps, greater importance than the previous purely economic dependence. Widespread evidence of this fact was afforded by the recession which occurred in the second half of 1949 and, before that, by the contraction of industrial exports at the end of the war in countries where these had been developed (for example, textile exports from Mexico). As a result of the expansion of industry, highly dependent on imported raw materials and equipment, and the increasingly capitalistic structure of the economies, the decrease in imports brought about by exchange shortages led to problems of unemployment to a greater degree than when similar drops in exports and imports occurred in the past. This growth gives the wage structure a rigidity which hampers adaptation to changing circumstances.

In many countries in the area an artificial equilibrium in the balance of payments has been recently attained following the serious disequilibrium which occurred in the years immediately following the war. Some early maladjustment was foreseen as a result of the postponement of imports during the war, but the situation could not be maintained for long in the face of the exhaustion of reserves accumulated during the war period. At the same time the authorities could not interrupt the policies which were leading to a continuous deficit and they avoided as long as possible the adoption of the orthodox method of modifying exchange rates. This last measure was resorted to

only after all other possibilities were exhausted and, except in a very few cases, was applied in a degree insufficient to obtain equilibrium without the maintenance of severe exchange controls, import prohibitions, or substantial tariff increases. With few exceptions, therefore, the balance of payments equilibrium achieved by some countries after 1947 has been an artificial one.

In some cases the reluctance to vary exchange rates may have been due to the hope that the adverse pressure on the balance of payments was transitory; that exports, their prices and those of imports would soon move favourably; that, as a result of development policies, domestic production would eventually grow sufficiently to bring about the adjustment; or that inflation could be controlled so that a change in parity would, in the long run, be unnecessary. In the majority of cases, if not in all, however, resistance to an orthodox policy of devaluation derives from the view that the consequences of increased prices of many imports would be undesirable, and that in certain cases the possibility of increasing exports by this method was considered remote. In most countries, moreover, it was feared that the tax systems would be inadequate to prevent devaluation from causing an unfair redistribution of income in favour of exporters.<sup>1/</sup> This subject is treated more extensively in the chapter on the development of exchange systems.

In studying Latin America's balance of payments as a whole, it is particularly important to bear in mind the variety of circumstances obtaining in the different republics. Total figures are heavily weighted by those of several countries and at times conceal situations which are diametrically opposed. An attempt will be made in the following pages to illustrate these disparities, though it is not possible to indicate the special circumstances in each case without going into more detail than the nature of this report permits.

Viewing the post-war balance of payments situation of Latin America in terms of the fluctuations in international reserves, the appearance of heavy deficits will be noted following the end of hostilities. These deficits reached a maximum in 1947, when the United States capacity to export goods for civilian consumption had recovered almost completely and

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<sup>1/</sup> There is also a political factor of importance in the maintenance of the exchange rate.

Latin American reserves were still sufficient to meet the demand for imports postponed during the war and that derived from higher incomes arising out of previous surpluses and domestic monetary expansion. Some deficit continued after 1947 but with a downward trend, and others disappeared, changing to surpluses, but in general, these movements do not reflect an improvement in the balance of payments situation but rather the result of policies designed to achieve an artificial equilibrium. As the reserves of different countries approached levels which the authorities, for legal or other reasons, considered critical, special measures were introduced to prevent their exhaustion. In this respect Cuba was a notable exception, with the year 1947 showing a maximum increase in reserves. In Venezuela the accumulation of reserves was greatest in 1948, when those of the majority of other countries continued to decline. Throughout the period there was a continuous rise in Salvadorean reserves, which did not experience the sharp fluctuations to be observed in other republics.

#### Balance of Payments by Areas. The Problem of Inconvertibility

For certain countries within the area, the deficit in the balance of payments was even more serious in some years than was indicated by the data on reserves. This was due to exports being directed to soft currency countries during a period when the latter, for reasons of supply and prices, were not in a position to provide the imports required. As a result of the difficulty in effecting triangular settlements, by means of which it was in the past possible to meet deficits with one region by surpluses from another, it was necessary for certain countries trading mainly with Europe to restrict imports in some years in which their reserves did not change significantly or even increased. Latin America's trade balance with the United States, which before the war had shown a surplus, now showed a deficit, which the surpluses which existed with Europe could not be used to cover.

Post-war developments in the Latin American balance of payments should be considered not only in terms of Latin American economic conditions, but also in terms of a worldwide phenomenon, the counterpart of which is to be seen in the United States balance of payments. The heavy deficit in the Latin American balance of payments with the United

States and its gradual reduction by 1949, mainly through reducing imports, corresponds to the extraordinary United States export surplus reaching its peak in 1947 and then declining through 1949, mainly by decreased exports. While the European dollar deficit, reflecting post-war reconstruction conditions, was covered to some extent by grants and credits from the United States, the Latin American deficit, associated with development and high money income, was covered only to a minor extent by international credits and was reflected almost entirely in loss of reserves. (United States aid to Europe contributed indirectly towards relieving Latin America's dollar payments problem to the extent that European purchases in this area were effected with dollars made available under the European Recovery Programme).

To a certain extent the decline in United States exports by 1949 reflects a redirection of international trade towards pre-war patterns, resulting from increased European productive capacity and, at the end of the period, from the improvement in Europe's competitive position as a result of devaluation. However, the decline was in large part the result of restrictive measures against imports payable in dollars adopted by both regions, separately and through bilateral agreements.

The development in the post-war period of a large trade and current account deficit with the United States and of a trade and current surplus with Europe, linked to the impossibility of effecting adequate settlements, represents a change in the geographical structure of Latin America's international transactions and of the entire world pattern arising out of the dislocations caused by the Second World War and the considerable growth in United States productive capacity. Thus Latin America's inability to cover its post-war regional deficit with the United States by means of multilateral settlements reflects the world-wide dollar problem, which also determined in large part these regional deficits.

Latin America's pre-war balance of payments with the United States was characterised by a surplus on account of merchandise and a net deficit on account of services. At the same time, there was a trade surplus with Europe, largely offset by a deficit on services.<sup>1/</sup> In the post-war years (before effective measures were taken to approach regional balance), the

<sup>1/</sup> Notwithstanding the fact that certain countries such as Cuba, Brazil and Venezuela were net buyers in Europe and net sellers in the United States.

trade surplus with Europe was considerably larger than in the 'thirties, and payments for services lower, reflecting the decline in Europe's position with regard to investments in Latin America as well as restrictions on remittances. Meanwhile, a very considerable trade deficit with the United States appeared, and services contributed further to the current account deficit.

The large trade deficit with the United States thus represents a new phenomenon. While, after 1947, this deficit appears statistically balanced by the surplus with Europe and other areas, it was not to be expected that Latin America could acquire elsewhere resources of a magnitude equivalent to the payments to be made to the United States, particularly in view of the international economic conditions already referred to. Moreover, Europe is looking towards Latin America and other areas for sources of foreign exchange with which to cover its own deficit with the United States.

The measures adopted by Latin American governments to redirect their trade towards regional balance with the United States and with Europe separately may not, therefore, be as arbitrary as has sometimes been supposed.

In 1946, the deficit with the United States, of approximately 700 million dollars, (which may reflect some errors and omissions), was associated with a fall in Latin America's gold and dollar reserves of about 200 million, indicating that there were still possibilities for multilateral compensation. Several countries already had substantial deficits in that year. Mexico's reserves dropped by 120 million dollars, Chile's by 40 million, Peru lost about 10 per cent of its reserves, and the fall in Costa Rica's reserves (in relative terms) was also considerable. On the other hand, Venezuela, Cuba, Argentina and Uruguay showed large surpluses.

The disequilibrium reached its peak in 1947. The deficit with the United States on current account was at that time over 2,000 million dollars, and the loss of reserves approximately 1,100 million dollars, the figures indicating multilateral settlements in the range of 500 million. In the same year there was a large trade surplus with Europe and other areas. Part of this was used by Argentina, Brazil and Uruguay to reduce their external indebtedness, and part in credits granted by Argentina,  
/which also

which also accumulated inconvertible reserves of about 300 million dollars.<sup>1/</sup> In 1947 Latin America had a slight trade surplus and its loss of reserves was largely due to the necessity to grant credits to its customers and repurchase foreign debt in order to utilise inconvertible exchange. Thus the "quality" of the reserves deteriorated with the accumulation of inconvertible exchange. The countries losing most reserves in that year include Argentina, Mexico, Chile and Colombia (Cuba was the main exception). The Argentine deficit reflects a negative balance with the hard currency area greater than the surplus with the soft currency area, this deficit being accentuated with the debt repatriation.

In 1948, the global deficit on current account was only about 50 million dollars, while that with the United States exceeded 1,300 million. The surplus with other areas was less than 1,300 million. The reduction of the dollar deficit was due partly to the greater capacity of Europe to export and partly to policies designed to effect the adjustment and to replace imports from the United States with others from Europe. Exports to the United States increased only slightly in this year, and the increase was largely offset by higher service payments, particularly on investment income. The current account deficit with the United States was covered with private capital inflow, multilateral compensations (142 million dollars were received for exports to Europe under the Marshall Plan), small net receipts on inter-governmental loans plus a slight fall in gold and foreign exchange holdings. As repurchase of European investments was greater than the current account surplus with that area, holdings of European currencies declined by about 440 million dollars. Thus, the total fall in Latin American reserves (about 550 million dollars in 1948) reflected mainly these capital transactions.

The reduction of the current account deficit with the United States

<sup>1/</sup> Of the rest of the surplus with Europe that year, amounting to about 800 million dollars, multilateral settlements to cover the deficit with the United States may have been in the range of 500 million dollars, the remainder representing errors and omissions and possible unidentified multilateral settlements.

continued in 1949, the improvement of 575 million dollars being mainly due to the contraction in imports from that country. Exports to the United States also fell by about 140 million dollars, but this was offset by lower payments on services, particularly on the service of United States investments. The trade deficit with the United States was reduced to little over 100 million dollars. In contrast with 1948, the fall in imports from the United States (500 million dollars) represents an overall decline, since imports from other sources were also reduced. At the same time, imports (particularly to countries other than the United States) also declined significantly. As a result the surplus with Europe on account of merchandise was lower than the payments to that region on account of services. The 750 million dollar deficit on current account with the United States was more than offset by increased receipts on capital account (particularly long-term investments), dollar purchases under the Marshall Plan (more than double those in 1948) and some net receipts from inter-governmental loans, with a resulting improvement of approximately 400 million dollars in Latin American reserves. On the other hand, the position with regard to reserves of European currencies deteriorated.

#### The Structure of the Balances of Payments

Although reliable balance of payments estimates covering the majority of Latin American countries are available for only one pre-war year (1938), their structure is sufficiently well-known to justify the statement that they have undergone only minor changes in this respect. They still present the characteristic structure of balances of payments of under-developed countries in which a surplus on merchandise account is offset by adverse balances on account of services and remittances on foreign investments.<sup>1/</sup> Within the basic structure, similar in the two periods, there are a multitude of different circumstances, resulting from the dollar shortage, from changes in the export capacity of the Great Powers taking part in the Second World War, from structural changes in the Latin American economies, from inflation and from controls of various types established to prevent the exhaustion of the international reserves

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<sup>1/</sup> This structure is really more typical of a more advanced stage of development than that of many Latin American countries at present.

/accumulated during

accumulated during the war.

The merchandise account plays the same decisive role as in the pre-war period; and consequently Latin America's capacity to import continues to depend almost entirely upon its exports (and on the terms of trade). Imports are the main debit item for all countries. There have been certain changes in the relative importance of transportation and investment income payments which, however, are not sufficient to alter the basic structure of the current account of Latin American balances of payments. "Other current transactions" (that is, non-merchandise transactions in the current account) continue to represent net deficit items which have to be covered with the surplus on merchandise account. Uruguay, Argentina and Mexico are the only exceptions to this rule. Uruguay has had a net surplus on these items throughout the post-war years, net receipts on travel and transportation having been greater than investment income payments, as a result of repatriation of the external debt.<sup>1/</sup> In Argentina the change can also be attributed to repatriation of the external debt and in Mexico to increased receipts on travel account. Before the war, these two countries had a surplus on merchandise account which permitted them to cover their payments on investment income and other services. Now, service items are practically in balance (Argentina) or show a net surplus (Mexico).

All the other countries show a deficit on services varying in magnitude and absorbing different percentages of their receipts from exports. In some cases these percentages are small, as in the case of El Salvador (about 15 per cent), while in others they are considerable, as in the case of Brazil (between 25 and 30 per cent) or Venezuela (about 40 per cent). In some cases the surplus in the merchandise account has since the war been greater than the deficit in the services account, as occurred in El Salvador or Cuba, but this situation has not been frequent.

There has been, in general, an improvement in the current account of the balance of payments to the extent that service payments appear relatively less important. A larger percentage of export receipts can therefore be used to pay for imports. The reasons for this change are

<sup>1/</sup> The net surplus on these items is, however, small, so that it is insufficient to cover the deficit on merchandise when this reaches certain proportions (as in 1947 and 1948).



many and have varied in importance in the different countries. They include repatriation of the external debt, already mentioned; the increase in the share of exports controlled by nationals; the development of national merchant fleets; the concentration of foreign investments in export activities, the profits of which are reduced when inflation increases local costs while prices of their products do not rise proportionally and the exchange rates applicable do not vary in the same degree; the greater weight of Latin American taxes, which had a similar effect; the regulations restricting remittances of profits, dividends and amortization, etcetera. These factors have all contributed to the lower relative burden of non-merchandise items in the current account. After the war the servicing of foreign debts which had previously been suspended was resumed, although in many instances at lower levels established in agreements concluded with the holders. Thus, the resumption of these services was not sufficient to alter the situation. The non-trade items in the current account, although lower in proportion to export receipts, remain of considerable significance in absolute terms in most of the countries in the area. Moreover, the increased importance of the United States in total foreign investments causes the relative decline of service payments in question to conceal the problem of greater difficulty in transferring these payments affecting various countries whose commerce is directed mainly to Europe.

Exports have represented approximately 90 per cent of total receipts on current account both in the pre-war and post-war periods, with the exception of Mexico, where net travel receipts rose from 5 per cent of the value of exports in 1938 to 30 per cent in 1949.

Travel receipts have expanded considerably not only in Mexico, but also in other countries, such as Guatemala. However, the instability of this source of foreign exchange should be stressed, since in the case of Mexico and Guatemala it varies considerably with changes in the level of economic activity in the United States and also in relation to such factors as the attraction of Europe for United States tourists.

Transport receipts have been affected by the policy of various countries concerning the development of their merchant fleet, but their absolute importance is still very small. In Argentina and Chile, where receipts for transport had increased considerably during the war and where they represented 6 and 3 per cent respectively of the value of /exports, they

exports; they dropped once more to 3 and 1 per cent in 1949. In Colombia, however, with the progress of the Greater Colombian Fleet, receipts rose from 1 to 2 per cent, while the increase in Perú was on the same scale.

### Foreign Investments

There has not been a fundamental alteration in structure associated with the investment income item, but some changes of significance have taken place. While in earlier years most foreign investment was in the form of portfolio securities, direct investments and income from them now dominate the picture. Net investment income payments by Argentina fell from 119 million dollars and 134 million in 1938 and 1946 respectively, to 15 million in 1948-49; that is, whereas these payments had been equivalent to more than 25 per cent of the value of exports in 1938, they fell to approximately 1 per cent as a consequence of the repatriation of the foreign debt and also of the restrictions on the transfer of interest and dividends on direct investments. In Uruguay the reduction between 1946 and 1949 was from 6 to 2 per cent of the value of exports. In Mexico, on the other hand, after a notable decline in comparison with the pre-war period (from 25 per cent of the value of exports in 1938 to 12 per cent in 1946; although the absolute value was similar), the importance of these payments appears to be increasing, as a result of the increase in direct foreign investment, interest on the various loans received by the country and the resumption of service on obligations in default. Thus, by 1949, these services represented 16 per cent of the value of exports. There was also a significant relative decline in Chilean and Peruvian investment income payments; however those of Chile increased somewhat after 1946, while Peruvian payments continued to decrease in importance. In both countries (and also in Mexico), the proportion of interest payments on official loans to the total of the item increased considerably. Generally speaking, of the 11 countries for which pre-war data (1938) are available concerning investment income payments, only four (Venezuela, the Dominican Republic, Nicaragua and Costa Rica) indicate a higher proportion of these payments to exports in the post-war years than pre-war. In 1938 net investment income payments in the majority of countries absorbed about 20 per cent of the value of exports, and in five cases were over 25 per cent of exports. In 1946-49, only Venezuela and Nicaragua had payments exceeding 25 per cent of exports,

cent of exports, and in four countries the proportion was in the range of 20 per cent; the post-war average appears around 15 per cent. Nevertheless, a tendency towards a relative increase in this item is indicated in the post-war years, Argentina and Uruguay being notable exceptions. Investment income payments to the United States by Latin America in the post-war period were, on an average, over 20 per cent of the value of exports to that country.

Long-term private capital movements have played a relatively minor role in recent years, continuing a trend which began after the 'twenties. Since 1946, however, they have taken place in significant magnitude, in contrast to the previous fifteen years; receipts from the United States exceeded 500 million dollars in 1949. This represents, however, only 10 per cent of the value of total imports, and in the first half of 1950 the inflow of United States private long-term capital (the United States practically accounting for the total) had contracted to an annual rate of less than half that of 1949. Latin American investment income payments exceeded its receipts from private long-term capital inflow throughout the post-war years. This occurred even in the case of Venezuela, which received most private long-term investment. Latin America appears to have reached (too soon) the stage in which payments on existing investments exceed the volume of new investments before the economies can be considered mature, that is, when this phenomenon was traditionally considered to take place. Moreover, the **private** capital movements which took place only benefited a few countries, being largely concentrated in mining and other export activities.

Considerable efforts have been made to attract foreign investments to various Latin American countries during the period under study. There has also been great interest on the part of the United States in the creation of legal conditions in Latin America propitious to United States private investments. This attitude was expressed during the Pan American conference held in Bogotá, and on other occasions. However, with a few exceptions, Latin America's interest in foreign investment is not at present as indiscriminate as it was before the war. Apart from a somewhat <sup>unsatisfactory</sup> experience in some countries regarding the influence of foreign companies, mining investments, for example, are looked upon as a contribution to current foreign exchange receipts, but also as a use of non-replenishable resources, which

resources, which in the future, when the countries are in a more advanced stage of development, will no longer be available to contribute to the national welfare. Similarly, the lands exploited by fruit companies, in several Central American countries, lose ... much of their fertility with intensive exploitation, so that, if returned in the future to national ownership, they will not be able to make the same contribution to the economy of those countries as in their present state. In countries following a development policy by expansionist methods, while at the same time maintaining constant rates of exchange, the profits on foreign investments in activities for the domestic market may represent an increasing burden. There are, thus, a series of factors, some psychological and others economic, which tend to orient Latin American thinking towards a critical attitude on foreign investment. However, the principal factor has perhaps been the evaluation of the attitude of the investor. In general terms, there is an increasingly widespread opinion to the effect that factors such as the fiscal system have little or no influence on the decision to invest, since the scales prevailing in Latin America are lower than those to which capital would be subjected in its country of origin, while profits are greater. It is considered that the two basic factors favourable to investment would be their profitability, largely a function of the size of the market, and the possibility of withdrawing from the countries the return on the investment. There have been numerous examples in Latin America during the post-war period of the importance of these factors as incentives to private foreign investment. Mexico has been one of the countries receiving most United States private investments in activities which look towards the domestic market, in spite of the fact that this country is usually indicated as one where foreign capital encountered most difficulty in former times. The reason for this preference may be found in the existence in Mexico of the two conditions indicated above, of a wide market together with complete freedom to withdraw the product of the investment from the country.

The fact that since the Great Depression prosperity periods in the great industrial countries have not been accompanied by such large inflows of private capital probably constitutes one of the basic changes /which have taken

which have taken place in Latin American balances of payments since that period.<sup>1/</sup> The persistence of this situation in the post-war period, in spite of prosperity in the United States, has been attributed in the investing countries (and by some sectors of the countries receiving the investments) to nationalism, heavy tax burdens, lack of sufficient guarantees of equal treatment, inflation, etcetera, while it is generally considered in the Latin American countries that the basic and most decisive reason was the limitation of the capacity of the large importing countries to absorb foreign goods in view of the persistent general orientation of the foreign investor towards export activities. To the extent that export markets have offered opportunities, foreign investments have appeared. This occurred with petroleum, copper and bananas in spite of heavy taxes in Venezuela and Chile, and inflation in the latter country, and despite the persistence of bad feelings against the fruit companies in several Central American countries.

The natural field for private foreign investors, in view of the limitation on the profitability of export activities, would therefore appear to lie in the domestic market. There is no doubt that with a strong current of foreign investments directed towards this sector, the rate of development in Latin America could be speeded considerably, with less pressure on the balance of payments. It would, however, be over-optimistic to assume that the reduction in this pressure would be directly equivalent to the amount of inflow of capital which may be expected. Foreign investments in an amount equal to the deficit in the balance of payments which would occur in the absence of such investments would not have a neutral effect, but would in turn give rise to an additional demand for foreign exchange, the magnitude of which would depend on the circumstances of time and place. This refers to short-run effects; the long-run effects would be determined by a series of circumstances varying in each country and according to its economic policy. It should be noted that the major part of the investment income payments made by Latin America at present, which as already mentioned

<sup>1/</sup> It would be worth investigating whether the marginal propensity to import in some Latin American countries is such that an increase in the value of exports requires that complement of capital inflow in order to meet the demand for imports derived from the rise in incomes, and whether the equilibrium in balances of payments in Latin America during cyclical upswings before the Great Depression was due to these capital inflows.

exceed the inflow of new capital, represent income paid on investments made before the war.

It is not possible to state to what extent doubts with regard to Latin America's long-run capacity to pay have been a deterrent to foreign investments in the period under review, but they have probably had some influence in the situation.

While private investments have ceased to play the dynamic role which they had in Latin America in the past (nothing having entirely taken their place for nearly fifteen years), United States loans effected through the Export-Import Bank have acquired increasing importance since the war and have begun to a small extent to fill the gap. The magnitude of these loans has varied among the different countries and it is difficult to establish the measure in which they have contributed to avoid deficits in the balance of payments. They would have served this purpose to the extent that the specific projects financed with such loans would have been carried out in any case.<sup>1/</sup> In the years under review the loans received by Latin America from the United States Government were in the range of 100 million dollars. If interest and amortization payments are deducted the amount is considerably lower. In comparison with imports from the United States, which varied between 3,700 million dollars in 1947 and 2,500 in 1949 and the first half of 1950, their relative importance appears even less.

The transactions of the International Bank for Reconstruction and Development with Latin America are more recent and have not so far been of large magnitude. They began in 1949, and since then Latin America has received the greater part of the loans effected. Disbursements on these loans amounted to 36 million dollars in 1949 and to 29 million in the first nine months of 1950. In September 1950, there were 142 million dollars of undisbursed International Bank loans to Latin America. The loans of the institution are, moreover, highly concentrated geographically, Mexico and Brazil having absorbed 80 per cent of the amounts utilised and accounting for more than 60 per cent of those not yet disbursed. The

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<sup>1/</sup> In some cases it is possible that the granting of an international loan could cause a deficit in the balance of payments, as the increased income associated with the investment would give rise to additional demand for imports.

same situation applies to the loans of the Export-Import Bank, Chile, Brazil and Mexico having received the major part.

This type of loan contributes to Latin American development and also involves a lower interest burden than loans obtained from private sources through bond issues (this advantage is partly offset by the short periods for repayment of the principal). A particularly important aspect (excepting for some loans of the International Bank), is that of leaving the investment in the hands of the country, and therefore not constituting a permanent pressure on the balance of payments.

A recent change of attitude in the Export-Import Bank should be noted: the extension of some of the loans to the part of the investment represented by local currency expenditures. This implies a recognition of the effects of these expenditures on the balance of payments as a result of the high marginal propensity to import which exists in Latin America.

The foregoing analysis of the current account and capital items of the Latin American Balance of payments shows that the more analysis of the trade balance, and more specifically of exports, does not give an adequate indication of the international economic situation of the countries. This is particularly important in those countries in which a substantial part of exports is produced by foreign-owned companies.

The total value of exports in these cases is not a figure of great significance. What really affects the balance of payments is that part of the foreign exchange derived from exports which returns to or remains in the country (or the excess received, when there are new investments). Such foreign exchange receipts are the net result of all the transactions - exports, imports, profits, capital movements, etcetera - of the foreign companies which enter into the balance of payments.

The percentage of total exports controlled by foreign companies varies considerably from one country to another. It is around 10 per cent in the case of the Ecuadorean mining companies, between 30 and 40 per cent in the case of Nicaragua, from 70 to 80 per cent for Chile and as much as 95 per cent in the case of Venezuela. In the Central American republics with large exports of bananas by foreign companies, the proportion varies between 40 per cent for Guatemala, 45 per cent for Costa Rica and 75 per cent (more if the mining companies are included) for Honduras. The importance of exports by foreign companies within  
/total exports,

total exports, comparing the post-war years with 1938, appears to have increased in Venezuela, Chile and Nicaragua, while that of the Central American fruit companies seems to have declined. The exports of foreign companies have shown a very notable upward trend in Venezuela, and also, to a lesser degree, in Costa Rica, in contrast with the situation in the majority of the other republics.

In Venezuela, as a result of measures taken to this effect, the percentages received by the country of the value of exports controlled by foreign companies have, since the war, been relatively high, not only in comparison with other countries, but also in comparison with the pre-war situation in Venezuela. The proportion was 34 per cent in 1938, and rose to an average of two thirds in the post-war years. For Chile it was 60 per cent in 1946-48 and about 75 per cent in 1949, as against near 55 per cent in 1938. In the case of the Nicaraguan mining enterprises, the post-war proportion has been between 20 and 40 per cent, considerably less than in 1938. In Ecuador, in contrast to the situation in other republics, there were significant investments by foreign companies, with the result that their sales of foreign exchange to the country were greater than the value of their exports, although the difference between the two figures has tended to decline.

The factors determining the contribution of foreign companies to foreign exchange receipts indicate a very significant contrast between Venezuela and Chile. In the pre-war period profits retained abroad by the foreign companies in Venezuela were about 35 per cent of the value of their exports; in recent years this percentage has been higher. In Chile during the post-war period the corresponding proportion was of 15 to 25 per cent and was somewhat higher in the years of greater exports during the period. However, there has been considerable capital inflow in Venezuela. In 1938, these receipts were less than half of the profits, but rose in the post-war period to more than 90 per cent in 1947, falling to near 75 per cent in 1948. Abstracting from the other transactions of the foreign mining companies, this substantial capital inflow and the expansion of Venezuelan petroleum exports, contrast with the Chilean situation of absence of significant capital movement (until 1949) or of an expansionary trend in mining (or other) exports, together with the continuance of considerable profits retained abroad. As a result,

/Venezuela's balance



Venezuela's balance of payments in the post-war period up to 1949 has been characterized by surpluses, and receipts of foreign exchange from the foreign petroleum companies have more than covered expenditures on imports, whereas in Chile the deficit in the balance of payments, reflects, apart from inflationary factors, a situation in which foreign companies have not provided a source of foreign exchange adequate to permit the increasing level of imports required by its development aims. The available figures on reserves, imports and sales of foreign exchange in Venezuela in 1950, indicate that the appearance of a substantial deficit in the balance of payments in this year is due to a very sharp fall in investments by the foreign petroleum companies.

In Nicaragua, where the "foreign sector" is relatively smaller, profits retained abroad have absorbed in the post-war period a considerably larger proportion of the value of exports of the foreign companies - between 45 and 55 per cent - and investments in the country by these companies have been relatively small. As a result of the lower percentage of foreign exchange returned to the country and the relatively slow rate of increase in exports, the contribution of the foreign mining companies to the Nicaraguan balance of payments has been relatively small and of declining importance. In Guatemala, where banana exports have a share in total exports similar to that of the mining companies' exports in Nicaragua, the proportion of profits to the value of exports of that product in the post-war period is in the range of 40 per cent, among the highest. There were inflows of capital, which varied between 10 and 40 per cent of the profits of the companies, but the figures available, although incomplete, indicate that their contribution of foreign exchange was not expanding during the post-war period.

In Costa Rica, where banana exports represent a percentage of total exports lower than in Honduras and greater than in Guatemala, the estimates of profits of foreign companies indicate that, since the war, these have represented an increasing proportion of the value of their exports, rising from 10 to nearly 40 per cent. However, estimates of direct investments indicate that in 1946-47 they were considerably higher than profits although falling in 1948 to less than 40 per cent  
/of the latter

of the latter. It appears that the foreign companies have provided an increasing source of foreign exchange, at least in 1946-47, both because of increased value of exports and of the investments in amounts greater than profits. In 1948, when the value of total exports exceeded that of imports, profits paid by the foreign companies and the reduction in capital inflow largely offset the greater receipts on exports.

#### The Situation in 1950

In 1950, the Latin American balance of payments situation changed for reasons different from those previously contributing to reduce the deficit. In other words, whereas formerly the deficit was reduced by restricting imports, in 1950 there was a surplus as a result of an increase in exports. There is a marked difference, however, between the first half of the year, when the improvement was relatively less significant, and the latter half. Nevertheless in the first half of the year Latin America had, for the first time since the end of the war, a trade surplus with the United States (of about 120 million dollars). In the third quarter of the year the situation improved even more, the trade surplus rising to a total of 347 million dollars for the first nine months of the year; furthermore it is known that the improvement continued during the rest of the year at a rate similar to that in the third quarter. Moreover, while in the first half of the year the flow of long-term capital from the United States declined to less than half the rate of 1949, in the third quarter the situation changed considerably (although without attaining the levels of previous years); investment income payments considerably exceeded receipts of new capital.

If the figures for the balance of payments with the United States during the first nine months of the year are converted to an annual rate (which should give a conservative impression of the improvement), there would be a surplus on the merchandise account of over 460 million dollars, as against a negative balance of about 155 million in 1949. The negative balance on other current transactions would be 530 million, with a total deficit on current account of some 50 million dollars. If dollar receipts from capital movements and European purchases with Marshall Plan dollars are taken into account, a net accumulation of gold and foreign exchange is indicated.

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It is known that the last part of the year several countries, including Mexico and Uruguay, received a considerable volume of refugee capital which to a certain extent strengthened their reserves, although creating a monetary problem.

The improvement in the reserve situation is not general, however. The most notable exception is Venezuela where, despite the increase in exports, the interruption of petroleum investments caused a decline amounting to about 10 million dollars by the end of November. In some countries in the area the increase in reserves was relatively slight and the improvement in the balance of payments situation was reflected rather in increases in imports without the accumulation of commercial debts which had occurred in other years.

It is of prime importance to note, with regard to the improvement in the balance of payments situation which took place in 1950, that it has been the result of disturbing international events and of the policy adopted by the Great Powers and especially the United States in consequence. It is not an improvement based on a sound foundation in Latin American economic development, nor on fundamental prosperity of the great powers.