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REVIEW OF ECONOMIC CONDITIONS THROUGHOUT LATIN AMERICA

Report Prepared by the Secretariat

Note: This paper has been prepared by the Department of Economic Affairs for the *ad hoc* Committee on the Proposed Economic Commission for Latin America. It does not purport to be a comprehensive review.

Certain current economic problems could not be dealt with for lack of recent and reliable data; others have been discussed summarily or omitted as being matters not directly relevant to the Committee's inquiries. The separate studies presented to the Committee deal more exhaustively with certain aspects of current economic problems.

/REVIEW

REVIEW OF ECONOMIC CONDITIONS THROUGHOUT LATIN AMERICA

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REVIEW OF ECONOMIC CONDITIONS THROUGHOUT LATIN AMERICA

SECTION ONE

INTRODUCTION

This brief survey of economic conditions and problems in the countries of Latin America is designed to provide a factual background for the discussion of economic questions by the ad hoc Committee on the Proposed Economic Commission for Latin America.

The survey covers, necessarily in the broadest terms, economic activities and conditions throughout the twenty Latin-American Republics. It will be at once evident that there are among these countries wide divergencies and a significant independence of action. In spite of such differences these countries are now confronted with a range of almost identical problems, tend to seek similar solutions, and in doing so encounter roughly the same difficulties and obstacles.

This important identity of interests and objectives emerges as a more striking element than the fact that each economy considered separately has its own distinctive characteristics.

The survey seeks to focus attention on these common aspects and problems of Latin America relevant to its role in the world economy.

An indication of the magnitude of the subject covered in the following pages is revealed by the population and area of the region.* The twenty Republics of Latin America have a total population exceeding 150 million and cover an area of more than 7.8 million square miles - i.e. double the size of the United States. Extending from the temperate zone in the Northern Hemisphere to sub-polar regions in the Southern, this enormous land mass displays every type of natural feature from the highest mountains, ranging through tropical jungle and rich, rolling plains to sandy deserts.

Latin America's natural endowments, its agricultural riches, its abundance of raw materials, underscore its lack of economic development. A particular obstacle to development has been Latin America's physiographical structure. The communication systems are still most inadequate. Latin America's navigable rivers are not fully utilized, and the roads and railroads which have been constructed generally at a high cost only go a small way to meet needs.

* Table 3 on page 21 sets out population and miscellaneous economic data for the twenty Latin-American Republics.

/The relative

The relative economic isolation of the twenty republics from one another stems directly from Spanish and Portuguese economic policy which restricted colonial trade to the mother country exclusively. Geographical factors, and in later years, the lack of Latin-American merchant shipping has also impeded the development of economic ties between the republics.

Perhaps the most important feature of the Latin-American economy is the direct dependence of about two-thirds of the population on agriculture including pastoral industries, part engaged in production for export but the majority in subsistence agriculture. It should be emphasized that with a few striking exceptions agriculture is extremely backward and, in general, completely lacks modern tools and techniques. Following this, the next most important feature is mining, not because of the population which it supports, for this is extremely small, but because this one activity alone contributes about 40 per cent of total exports.

The structure, extent and type of industry in Latin America varies greatly from one country to another. Thus, Central America is virtually without industry, while countries like Argentina, Brazil, Mexico, Chile, Uruguay and Cuba, have now achieved some degree of industrialization. The process of industrialization in these countries began during the first World War but was greatly stimulated in the early 1930's, and they can now be said to be approaching an intermediate state of industrial evolution. In several of the larger countries, factory production has come to represent a significant proportion of the national output. However, the most important industries are those processing or converting domestic raw materials (e.g. meat-packing, sugar and flour milling, textiles and metal refining industries).

Among the factors which have retarded economic development, especially industrialization, is the lack of coal. Coal is found in only a small part of Latin America and is not plentiful. This has hindered the establishment of heavy industries. By way of compensation, however, oil is found, in some countries, in abundance, and there are vast potential resources of hydro-electric power.

Latin America is on balance a net exporter of foodstuffs although many individual countries remain substantial food importers; the more industrialized countries have achieved self-sufficiency in respect of basic consumer goods, but in some cases this is dependent on imports of raw materials and semi-manufactured goods.

An important factor in the consideration of the Latin-American economic scene is the special significance of exports in the general economy of all the twenty republics, although exports in most cases are limited to but a few materials. This factor, especially if considered in conjunction with the lack of diversification in the economies, makes them particularly

/vulnerable

vulnerable to external fluctuations. That this is so is not surprising since exports are mostly of raw materials and foodstuffs.

Latin America has experienced great difficulty in the past because of this vulnerability. In this regard it is sufficient to recall the disastrous impact of the last great economic depression on the Latin-American countries. Also to be noted are the effects of the development and expansion of synthetic nitrates on the Chilean economy,* and the effect of the cultivation of rubber in Southeast Asia on the Brazilian economy. From a position of sole world supplier, Chile today provides only 10 per cent of world nitrate production, while Brazil provides less than 2 per cent of rubber production.

From the above, therefore, it is clear that Latin America still presents many of the characteristics of an economy in the early developmental stages.** It has many of the ailments common to economies at these stages, such as lack of capital, shortages of technicians and skilled labour, and excessive dependence in these respects on foreign assistance. It has, too, many problems because of the similarity of its members' basic export products which necessarily results in a low level of intra-Latin American trade.

These economic maladjustments have their inevitable reflection in living conditions which, with some exceptions, are backward throughout Latin America. While it is not the object of this paper to discuss these matters, no survey of Latin America would be complete without some mention of these problems.

Notwithstanding the importance of food production, large sections of the population suffer from malnutrition. A recent FAO report indicated that Central America was, with Asia, the highest food-deficit area in the world. Poor health is a normal condition of most of the population. Statistics reveal some aspects of this. Tuberculosis mortality (per 100,000 people in 1935-40) ranged from 110 in Buenos Aires to 693 in Guayaquil. The average for 13 selected Latin-American cities was 323. Infant mortality figures are high, ranging from 93 (per 1000 live births) in Uruguay to 160 in Chile. The average for 10 selected countries is 123.

It should be kept in mind that throughout Latin America there is a total lack of reliable or comprehensive statistics and economic data. (Some countries have only had one census while others have not even had one). There is also a

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* For many years the nitrate industry was the most important in Chile. The export duty furnished the government with more than 50 per cent of its revenue.

** The calculated per capita national income (U.S.$) in 1946 for Latin America's four most industrialized countries was, Argentina $297; Chile $134; Brazil $84; and Mexico $66.

/lack

lack of exact data as to natural resources. In many countries there has been no scientific study of the methods of cultivation. There are still too few institutions organized to remedy these defects. However, it should be noted that in recent years, especially after 1930, most of the Latin American countries began to give careful study to their economic problems. Noticeable has been the emergence of a strong tendency towards economic development fostered and encouraged by governments. Thus recent years have witnessed a series of long-term plans, especially for industrialization and diversification and the establishment in many countries of government Economic Councils and Development Corporations such as those in Chile, Colombia, and Venezuela.

/SECTION TWO

SECTION TWO

AGRICULTURE

It has been estimated that about two-thirds of the population is directly dependent on the soil. In Argentina, Uruguay and Chile, less than 40 per cent of the population are engaged in agriculture, but in some of the Central American republics the percentage rises to more than 90 per cent. In general, agriculture is exceedingly backward and the application of modern techniques, with certain exceptions, has been limited. Latin America is on balance a net exporter of foods, many of which play an important part in world trade. It is noteworthy, however, that a number of countries, even some with substantial food exports are food importers. This is true of Brazil and a number of Central American republics which import wheat. Venezuela and Chile also import food. The principal foodstuffs exported to the world are coffee, foodgrains, meat, sugar, bananas and other tropical products.

In considering agriculture in Latin America it is important to draw a distinction between agricultural production for the "market", both internal and for export, and subsistence agriculture. Agricultural production for the export market is the more efficient, in many cases using modern methods and considerably more machinery. Even in countries where agricultural exports constitute a sizeable part of total exports, considerably less of the arable land is utilized for this purpose than for production for the internal market. This latter type of agriculture - frequently still primitive - employs a far greater percentage of the population than that engaged in production for export.

Another important characteristic of agriculture is the pattern of distribution of land ownership, especially of "latifundia", accompanied by peonage and low wages. Thus, in Argentina about one-fifth of the arable land is owned by 2,000 individuals or corporations. Less than 2 per cent of Chile's 188,000 properties account for half of total production. In Cuba, about one-half of the arable land is owned by large corporations. This pattern of land ownership is common throughout most of Latin America. There are exceptions such as parts of the Dominican Republic, parts of Mexico, Haiti, Costa Rica, El Salvador and certain parts of Chile.

At the other end of the land distribution problem is that of the small holdings. While small holdings are not in themselves necessarily bad against a background of primitive methods, lack of tools and fertilizers, and absence of any substantial co-operative development, they have been an important factor in continuing low productivity and have often resulted in serious and rapid depletion of the quality of soils.

Chief amongst the reasons for the backwardness of agriculture throughout

/most parts

most parts of Latin America is the lack of scientific methods, fertilizer, mechanization, irrigation development, soil conservation, and efficient distribution. In some countries, too, there is always a serious shortage of labour. Finally, there is the universal problem of under-developed transportation systems, the effects of which are felt throughout the whole of the Latin-American economy.

That many Latin-American governments are deeply aware of the backwardness of their agriculture is evidenced by the large number of plans for agricultural development. Common to all of these plans is the objective of diversification and of increasing productivity by the application of the latest and most suitable agricultural techniques, with a particular stress on mechanization; a number of governments have also embarked on large-scale irrigation projects. In some countries, for example, certain Central American republics, the stress is on securing a wider availability of basic tools, such as machetes, since mechanization remains an ambition which cannot be satisfied given the existing systems of cultivation, land ownership and level of technical knowledge.

/SECTION THREE

SECTION THREE

EXTRACTIVE INDUSTRIES

(a) Mining

Most of the minerals used in modern industry - iron, copper, tin, manganese, vanadium, molybdenum, tungsten, lead and zinc, quartz, mica and many non-metallic minerals - are produced or found in Latin America. The important exception is coal which occurs in only a limited number of places. Indeed, the importance of mining in Latin America, not only to local economy but to the world economy, is evident from the fact that Latin America produces about one-third of the world's tin, one-third of the world's silver, one-fourth of the copper, and one-seventh of the petroleum.

Exports consist mostly of ores, concentrates or refined metals in non-manufactured state. In spite of its mineral wealth Latin America still relies on imports for most of its semi-finished and finished metal requirements. The establishing of iron and steel industries, and in Chile, a copper industry, will tend to diminish this dependence. About 40 per cent of the total value of Latin-American exports consists of mineral products. In the case of Bolivia, the figure rises to 85 per cent (mostly tin) and in Chile 80 per cent (mostly copper and nitrate).

A factor of special significance is that despite the importance of mining in Latin America, less than 5 per cent of the population is directly engaged in mining and metallurgical activities. This is due to the high degree of mechanization achieved in mining by comparison with other industries. A noticeable characteristic of the mining industry is the predominance of foreign capital which it is held has resulted in the transfer abroad of a substantial percentage of national income without commensurate return. Common to mineral exploitation throughout most of the twenty republics is the lack of fuels and excessively difficult transportation. These problems have seriously retarded mining development. Comprehensive minerelogical surveys of vast areas of Latin America have never been made, but it is believed that reserves of most minerals are large. Brazil is said to possess the largest reserves of iron ore in the world, and iron ore is found or exploited in other parts of Latin America, especially in Mexico, Chile, Peru, Colombia and Venezuela. Brazil is an important source of industrial diamonds. Chile is the only producer of natural nitrate in the world, but since the development and experience of the synthetic nitrate industry, this country now only accounts for 10 per cent of world production.

/(b) Forestry

(b) Forestry

Latin America has been described by a recent report of the Food and Agriculture Organization as the "greatest wood surplus region on the face of the earth". About 39 per cent of its land area is forest land, the greater part of which is still virgin forest. Vast areas of forest land have not yet been explored. Notwithstanding Latin America's timber resources, in the past lumber imports have greatly exceeded lumber exports. There are a number of reasons for this paradox, the most important being inadequate transportation. Much of the timber is located in the interior or in inaccessible regions. There is also a general shortage of labour, and there is the reluctance of capital to flow into a field about which it lacks precise knowledge, especially as to the commercial possibilities of many species of trees.

In the export trade, Brazil plays the most important role, the main timber being pine. Chile is also an exporter of timber (rauli and laurel) and the Central American countries export mahogany and other hard woods. Although Brazil was the original home of the rubber tree, it now produces less than 2 per cent of world rubber. Argentina and Paraguay have a world monopoly of quebracho, a forestry product of great importance in the tanning industry.

Latin American countries are big importers of paper and wood pulp. Brazil however produces a substantial part of its requirements, and Mexico, Chile and Argentina are increasing their production.

(c) Fisheries.

The seas surrounding the Latin-American countries are regarded as being amongst the world's richest in fish resources. However, although these resources have been fairly adequately surveyed, their development has been limited because of a general lack of modern industrial methods for handling fish and because of the absence of a developed transportation and distribution system. This has resulted in the consumption of saltwater fish being limited to populations living on the seaboard.

In the developmental programmes of various Latin-American governments, some attention has been given to the development of fishery resources, not only as a means of increasing income but also in order to increase food production and improve diet. Although some modern methods have been introduced and some modern plants established for the catching, freezing, processing and drying of fish, progress to date has not been great.

/SECTION FOUR

SECTION FOUR

MANUFACTURING INDUSTRIES

The development of manufacturing industries in Latin America has been uneven. In a number of countries, especially those of Central America, there has been virtually no industrialization. In Peru and Venezuela industrial development is only now beginning. Although Cuba has a large sugar milling industry, in other respects there has been little development of manufacturing. On the other hand, in Argentina, Brazil, Chile, Colombia and México substantial progress has been made. The fostering of industrialization has been given special consideration in the economic development plans of many governments.

Heavy industries have so far achieved only a very limited growth, and even the more industrialized countries, such as Brazil, Chile, and Mexico, although well endowed with minerals lag far behind small industrialized nations such as Australia and Canada.

In the development of heavy industry, the iron and steel industry to date has only gained importance in Mexico and Brazil and to a lesser extent in Chile. In Peru, Colombia and Argentina some development is contemplated. Preceding the development of the iron and steel industries, there was some small-scale production of heavy industry products such as rolling stock for railroads and city traction systems. Machine shops in a number of countries produce equipment and tools for mines, and automobiles are assembled in a number of countries.

Portland cement is produced in many countries. This has been of special importance in recent years as a number of countries have experienced a building boom. This has been particularly true of South America where there has been a great expansion of residential building.

While the heavy chemicals industry has but just developed, some of the basic heavy chemicals are produced in the most industrialized countries. In recent years, the metallurgical and chemical industries have begun to play a more important part in the manufacturing picture.

Characteristic of the development of industry in Latin America is the emphasis on light industry. The most important light industries are in the food and textile fields. These two industries between them employ about 50 per cent of all industrial workers and account for 50 per cent of total manufactures.

In general, manufacturing industries can be divided into two main categories. There are those processing domestic raw materials for export, and there are those producing consumers goods for the domestic market, many of which are given special protection by governmental action such as tariffs and subsidies. In this latter category, the most important industries are cotton

/and woollen

and woollen textiles, rayon, clothing and footwear, furniture, glassware, pottery and porcelain, paper products, tires and tubes, pharmaceuticals and some light chemicals. In addition, some plastics industries have been established, but these rely on imports of their basic materials. The Latin-American industrialized countries are almost self-sufficient in basic consumer goods, but in some cases the industries producing those goods depend on imports of raw materials or semi-processed goods.

One aspect of manufacturing industries which should not be overlooked is that industrial establishments are generally very small. Thus of Argentina's 57,957 factories, about 50 per cent in 1941 employed on an average less than six workers. In many industrial plants - with certain notable exceptions - there has been very little application of modern technology.

/SECTION FIVE

SECTION FIVE

FACTORS OF INDUSTRIALIZATION

(a) Raw Materials

In addition to the list of minerals set out earlier in the section on mining it can be seen that most of the basic raw materials for industrialization such as agricultural and livestock products, and raw materials for the production of vegetable oils, fibres, and waxes are found in Latin America. The chief exception is coal which to date has been found in Chile, Brazil, Peru and Colombia. Even in these countries, it is not of the best quality or is not very plentiful. Iron ore is plentiful although, as indicated elsewhere, is not evenly distributed throughout the twenty republics.

(b) Power

Although Latin America is poor in coal resources, it does possess oil, in some places in abundance, accounting at present for about 15 per cent of world production; the principal sources are Venezuela, and to a lesser degree Mexico, Colombia, Peru and Ecuador. There is some small production in Argentina and exploitation is beginning in Brazil, Chile and Paraguay.

Many Latin American countries have large unexploited sources of hydro-electric power. The most important are Brazil, and the republics along the Andes, such as Chile, Colombia and Bolivia. Central America has good possibilities for hydro-electric installations, e.g. Lampa River in El Salvador. Mexico has substantial potential hydro-electric resources but with plentiful supplies of oil has not been under the same pressure to develop hydro-electric power as less richly endowed countries.

Chile and Uruguay have programmes for the complete electrification of certain of their public utilities, industries and railroads. Mexico, Brazil, Peru and Colombia have plans for large hydro-electric power developments.

The hydro-electric power potential of Latin America has been calculated as three times that of the United States. However, to date only 2,000,000 of its 80,000,000 kilowatt potential has been developed.

(c) Capital

One of the greatest problems of Latin American industrialization is the lack of capital. In the economies of these countries, savings are small and have flowed into such fields as agriculture and building rather than into large scale industrialization. Foreign capital has participated greatly in the economic life of Latin America, especially North American and British capital. Favoured fields were mining and utilities and portfolio investments were substantial. The League of Nations estimated that in 1939 British long term investments amounted to $4,500 million and United States to 4,000 million. Since this date thre has been a change in the relative positions of the two

/countries.

countries. It is believed that British investments now amount to about $3,500 million and United States to about $4,500 million.

In many instances, governments have provided capital which sometimes has had an inflationary effect. In addition, foreign loans have been obtained, such as those from the United States Export-Import Bank.

(d) Labour

Latin America in general suffers from a scarcity of labour. Although its overall area is large for vast regions its population density is very low and large sections of every country often live in inaccessible regions, beyond the influence of the economy of the "market".

If the population is small in relation to area, the problem is even more aggravated by the shortage of skilled labour, even in the most industrialized countries. Especially important is the scarcity of technicians. Latin America has too few vocational schools and these tend to be concentrated in a few countries. The number of technicians trained abroad is negligible. In the past, Latin America has depended much on foreign technical skill for the operation of her more important industries. It should be noted too that the productivity of workers is lower than in Europe or North America. This is due in large measure to lack of mechanization, and to poor living conditions, diet, hygiene and housing. Illiteracy is also an important factor. Illiteracy ranges from 12 per cent in Argentina to a maximum of 82 per cent in Honduras. In 15 republics the range is between 50 and 80 per cent.

(e) Governmental Action

Governmental action to encourage and stimulate manufacturing industries in Latin America has been an important factor in the progress realized in this matter of recent years.* There are a number of common elements in this type of government action. For example, it is generally regarded as the province of the government to create a favourable "economic climate" for development, and also to organize or undertake what amounts to an inventory of the country's economic resources, actual and potential. In general, too, governments do not attempt to supplant private initiative but to complement it, and even to assist it with capital, technical knowledge and skilled labour, or encourage it by favourable concessions.

The importance given by governments in recent years to economic development can be seen in the creation of the "Economic Councils" which exist today in Mexico, Brazil, Chile, Colombia, Uruguay, El Salvador, Venezuela, Bolivia and Guatemala, and in the long-term plans formulated by Argentina, Mexico and Colombia.

Direct state action in industrial development is effected in Latin America in various ways:

* This subject is treated in some detail in a Report prepared by the Secretariat on Economic Development in Selected Countries which will shortly be available for the members of the ad hoc Committee.

/(i) Through

(i) Through organizations such as the "Development Corporation" usually formed in connection with large-scale plans, provided with public funds enabling them to undertake enterprises on their own account, or to participate in private enterprises. They also have access to foreign capital. The most important of these organizations are in Chile, Colombia, and Venezuela, created in 1939, 1940 and 1946 respectively. In this category can also be included the Peruvian corporations of the Santo and of the Amazon and, although they possess certain special characteristics, those of Bolivia, Ecuador and Haiti.

(ii) Through joint private and government enterprises, as in Brazil and Argentina.

(iii) Through autonomous organizations, or state enterprises administered independently. This system has been employed in Uruguay, the state reserving for itself a monopoly of certain industries, such as meat packing, oil refining, alcohol and cement, not only as a means of raising revenue but also to ensure that certain staple commodities are available to the population at low prices.

The state has also intervened indirectly in industrial development through protective measures (customs duties, import controls, and tax exemptions) and by special industrial credit facilities. It must, however, be noted that these organizations have not been widely developed, and that in some countries, such as those of Central America, they are practically non-existent.

/SECTION SIX

SECTION SIX

CURRENT PROBLEMS AFFECTING LATIN AMERICAN INDUSTRIAL PRODUCTION

World War II affected the economies of Latin America in a number of different ways. How the war forced changes in the pattern of its foreign trade and generated serious inflationary pressures will be shown in a later section. Some important effects on industry are mentioned here as they have complicated the transition from a war to a peacetime economy.

To meet wartime needs, both abroad and domestically, many industries were over-extended or operated on a 24-hour basis. This took place at a time and in circumstances which made it impossible to acquire new machinery or spares. A direct consequence was the premature wearing out of equipment and machinery which has now to be replaced. This problem is reported to be particularly acute in Argentina, Brazil, Mexico and Chile. The seriousness of the problem is revealed by a 1944 estimate of a United States Government agency that replacement would cost about $2,800 million.

The cutting off of supplies from overseas forced the development of certain industries which in more normal times would have been economically unsound, e.g. production of certain chemicals, precision instruments and equipment, and parts for diesel engines. This type of production was carried on regardless of cost. Now that the supply situation is easing, some of these industries can no longer subsist.

Perhaps a more serious effect of the war was its interruption of plans for industrialization, caused mainly by an inability to obtain machinery contracted for but not delivered. Hardest hit were electrification plans, many of them of great scope and extremely vital in view of the lack of coal and oil in many countries. The expansion of hydro-electric power production was to have been the basis of a number of new industries, especially in Chile and Uruguay. At the end of the war many developmental plans had to be made over and machinery had then to be acquired at greatly increased cost. Finally, it should be noted that many countries were forced to procure quantities of old used equipment with which their industries will have to operate for some time.

SECTION SEVEN

INTERNATIONAL TRADE

Some of the most typical characteristics of the Latin American economy reveal themselves in its international economic relations. Throughout the twenty republics exports consist almost entirely of minerals and agricultural products. In recent years there has been an increase in the percentage of those exports which are semi-manufactured, or in the case of foodstuffs processed and ready for consumption. Finished manufactures constitute a relatively insignificant part of total exports. Imports on the other hand consist mainly of manufactured goods. These are the earmarks of what is generally regarded as a semi-colonial economy. Foreign trade, in fact, therefore plays as important a part in the Latin American economy as in the economies of far more economically developed countries.

For the present purpose the foreign trade of Latin America is considered as an aggregate. However, it should be borne in mind that such treatment is an oversimplification and may result in error. There are substantial variations between different regions, and indeed some of these special conditions in individual countries have been indicated in this paper.

In the immediate pre-war period the United States and Europe supplied Latin America with most of its imports - mainly manufactured goods, and provided the market for the bulk of Latin America's exports - mostly minerals and agricultural products. The United Kingdom and Continental Europe alone accounted for 45 per cent of both imports and exports. However, it should be noted that the share of Argentina, Brazil, Chile, and Venezuela, Uruguay and Bolivia in this trade was disproportionally larger. The United States accounted for about 33 per cent of trade, while trade between the Latin American republics was relatively unimportant.

A major effect of the war on the foreign trade of Latin America was to cut off or substantially reduce trade with the United Kingdom and Continental Europe. The re-adjustment took two main forms - one was an increase in trade between the Latin American countries, imports from within the area increasing from 10 per cent of total imports in the immediate pre-war period to 27 per cent in 1944. The other and more noticeable form was the substantial improvement in the position of the United States in the foreign trade of the twenty republics. By 1944 the United States was supplying about 60 per cent of Latin America's imports and taking about 50 per cent of exports. In the case of some countries the figures were even higher, e.g. 81 per cent of Cuba's imports, and 89 per cent of her exports. The share of Latin America in United States exports also increased,

/rising

rising from 16 per cent of total United States exports in 1936-1938 to 39 per cent in 1945. The transition from war to peace has revealed no drop in the values of imports or exports, but a constant increase.

It is only when the composition of exports is studied that the vulnerability of the Latin American economies is revealed. A characteristic of these exports is the relatively small number of products which make up the total, and the dependence of most countries on the export of only a few products. Thus coffee, bananas, sugar, cotton, cocoa, and tobacco accounted for almost all of the exports of agricultural Central America, while about 90 per cent of Venezuela's exports consisted of mineral oils, 70 per cent of Bolivia's tin, and 80 per cent of Chile's copper and nitrate.*

Most of these products are produced in the main solely for export. Should export markets fail, these products could not be used locally as the Latin American economies could not absorb them in such quantities. This vulnerability to export demand is highlighted by experience during the depression years 1929-1932 when the total value of Latin American exports fell by 64.3 per cent. Lack of diversification within the economies provided no cushion to absorb any of the shock.

It will be evident therefore that for the maintenance of prosperity in such Latin American countries, where exports represent a substantive percentage of total national income, the maintenance of exports is as vital as the maintenance in the more economically developed countries of the level of investment. Exports form what has been called the "crucial sector" of the Latin-American economy. Thus, the well-being of the Latin American economies is in present circumstances, dependent on conditions and policies outside their control. Being in an important degree competitive in this respect they are less able to defend themselves in such circumstances.

The wartime changes in Latin American trade noted above, have increased this vulnerability, for any fluctuations in the American economy will necessarily have an immediate reflection, more or less severe throughout all the countries of Latin America. An illustration of this is already available. During and immediately after the war the Latin American countries accumulated substantial dollar reserves as a result of a favourable balance of trade with the United States. In the second half of 1946 Latin American imports from the United States began to increase considerably. This trend continued so that in the first half of 1947 imports from the

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* It should be noted that the price of exported primary products tends to fall faster than the price of imported manufactured goods.

/United States

United States amounted to $1,241 million which was almost double the value of exports to the United States i.e. $628 million. As a result of this development the accumulated reserves are now being rapidly depleted. Indeed, a number of countries have completely exhausted their reserves and are now facing a serious dollar shortage. Others have had to institute strict exchange and import controls to conserve their dollar exchange.

These exchange losses are due to several developments. Until exchange controls were enforced, a large part of these reserves were used up in luxury or non-essential imports. It should be noted however that the replacement of worn-out machinery and the acquisition of new equipment and machinery accounted to a large extent for the increase in imports. Another factor which has had and continues to have a serious effect on the Latin-American economies is the substantial increase in prices in the United States, especially since the relinquishing of most price controls in mid-1946. The expectation that the accumulated reserves were large enough to play a major role in tiding the Latin-American countries over a difficult transition period was in large measure destroyed by rapid rises in the prices of imports from the United States. By mid-1947 the Wholesale Price Index for manufactured goods in the United States had risen more than 75 per cent since August 1939. This, plus price rises in all other fields, severely contracted the purchasing power of dollar reserges. However, it should be noted that although the cutting off of overseas supplies was an important factor in the accumulation of foreign exchange reserves, rising world prices also contributed to the expansion of these reserves. While on balance the terms of trade were probably moving to Latin America's disadvantage, this aspect of the problem should not be overlooked.

In addition to reserves of United States dollars, the Latin-American countries accumulated substantial sums of sterling and other inconvertible currency. These reserves have been drawn on for the redemption of foreign debts and obligations e.g. Argentina's redemption of foreign owned utilities.

/SECTION EIGHT

SECTION EIGHT

INFLATION IN LATIN AMERICA*

All Latin-American countries have suffered to a greater or lesser degree from internal inflation caused by a considerable rise in the value of exports accompanied by a reduction in the volume of imports. Indeed, it might be said that inflation is the most serious of the ailments currently affecting the Latin-American economies. The magnitude of the inflation is revealed in the Cost-of-Living Index for twelve Latin-American countries set out in Table 1, but it should be noted that the indices are recognized (even officially in many cases) to understate the degree of inflation.

The principal elements causing the inflationary pressure were the increased wartime and post-war demands of the United States for Latin-American agricultural and mineral products, United States military expenditures in Latin America, development expenditures, budget deficits, an increase by foreign companies in investment in export industries, and what in some countries amounted to a building boom.

The table which follows shows what this pressure did to force up prices. This was followed later by a rise in wages, putting further pressure on the limited quantity of goods available and further forcing prices up. Measures to curb inflation were largely ineffective. It is true there were and are price controls, but the lack of an effective rationing system for consumption goods rendered them largely meaningless.

The inflation continues, for the flow of imports especially of consumers' goods since the end of the war has been insufficient to meet more than a part of demand. Further factors accounting for the continuance of inflation are the expansion of developmental projects by a number of countries and delayed demand for both investment and consumption goods. Table 2 is a further indication of the inflationary pressure.

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* This brief account of inflationary tendencies in Latin America is based on the Secretariat Paper "Survey of Current Inflationary Tendencies in Latin America", which has already been made available to the members of the ad hoc Committee.

/Table 1

Table 1

INDEX OF COST OF LIVING

Country	1944	1945	1946	1947
		(1937 = 100)		
Bolivia	470	496	533	619 2/
Chile (Santiago)	224	244	283	383 4/
Mexico (Mexico City; food clothing, domestic help)	230	247	308	343 3/
Paraguay (food and clothing in Asuncion; 1938=100)	193	214	236	275 1/
Cuba (food prices only)	172	194	208 (10 mo.ave)	---
Brazil (Rio de Janeiro)	170	197	222	---
Peru (Lima)	163	182	199	253 4/
Costa Rica (San Jose)	167	177	184	212 4/
Argentina (Buenos Aires)	113	135	159	177 3/
Colombia (Bogota)	170	189	207	251 4/
Uruguay (Montevideo)	121	139	153	170 2/
Venezuela (Caracas, cost of food, coal and soap)	141	141	150	171 3/
Australia	129	129	131	134 5/

1/ February
2/ March
3/ June
4/ July
5/ Ave. April-May-June

Source: United Nations Monthly Bulletin of Statistics, September 1947

/Table 2

Table 2

INDEX OF NOTES IN CIRCULATION AND BANK DEPOSITS

(1937 = 100)

Country	Notes in circulation 1946	Notes in circulation 1947 1/	Bank Deposits 1946	Bank Deposits 1947 1/
Argentina	353.5	366.1	259.1	283.4
Bolivia	667.9	669	480.3	482.1
Brazil	445.7	443.5	524.7	549.3
Chile	501	507.6	309.2	347.3
Colombia	490.6	450.9	480.2	456.8
Mexico	628.6	587.5	819.6	819.3
Peru	624	628.1	510.9	505.9
Uruguay	235.2	230.1	241.7	245.7
Venezuela	455	455.9	---	---

1/ 1947 figures are the latest available for each country, but are in no case later than May.

Source: United Nations Monthly Bulletin of Statistics

/Table 3

Table 3

TABULAR GUIDE TO ECONOMIC CONDITIONS IN LATIN AMERICA

Country 1/	Population 1/ Year	Population 1/ Number	Automotive vehicles 2/	Radio sets in use 3/	Telephones 4/	Railway mileage 5/	Road mileage 5/	Total imports 6/ value (1,000 dollars)	Per capita imports	Total exports 6/ value (1,000 dollars)	Per capita exports
rgentina	1942	13,709,238	309,500	1,050,000	460,857	25,358	253,115	301,881	$23.48	436,133	$30.19
olivia	1942	3,533,900	5,745	40,000	2,621	1,407	10,154	27,979	7.91	63,201	17.88
razil	1942	43,550,000	174,000	500,000	290,910	21,253	142,294	275,700	6.33	336,400	7.72
hile	1943	5,229,367	50,269	200,000	90,943	5,182	22,613	108,254	20.70	161,068	30.80
olombia	1942	9,523,200	35,434	166,000	42,233	2,045	14,336	96,903	10.17	100,396	10.54
osta Rica	1941	672,043	3,945	22,000	4,048	188	405	17,798	26.48	10,230	15.22
uba	1943	4,778,583	48,324	175,000	68,232	11,594	2,214	133,890	31.67	211,506	50.03
ominican Republic	1941	1,654,993	2,894	77,000	2,400	762	3,180	11,739	7.09	17,124	10.34
cuador	1943	3,112,137	3,903	6,800	7,600	800	3,311	8,400	2.79	13,300	4.42
l Salvador	1942	1,862,980	3,411	10,500	3,744	384	3,709	8,331	4.47	11,204	6.01
uatemala	1942	3,410,762	4,824	22,000	3,800	705	3,786	13,416	3.93	12,785	3.75
aiti	1941	3,000,000	2,485	3,000	2,900	150	1,754	7,431	2.48	6,657	2.21
onduras	1942	1,154,388	1,569	16,000	1,916	661	693	10,255	8.88	10,119	8.76
exico	1941	20,208,163	105,470	350,000	178,726	12,741	56,923	188,294	9.32	150,106	7.43
icaragua	1941	1,013,946	907	4,000	1,509	289	1,550	10,438	10.29	11,931	11.76
anama	1940	631,637	7/15,171	32,000	7,000	7/380	7/ 870	32,504	7/51.46	4,283	6.78
araguay	1940	1,014,773	1,428	12,500	3,800	1,043	3,759	6,562	6.46	8,147	8.02
eru	1943	7,395,687	24,554	70,000	35,151	2,345	16,559	55,050	7.44	76,015	10.28
ruguay	1941	2,185,626	45,765	150,000	46,656	1,875	2,487	63,135	28.93	70,845	32.42
enezuela	1942	3,996,095	35,534	138,000	31,856	816	5,882	88,276	22.08	8/223,634	8/ 55.96

/ Official Latin American sources
/ Year 1941, except Mexico, 1940
/ Year 1941, partly estimated

Source: U.S. Department of Commerce.

4/ Year 1941, except Dominican Republic, Haiti, and Nicaragua, 1942; Honduras, 1940; El Salvador, 1938; Uruguay, 1939; Cuba, 1943.
5/ Year 1940

6/ Year 1941
7/ Includes Canal Zone
8/ Value of Venezuelan exports adjusted to commercial value of petroleum shipments.
