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RECENT TRENDS AND DEVELOPMENTS IN THE ARGENTINE ECONOMY

TABLE OF CONTENTS

	Page
INTRODUCTION	3
CHAPTER I: AVAILABLE GOODS AND PRODUCTION	7
The Trend of Available Goods	7
Changes in Production	10
Agricultural Production	12
Cattle	25
Industrial Production	33
The Building Industry	47
Mining Production	49
CHAPTER II: FOREIGN TRADE AND BALANCE OF PAYMENTS	52
The Trend of Foreign Trade in the Postwar Period	52
The Structure of Exports	59
Composition of Imports	61
Direction of Trade	65
Changes in the Structure of the Balance of Payments	69
Distribution by Areas	72
CHAPTER III: MONEY AND PRICES	75
Banking and Monetary Reforms and Inflationary Policy	75
Evaluation of the Means of Payment	78
Inflation, the Balance of Payments and the Rate of Exchange	82
Means of Payment	88

CHAPTER III (continued)

	Page
Monetary Expansion and Domestic Production	90
Real Wages and Available Goods	93
The Stock Market	94

ARGENTINA

INTRODUCCION

The economy of Argentina appears to be entering upon a phase of relatively slower progress or decline since 1948, when the majority of production and foreign trade indices seemed to have reached their peak. In 1950, and especially during the second half of that year, this tendency seems to have been reversed. This change was brought about by three different types of factors.

First, there was the new economic policy adopted by the Argentine Government, which aims at fostering the expansion of agricultural production in order to build up a larger volume of exportable surpluses and so obtain the foreign exchange needed for increased imports.

The first incentive offered to agriculture was the previous fixing of a higher price level for the principal products, which led to an increase of 10 per cent in the total area sown with cereals and flax during the period 1950-1951. The second incentive was the granting of easy and abundant credits for agriculture and, lastly, the allocation of substantial foreign exchange reserves for imports of agricultural machinery.

The importance of these measures is emphasized by contrast with the policy previously followed by the Argentine Government. The former economic policy had deliberately favoured industry by the granting of ample short and long-term credit facilities, as well as import licences and sundry privileges, while much less attention was given to agriculture, the price policy of which actually amounted to the transfer of a part of its revenue to other sectors of production or consumption.

It is not surprising, therefore, that the reduction in the area sown, which seemed to have become a structural feature during the past twenty years, should have become more marked, especially in the case of traditional crops such as wheat and flax. The displacement toward livestock production counteracted this trend to a certain extent, for until recently, when meat shipments to the United Kingdom were suspended, this economic activity was able to rely on a steady foreign market as well as a sharp increase in domestic consumption, which was stimulated by improvements in the standard of living.

The second factor which contributed to the change in the prevailing foreign trade position was the introduction last August of reforms in the exchange system whereby the number of multiple rates in force was reduced from 9 to 4, and the value of the Argentine peso was adjusted to a level better suited to the country's export trade, which had been seriously affected by the constant increase of domestic costs.

Thirdly, the increased world demand for primary goods for rearmament - a factor independent of any decisions taken within the country itself - has contributed to the economic recovery of the Argentine. There is, however, a reverse aspect to this factor, as it may not be possible to utilize the foreign exchange obtained from increased exports for the purpose of freely importing capital goods, fuel and raw materials, due to the restrictions placed upon these so-called strategic materials by the supplying countries and the consequent increase in prices.

The change is reflected in recent foreign trade developments. The quantum of exports in 1949 was 32 per cent lower than the 1948 maximum, but in 1950 it had risen 27 per cent in relation to the preceding year. Imports, which following the usual trend, continued to expand after exports had fallen off, showed a less marked recovery in 1950. The rise of prices on the world market, together with the raising of the rate of exchange of various currencies, partly offset the effects of the exchange permit facilities granted since last October. The reversal of the Balance of Trade position indicates most clearly the change which took place in the foreign trade situation. In 1948, for the first time in the post-war period, there was a deficit of 648 million pesos, which had increased to 924 million pesos in 1949; in 1950, however, the Balance of Trade showed a credit of 454 million pesos. If exports and imports are calculated at the same rate of exchange, the foreign exchange credit balance will appear even more substantial.

The changing trend also affects the gold reserves and foreign exchange reserves in the Banco Central which had been gradually decreasing over a number of years. Since the second quarter of 1950, this tendency has been reversed, and between March and December these reserves had recovered some 700 million pesos. The expansion continued at the same rate in 1951.

The problem of the dollar shortage, which had become very serious,

/likewise underwent

likewise underwent a change. In 1950 the Argentine Trade Balance with the United States showed a surplus of exports amounting to 280 million pesos, in contrast with the deficit of 344 million which occurred in 1949.

The situation is even more favourable than these figures indicate, since Argentina, having redeemed its foreign debt, is no longer burdened by servicing it and can therefore practically spend almost all the exchange derived from exports on purchases abroad.

The terms of trade in 1948-1949 were unfavourable to Argentina, but in 1950 these were also reversed and, together with an increase in the quantum of exports, there was a slight recovery in the capacity to import.

This recovery has been greatly influenced by the remarkable rise in the price of wool, resulting from an increase of foreign demand, which absorbed the total accumulated stocks of earlier shearings and improved the bargaining position for the 1949-1950 and 1950-51 shearings.

However considerable these changes may have been, however, they cannot provide an immediate solution of the fundamental problems which are inherent to the development of Argentine economy.

The first of these problems may be summarized briefly, as follows: In order to maintain the high level reached by Argentine industry, it is also necessary to maintain a high volume of imports of capital goods (new and for replacement purposes), raw materials, fuel etc., for which exports must supply the necessary foreign exchange.

This explains the Government's change of policy, aimed at restoring agriculture as a means of providing foreign exchange in order to safeguard the position of industry.

The other two basic problems of Argentine economy are inflation and energy.

Inflation in Argentina has assumed specific characteristics as a result of the Government's declared intention of using it as a means of obtaining certain objectives, among them the redistribution of income.

The absorption of more than half the total of bank loans by the State, together with a new banking system established in 1946, based on the issue of currency as a means of short and long-term financing, have been the causes of inflation in the Argentine.

The repercussions of the spiral of wages and prices have already been felt, though some attempts have been made to suppress this trend by

/compelling employers

compelling employers who granted wage increases, to bear the burden of the increase without transferring it to the consumer.

As a result of the intensification of industrialization and the growth of the population, accentuated by the migration of the rural population to the towns, energy resources are inadequate to meet demand.

The shortage of fuel has been partially relieved by intensive public works programmes, including the building of the gas pipeline from Comodoro Rivadavia to Buenos Aires, but the proportion of domestically produced petroleum in supplying the needs of the country is still decreasing.

The best solution would appear to be the utilization of new sources of hydro-electric power, together with an increase of drilling and pumping equipment in the petroleum industry. These developments, however, demand substantial foreign exchange availabilities and therefore involve an increase of exports in order to strengthen the deteriorating capacity to import. Hence the necessity for the country to concentrate its efforts on agriculture, not only with a view to regaining the ground which has been lost, but also to achieve a more advanced stage of development. This problem also involves mechanization and immigration, in order to overcome the deficiency of domestic manpower.

The favourable factor of the demand for Argentine products, arising from international rearmament programmes, should not obscure the fact that there are certain weak points in the supply situation. It should be remembered that the restrictions applied to imports, and the dollar shortage during the period 1948-1949, did not allow the Argentine to accumulate sufficient reserves of essential goods to meet the current emergency.

CHAPTER I AVAILABLE GOODS AND PRODUCTION

The Trend of Available Goods

The course of Argentine economy during the past five years may be followed by means of the estimates of available goods and their composition prepared by this Commission. These estimates show that the volume of consumer goods and of production, expanded at an exceptionally high rate during the post-war period, until 1948, declining in both 1949 and 1950. The increase, as compared with the 1945 level, was 73.5 per cent in 1948, 62 per cent in 1949 and 46.3 per cent in 1950.

However, the most notable feature of recent development is the change which has taken place in the composition of consumer goods and in production. Imports for obvious reasons were seriously restricted during the war but since then have expanded in absolute and relative terms, so that they made up 38.9 per cent of the total supply of available goods in 1948 and 31.6 per cent in 1949. Exports reached their peak in 1947, decreasing somewhat in 1948, and even more in 1949, theoretically leaving a larger margin for consumption. In 1950 there was a substantial recovery of exports.

/Table 1

Table 1 Argentina: Available Goods and Their Composition a/
(In millions of pesos at 1935 prices)

<u>Years</u>	<u>Production</u>	<u>Exports</u>	<u>Imports</u>	<u>Total</u>
1935	3,558	1,569	1,175	3,164
1939	4,239	1,392	1,299	4,146
1941	4,653	1,040	892	4,505
1943	4,583	1,040	490	4,033
1945	4,730	1,139	522	4,113
1946	5,071	1,205	1,090	4,956
1947	5,638	1,312	2,146	6,472
1948	5,658	1,211	2,691	7,138
1949	5,451	892	2,103	6,662
1950 b/	5,201	1,126	1,944	6,019

Source: The basic data were drawn from the reports of the Banco Central and of the Sintesis Estadística Mensual (Monthly Statistical Summary) of Argentina.

a/ The figures in this table differ from those published in the Economic Survey of Latin America 1949 due to the correction of the index of industrial production carried out by the Official Statistical Department and contained in a report dated September 1950 entitled La Actividad Industrial Argentina entre 1937 y 1947. Taking the figures given by the Banco Central the amount of available goods would be as follows:

<u>Years</u>	<u>Available Goods</u>
1935	3,164
1940	4,206
1945	4,319
1946	4,908
1947	6,247
1948	6,922
1949	6,453
1950	5,764

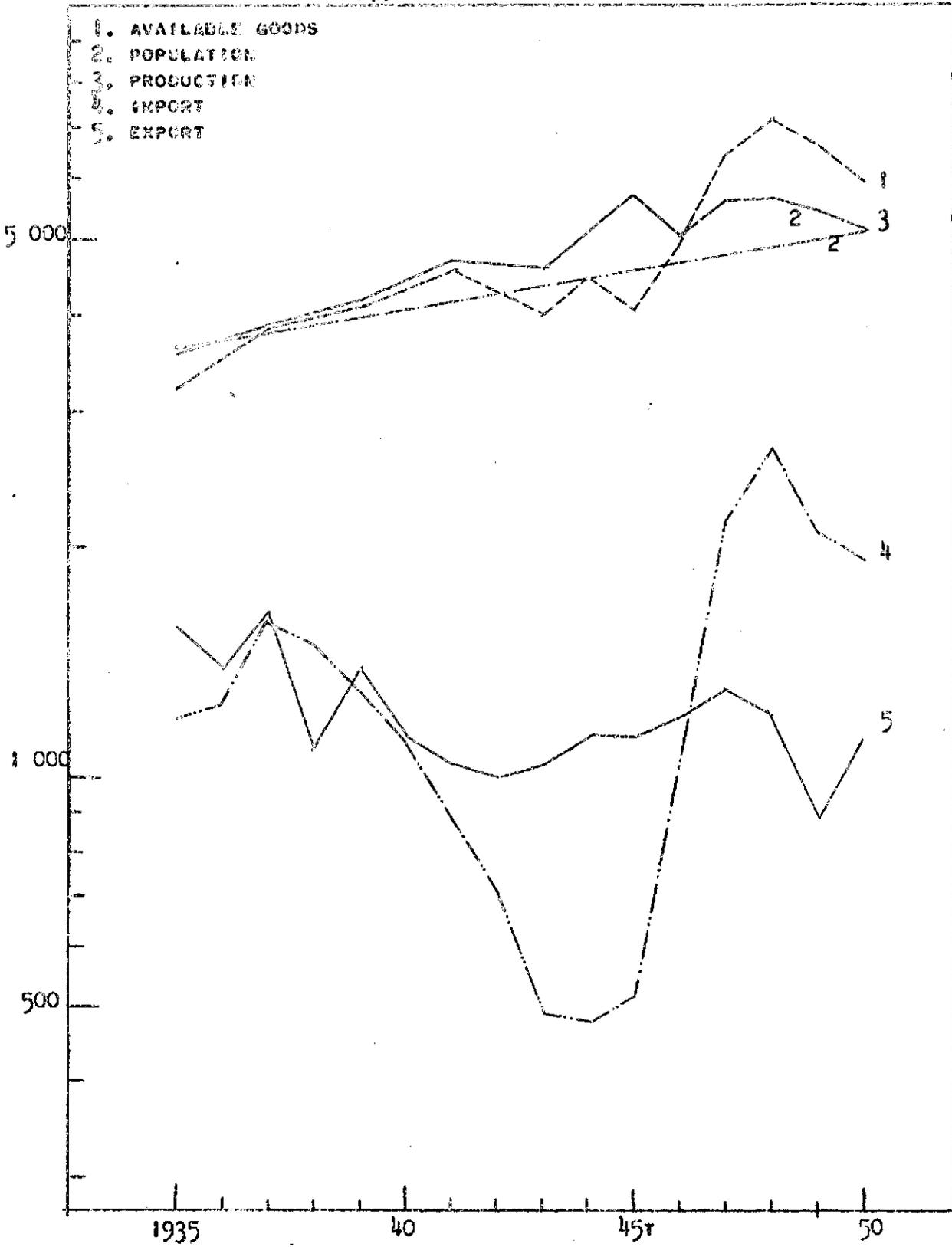
b/ Provisional.

Note: See Table 3 for production figures. The export and import data were obtained by multiplying the respective 1935 values by the annual indices calculated by ECLA. Since no foreign trade statistics are available for the period 1947-1949, these indices were calculated on a smaller sample of products and groups of products.

The significance and the extent of the recent changes in production must also be considered. During the war period, production was greatly stimulated, as a result of the effort to replace imports by domestic goods. At the close of hostilities, it was found that production had been increased by about 21 per cent, that is, an average annual increase /of about

CHART 1
 ARGENTINA
 AVAILABLE GOODS

10 000 MILLIONS OF PESOS AT 1935 PRICES SEMI-LOGARITHMIC SCALE



of about 4 per cent, under conditions which were at times uncertain and at the cost of considerable depreciation of equipment in many sectors.

Since 1945, the rate of increase has been higher, production in 1948 being 19.6 per cent greater than in 1945. This increase in 1949 diminished to 15.2 per cent. The provisional 1950 figures indicate a further contraction, but the level shown is higher than that for 1946.

Production expanded at a greater rate than the population, though their respective curves have recently tended to come together, as may be seen from Chart 1. The apparent per capita availability of goods has remained high, however. (see Table 2).

Table 2 Argentina: Population and Available Goods

<u>Years</u>	<u>A</u>		<u>B</u>
	<u>Population</u> (thousands)	b/	<u>Available goods</u> (millions of pesos at 1935 prices)
			$\frac{B}{A}$ in pesos per capita
1945	15,546		264.6
1946	15,767		313.9
1947	16,074		402.3
1948	16,472		433.3
1949	16,894		394.3
1950 <u>a/</u>	17,350		346.9

Source: (A) Monthly Statistical Summary, Argentina.
(B) Those contained in the preceding table.

a/ Provisional.

b/ The population figures taken at the end of each period.

These figures do not refer exclusively to available goods for consumption. They are in part made up of capital goods, but it is difficult to determine the proportion of each. In any case, the preceding table shows that the per capita volume of goods increased until 1948, though in 1949 it fell below the 1947 level. The provisional data suggest that in 1950 the level will be still lower, though 30 per cent higher than that of 1945. ^{1/} On the other hand, the contraction of exports in 1948

^{1/} The production figures of the Banco Central indicate a less pronounced increase in available goods per capita, as follows: 277.7 pesos per person in 1945; 420.2 in 1948, and 382 in 1949.

and 1949 has contributed to the formation of stocks for subsequent sale on the world market, though not for domestic consumption, as these goods cannot be absorbed within the country.

Changes in Production

The trend of production is similar to that of available goods, reaching a maximum in 1948. The next two years show a drop below the 1947 level though the figures are still above those for 1945 and 1946. The 1950 data are merely provisional estimates based on available statistics covering a part of the year or, alternatively, referring to certain basic goods only, and are therefore subject to revision.

Table 3 Argentina: Quantum of Production
(In millions of pesos at 1935 prices)

<u>Years</u>	<u>Agriculture and Livestock Production</u>	<u>Industry a/</u>	<u>Mining</u>	<u>Building</u>	<u>Total</u>
1935	2,030	1,251	102	175	3,558
1939	2,190	1,665	149	235	4,239
1941	2,500	1,730	181	242	4,653
1943	2,320	1,840	201	222	4,583
1945	2,160	2,100	208	262	4,730
1946	2,235	2,370	191	275	5,071
1947	2,405	2,730	198	305	5,638
1948	2,375	2,760	203	320	5,658
1949	2,275	2,660	196	320	5,451
1950 b/	1,992	2,704	193	312	5,201

Source: Report of the Banco Central, Argentina, and Monthly Statistical Summary.

a/ Figures taken from the new official index of industrial manufacturing production. The figures published by the Banco Central show a more rapid growth up to 1944 (from 1,251 million in 1935 to 2,410 million in 1944), and a slower rate of increase from then on (amounting in 1948 to only 2,544 million).

a/ Provisional.

In the post-war period, productive activity swung heavily from the agricultural sector to industry and, while the volume of agricultural production diminished, that of industry expanded.

/Table 4

Table 4 Argentina: Distribution of Products by Sectors
(Percentage of total)

	<u>1935</u>	<u>1941</u>	<u>1945</u>	<u>1950</u>
Agriculture and Livestock production	57.1	53.7	45.7	38.3
Industry	35.1	37.2	44.4	52.0
Building	4.9	5.2	5.5	6.0
Mining	2.9	3.9	4.4	3.7
Total	100.0	100.0	100.0	100.0

Note: For source and notes see Table 3.

At present industry accounts for about half of total production. Until 1945, the change was chiefly brought about by the increase of manufacturing, but in the post-war period the relative increase is largely due to the contraction of agriculture and livestock production of which, in 1950, was below the 1935 level.

This downward trend, with the sudden changes which have occurred in agricultural production, are the most striking features of the post-war period.

It is essential to separate agriculture itself from cattle breeding, and to note that the former was the more severely affected by these changes, livestock production having, in fact, spread to areas which for various reasons are no longer cultivated.

Table 5 Argentina: Agricultural and Livestock Production
(In millions of pesos at 1935 prices)

<u>Years</u>	<u>Agricultural Production</u>	<u>Livestock Production</u>	<u>Total</u>
1935	1,230	800	2,030
1940	1,130	970	2,100
1945	1,020	1,140	2,160
1946	1,095	1,140	2,235
1947	1,210	1,195	2,405
1948	1,235	1,140	2,375
1949	1,095	1,180	2,275
1950	880	1,112	1,992

Source: Report of the Banco Central, Argentina, and the Monthly Statistical Summary.

These figures suggest a complete reversal of the relative position of the two sectors. Livestock production has gradually filled the gap left by /agriculture.

agriculture. It is recognised that in Argentina there is, relatively, a great mobility of the factors of production, insofar as agriculture and livestock are concerned. In certain parts of the cereal belt, even wheat-growing lands are at times used as pasture, when the farmer estimates that the selling price will not cover harvesting costs. Moreover, the fields not sown with cereals may revert to pasture or be sown with alfalfa, clover or sorghum.

Agricultural Production

No sector of production has shown such sudden changes as agriculture. This is due to the influence of various factors, among which climatic changes and price movements are of primary importance. The price policy followed by the Government is undoubtedly a vital factor in determining the attitude of the farmers at sowing time. The recent 10 per cent increase in the area sown with cereals and flax is largely the result of the raising by the Government of the official purchasing price of the harvests, in direct contrast with the former policy.

Recognising the importance of agriculture as a source of foreign exchange revenue to cover essential imports, the Government has stimulated agricultural production by twice increasing the prices for the 1950-1951 harvests. These increases amount to 50 per cent for maize, 30 per cent for wheat, 21 per cent for flax and 2 per cent for sunflowerseed over prices prevailing for the previous harvest.

Table 6 Argentina: Official Purchasing Prices for Grains
(In pesos per quintal, in Buenos Aires)

<u>Grains</u>	<u>1946/47</u>	<u>1947/48</u>	<u>1948/49</u>	<u>1949/50</u>	<u>1950/51</u>
Wheat	17	20	23	23.50	30.50 a/
Flax	30	30	30	34	41
Maize	13	14	15.80	16	24 b/
Sunflower	28	28	29	29	29.50

Source: The Review of the River Plate.

a/ Including 4.50 pesos paid directly to the producer.

b/ Including 5.00 pesos paid directly to the producer.

CHART 2

ARGENTINA

AREA SOWN WITH CEREALS AND FLAX

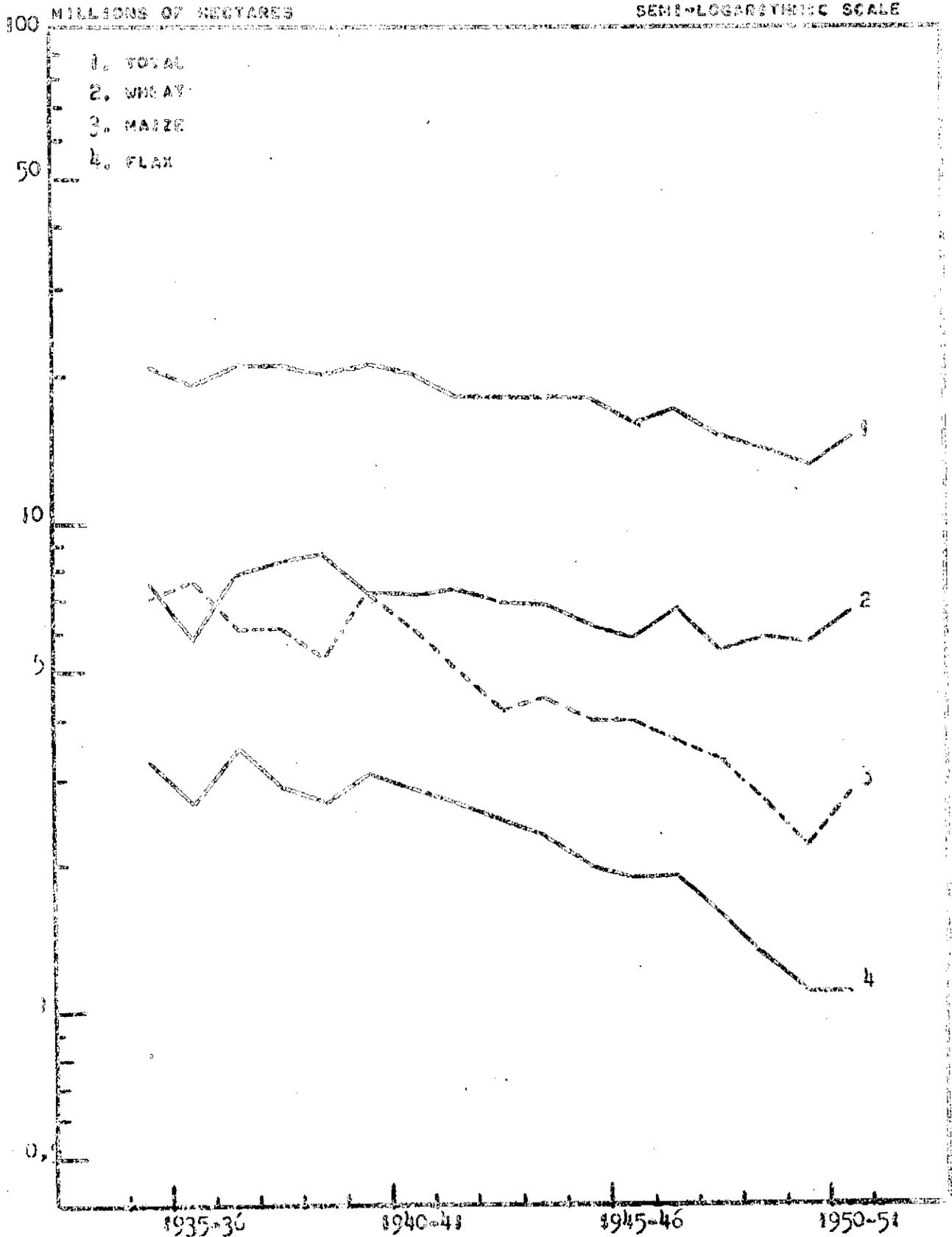




Table 7. Argentina: Area Sown with Cereals and Flax
(In thousands of hectares)

<u>Agricultural Year</u>	<u>Wheat</u>	<u>Maize</u>	<u>Flaxseed</u>	<u>Rye</u>	<u>Barley</u>	<u>Oats</u>	<u>Total</u>
1943/44	6,811	4,411	2,284	1,825	718	2,147	18,300
1944/45	6,232	4,017	1,996	1,615	761	2,011	17,742
1945/46	5,762	3,951	1,865	1,504	1,043	1,708	15,947
1946/47	6,673	3,612	1,905	1,944	1,371	1,570	17,170
1947/48	5,450	3,319	1,573	1,766	1,049	1,323	14,576
1948/49	5,806	2,691	1,305	1,835	942	1,394	14,060
1949/50	5,693	2,156	1,078	1,863	802	1,230	12,904
1950/51 <u>a/</u>	6,554	2,750	1,084	2,175	899	1,303	14,900

Source: Monthly Statistical Summary of Argentina.

a/ Provisional.

Total area sown with rice and birdseed.

Meanwhile costs, and especially labour costs for harvesting, have increased as much as the new basic prices. The available data on wheat and maize, the two main products of Argentine agriculture, show that during the course of the past few years farmers have been working at a loss, or with a very narrow margin of profit.

Table 8. Argentina: Cost Price and Basic Prices of Wheat and Maize
(In pesos per quintal)

<u>Years</u>	<u>Wheat</u>			<u>Maize</u>		
	<u>Cost of production</u>	<u>Average price paid</u>		<u>Cost of production</u>	<u>Average price paid</u>	
		<u>In current pesos</u>	<u>In constant purchasing power pesos</u>		<u>In current pesos</u>	<u>In constant purchasing power pesos</u>
1937	7.77	13.21	13.21	4.60	6.79	6.79
1947	14.64	17.08	9.48	11.06	10.84	6.02
1948	18.50	19.58	9.61	13.00	12.76	6.26
1949	22.44	23.02	8.65	14.50	15.73	5.69
1950	23.50	23.50	..	15.50	15.50	..

Source: Ministry of Agriculture; The Review of the River Plate.

The farmers have also had to face a substantial reduction in their purchasing power. This amounted to 35 per cent for wheat in 1949, as compared with 1937, and 16 per cent for maize compared to the same period. Since then, inflation has become considerably stronger in Argentina and it is questionable to what extent the new prices paid by the Government counter-balance the increase in the prices of the goods which the farmer /has to purchase,

has to purchase, and whether the pre-war position has been restored.

The position of crops intended for the domestic market has improved as a result of increased demand arising from the growth of the population and the raising of the standard of living. Moreover, few price controls have been established for industrial crops, fruits and vegetables; nor has the State bought up the harvests of these crops.

It is therefore not surprising that the area on which cotton, sugar cane, sunflower, peanuts, tobacco, spurge, tung, grapevines and mate are cultivated increased from 1.4 million hectares in 1940 to 2.7 million in 1945 and 3 million in 1948. During the last agricultural year for which data are available (1949-50), the area decreased again, remaining at 2.6 million hectares; but this contraction tends rather to prove the rule, since it occurred almost exclusively in the case of sunflower seed. The price established for this seed, as in the preceding year, apparently discouraged sowing and in 1949-50 the area was reduced from 1.8 to 1.5 million hectares.

The difficulty of finding a market for exportable surpluses of edible oils induced the Government to extend far less favourable privileges to this product than to cereals, the export of which offers better prospects, from the point of view of obtaining foreign exchange.

The different tendencies of agricultural products, according to the stimulus which they have received, may be clearly seen in the following table of quantum indices of agricultural production:

Table 9. Argentina: Quantum of Agricultural Production

(Indices 1935-39 = 100)

<u>Years</u>	<u>Cereals and Flax</u>	<u>Industrial Crops</u>	<u>Fruits and Vegetables</u>	<u>Total</u>
1935	123	97	92	115
1940	90	129	142	107
1945	59	174	153	94
1946	63	180	164	100
1947	86	168	158	112
1948	86	187	161	115
1949	62	188	169	102

Source: Banco Central, Argentina.

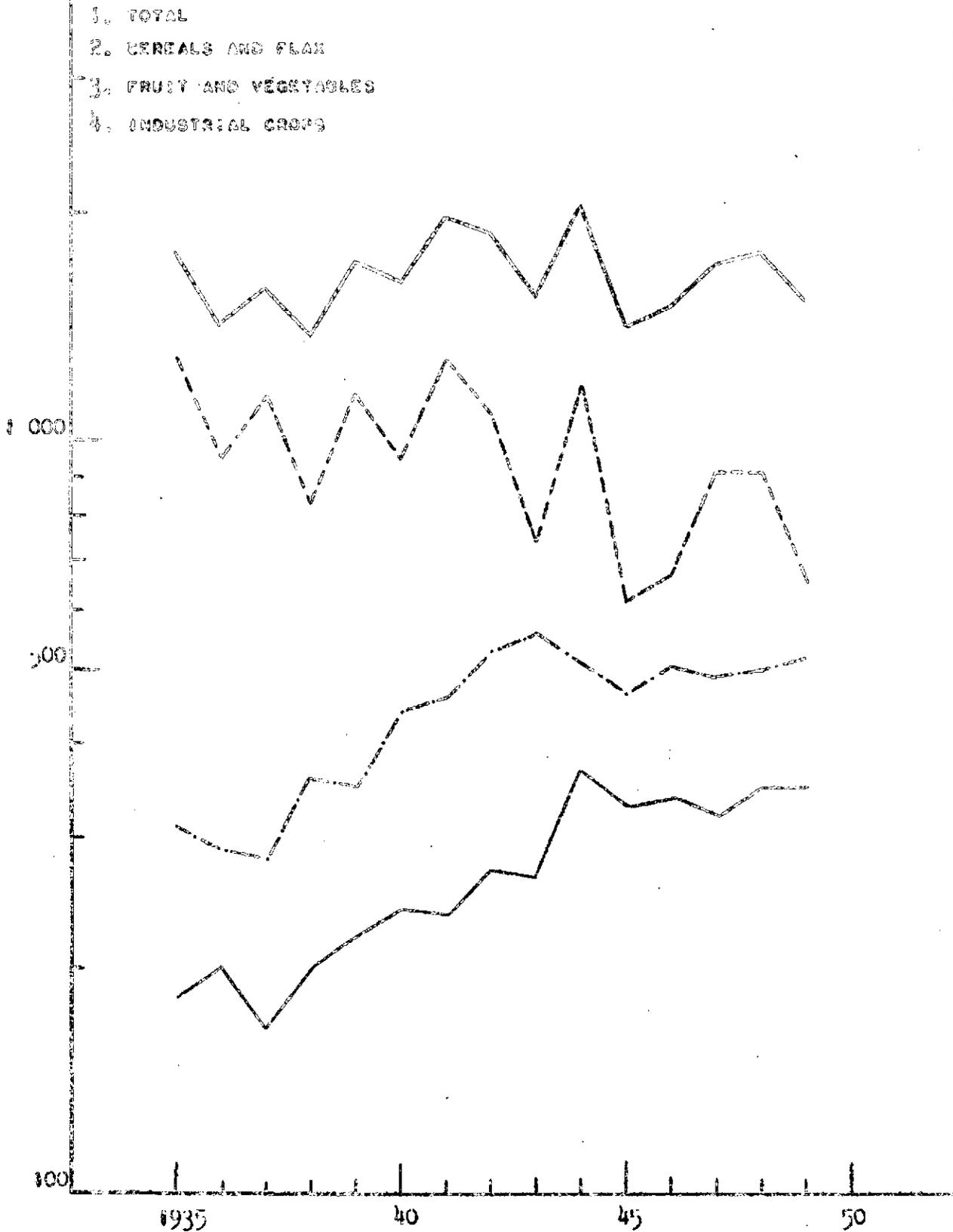
/There can be

CHART 3
ARGENTINA

AGRICULTURAL PRODUCTION

4 000 MILLIONS OF PESOS AT 1935 PRICES

SEMI-LOGARITHMIC SCALE





There can be no doubt that if the indices of agricultural production have remained above the pre-war level, this - though well below the level of increase in population - was exclusively due to the increases of crops which were formerly considered of less importance than traditional crops of cereals and flax. It is not surprising that the Government should be actively seeking a means of re-establishing the former levels of these main crops. Various measures have been taken during the past two years. The first of these consisted in bringing in selected immigrants in order to meet the shortage of agricultural manpower attracted to the towns as a result of the high wages paid in industry. Another measure consisted in a progressive programme of agricultural machinery imports, for which a sum in free exchange was allocated. Government policy had previously sought to favour the import of industrial machinery and means of transport by the granting of exchange permits.

The third measure, already referred to, was the pre-establishment of prices, considered remunerative for farmers, for products which must be sold to the Government. Though the figures reveal that the farmers have reacted to this incentive, it is still too early to say whether, given the trend of inflation, it will be sufficient to maintain the process of recovery.

It was also proposed to extend agricultural credit facilities, especially by means of the Banco de la Nación Argentina.

It is premature to express any opinion as regards the results of these measures on the development of Argentine agriculture. For instance, the purchase of agricultural machinery, according to reliable sources, amounted in 1950 to some 30 million dollars (23 million dollars corresponding to purchases from the United States and 7 million to purchases from Europe). As it has been estimated that imports of essential agricultural machinery for the period 1949/1958 would amount to 300 to 350 million dollars, according to authorised sources, it may be assumed that this process is developing at the necessary rate.

The equipment purchased in 1950 had little influence on last year's production, as the greater part arrived in the country after the sowing. It is expected that in 1951, equipment will be imported

/not only from

not only from the United States, but also from Germany and Czechoslovakia, with which countries Argentina has signed trade agreements.

However, the increase of exports will ultimately determine the possibility of maintaining the volume of agricultural machinery imports at an adequate level in order to renew outworn equipment as well as to increase production.

In addition to mechanising, it will also be necessary to introduce new technical methods in Argentine agriculture. The selection of better and more hardy types of seeds, together with the elimination of weeds in the sowings, is now being carefully studied by official organisations. The introduction of hybrid maize, which might perhaps improve the yield, is still in its initial phases and it will be some time before it is developed on a commercial basis.

Recent developments in the principal crops are shown below.

Wheat

The decrease in the area sown with wheat has not taken place recently. The trend has been observed since 1939, which constituted a record year with 8.6 million hectares sown with this crop. Since the product is principally intended for the export market, it is evident that the difficulties in placing the exportable surplus during the war were the primary causes of this contraction. The Government, which had undertaken to purchase crops at remunerative prices in order to maintain the purchasing power of the rural population, was compelled to take measures to avoid the increase of production and, in fact, to discourage it.

The post-war period was not propitious to the re-establishment of a favourable foreign market for wheat. Only between 1945 and 1947 was there a sellers market, and this short period did not provide any incentive to farmers who only received a portion of the higher price paid by the importing countries, though costs of production continued to increase.

/Table 10.

Table 10. Argentina: Production, Exports and Stocks of wheat

<u>Years</u>	<u>Area sown</u> (In thousands of hectares)	<u>Production</u>	<u>Exports</u>	<u>Stocks</u> ^{a/}
		(In thousands of tons)		
1945	6,232	4,085	2,358	..
1946	5,762	3,907	1,387	..
1947	6,673	5,615	2,284	900
1948	5,450	6,500	2,179	1,600
1949	5,806	5,200	1,831	1,300
1950	5,693	5,144	2,786	800
1951 <u>b/</u>	6,554	5,800	2,500	..

Source: Monthly Statistical Summary, Argentina; The Review of the River Plate; Corn Trade News; and Lettre d'Argentine, Société Générale, Buenos Aires Branch.

a/ To 1 August.

b/ Provisional estimates.

The new Government policy has led to an increase in the area sown amounting to about one million hectares, practically equal to the 1947 level. Unfortunately climatic conditions, and especially the excess of humidity at the time the crop ripened, made it impossible to take full advantage of the increase in the cultivated area. Rust likewise affected the wheat fields, especially in the northern part of the province of Buenos Aires, and in the provinces of Córdoba and Santa Fé.

In these circumstances, the 1950-51 harvest is estimated at between 5.5 and 5.8 million tons, which is above last year's average but still below the average for the last five-year period before the Second World War. Taking into account the requirements for domestic consumption and for seed reserves, there would only be an exportable surplus of 2.5 million tons, that is to say, about 300,000 tons less than were exported in 1950. Since there are practically no stocks remaining from the preceding harvest (these were estimated at 800,000 tons at 1 August 1950), it is presumed that the figure of 2.5 million tons is the maximum that can be achieved.

/Maize

Maize

During the post-war period, the production of maize has fluctuated even more than that of wheat. In addition to climatic conditions and the effects of official policy, other factors peculiar to this crop have influenced production. As the harvesting of maize is not mechanised, the increase of labour costs has had considerable bearing. Furthermore, since it is almost entirely used for feeding livestock and poultry, domestic consumption varies according to price. Demand is more elastic than that for other cereals and the domestic market for this product is irregular.

There has been an extremely sharp decline in the total area sown, which in 1950 was only equivalent to one third of the pre-war area.

Table 11. Argentina: Maize Production and Exports

<u>Years</u>	<u>Area sown</u>	<u>Production</u>	<u>Exports</u>
	(In thousands of hectares)	(In thousands of tons)	
1945	4,017	2,966	572
1946	3,951	3,564	2,200
1947	3,612	5,815	2,366
1948	3,319	5,200	2,540
1949	2,691	3,450	1,092
1950	2,156	836	796

Source: The Monthly Statistical Summary, Argentina.

The 1949-50 harvest was one of the lowest in Argentine history^{1/} and may be considered as a loss, due to a drought of unusual duration.

Prospects are better for 1951, the sown area being estimated at 2.7 million hectares which, under normal conditions, should produce some 4.5 million tons of maize, which would offer possibilities of an exportable surplus. However, it will be necessary to accumulate stocks and therefore it is probable that only 1.5 to 2 million tons could be exported.

^{1/} The smallest recorded crop was that of 1910-11, when 703,000 tons were harvested.

Flax

The reduction in the area sown with flaxseed has been proportionately greater than that of the total area cultivated in the country. There are various reasons for this, some of them of a structural order and others merely accidental. For some 20 years, there has been a downward trend in Argentine production of this crop. The largest flaxseed sowing occurred during the 'thirties and the sharp fluctuations which have taken place since then, have done little towards recovering the ground lost.

In order to follow the course of flax production in Argentina, it is advisable to analyse its course between the pre-war period and the close of the Second World War and to examine the factors responsible for those long-term trends. The protectionist policy adopted by the United States - formerly the principal market for Argentine flax - constituted an important factor. The attached chart clearly demonstrates this trend. The maximum area sown in Argentina coincides with the minimum in the United States, just prior to the Second World War. Since then, the area sown in Argentina has been reduced, whereas in the United States it has been extended. The process has developed at an increasing rate since 1941; the United States adopted a purely protectionist policy by increasing the customs dues on imports of flaxseed. At the end of the war, the reduction in the area sown in Argentina corresponded approximately to the increase in the United States.

As in the case of cereals, the policy adopted by the Argentine Government in the post-war period has tended to discourage this formerly traditional and highly remunerative crop.

In the first place, the substantial increase of export prices when demand expanded proved an incentive to the flax importing countries who sought to find other suppliers or, alternatively, to develop their own production of this seed. The United States not only became self-sufficient but in time became an exporter.

The total industrialisation of flaxseed also affected its production and sale. The prohibition on exports of flaxseeds between 1947 and 1949 was included in this policy, the object of which was to

/increase exports of

increase exports of flaxseed oil. Oil stocks accumulated and the Government's plan failed, leading to the lifting of the ban on unprocessed flaxseed.

Table 12. Argentina: Production and Exports of Flax

Years	Area sown	Production	Export of flaxseed	Export of linseed oil
	(In thousands of hectares)	(In thousands of tons)		
1945	1,996	787	134	..
1946	1,865	964	37	148
1947	1,905	1,034	..	213
1948	1,573	901	..	53
1949	1,305	433	..	57
1950	1,078	676	30	215

Source: Monthly Statistical Summary of Argentina.

There seems to be no change in the tendency so far as the 1950-51 agricultural year is concerned: the area sown is practically the same as last year (about 1,085,000 hectares). Reliable sources estimate that the crop will not exceed some 500,000 tons. However, exports will probably maintain their former level in view of the remaining stocks from previous harvests. (Stocks held by the Instituto Argentino para la Promoción del Intercambio (Argentine Institute for the Development of Trade) are estimated at 145,000 tons of seed and 200,000 tons of oil). The exportable surplus might therefore amount to some 800,000 tons (including seed, oil and by-products expressed in terms of seed).

Other Cereals

On the whole, there has been little difference between the trends of other grains and the three examined above. The reduction in the area sown and in production has been less marked and the problem of placing an exportable surplus on the world market has also been less serious, because the increase of livestock production has contributed to increase the domestic market for these grains, which are used chiefly as forage rather than for human consumption.

/Table 13.

CHART 4
ARGENTINA

AREA SOWN WITH FLAX

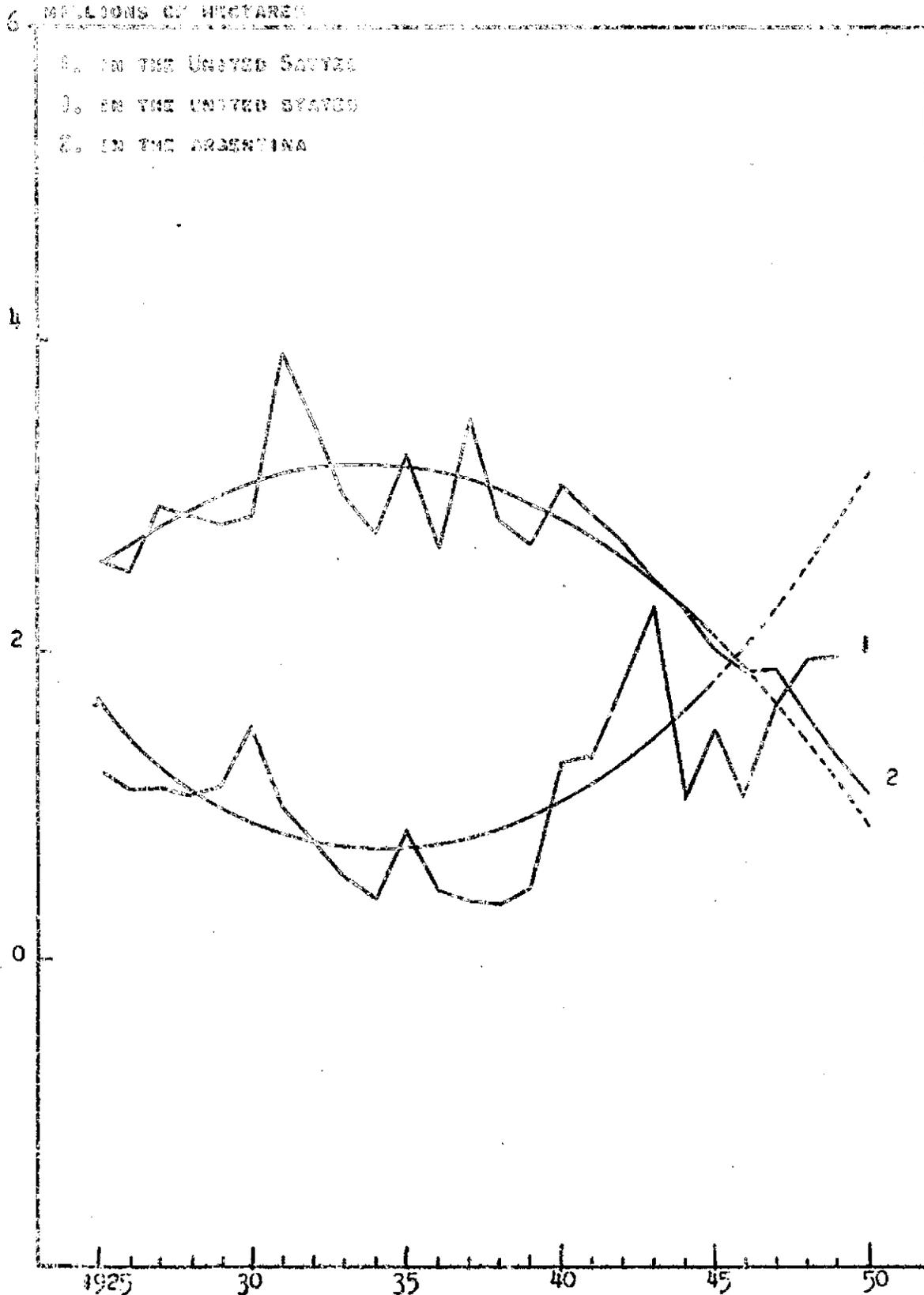




Table 13. Argentina: Production and Exports of Secondary Cereals

(In thousands of tons)

Years	Oats		Barley		Rye		Rice	
	Produc- tion	Export	Produc- tion	Export	Produc- tion	Export	Produc- tion	Export
1945	1,099	833	573	267	189	146	139	..
1946	797	333	836	656	293	155	129	..
1947	684	68	1,171	611	552	247	121	..
1948	824	..	804	..	471	..	116	..
1949	733	..	613	..	305	..	121	..
1950 a/	540	400	395	100	277	200	138	..

Source: Monthly Statistical Summary of Argentina.

a/ Provisional data.

The case of rice differs entirely from that of other cereals, as it is produced exclusively for the domestic market. Production increased sufficiently to meet domestic consumption, though in some years it has been necessary to resort to imports in order to close the gap.

Estimates of the area sown in 1950-51 do not suggest any increase in the production of oats, barley and rye during the current year. The oats and barley harvests will probably amount to some 300,000 tons, and rye about 250,000 tons. Exports, however, might be increased by the remaining stocks of earlier harvests and as a result of the trade agreements entered into with certain European countries, ensuring a market for these surpluses.

Industrial Crops

This sector of Argentine agriculture appears to be affected by other factors than those which influence the development of the traditional crops. The fact that industrial crops depend largely on domestic demand has ensured an almost constant impetus to their development.

With the exception of sunflower seeds (which should, in fact, be studied in conjunction with cereals and flaxseed), all these crops are cultivated away from the main agricultural area of the South and the Pampas, where livestock, cereals and flax are produced on a large scale.

/Sugar is cultivated

Sugar is cultivated in Tucuman and Salta; cotton in El Chaco, Formosa and Santiago del Estero; the vineyards spread around Mendoza and San Juan; and both mate and tung are grown around Misiones, on land which is not used for other crops. The production of these crops has not suffered from the shortage of labour which has affected the traditional crops and, in addition, their selling price has been adjustable to costs and the increase of demand.

Table 14. Argentina:Industrial Crops

<u>Years</u>	<u>Cotton</u>	<u>Sugar cane</u>	<u>Sunflower</u>	<u>Peanuts</u>	<u>Tobacco</u>	<u>Tung</u>	<u>Grapes</u>	<u>Yerba mate</u>
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I. Area cultivated

(In thousands of hectares)

1945	382	239	1,492	177	22	44	148	66
1946	375	252	1,638	182	28	45	157	66
1947	397	250	1,609	146	30	51	159	64
1948	421	249	1,533	122	23	55	169	64
1949	517	249	1,806	97	27	54	170	64
1950	488	250	1,491	101	26	55	170	64

II. Production

(In thousands of tons)

1945	218	6,560	985	158	21	12	942	84
1946	190	8,039	890	156	29	11	1,099	99
1947	219	7,445	688	113	27	43	1,259	121
1948	279	7,088	930	105	20	45	1,514	112
1949	308	7,060	1,088	54	26	55	1,218	..
1950	432	7,068	712	47	25	..	1,481	..

Source: Monthly Statistical Summary of Argentina.

The cultivation of sunflower seed expanded remarkably when Argentina attempted to cover the gap in the consumption of edible oils with domestic production; but in recent years there has been little expansion and, in fact, production has tended to contract. As has been stated, the Government itself, in the recent readjustment of basic prices, granted less favourable treatment to sunflower seed than to cereals and flax in the belief that this product, which exhausts the soil excessively, competes with other more desirable crops which provide greater foreign exchange revenue.

/On the other hand,

On the other hand, cotton production has increased, stimulated by the growing demand of the domestic market. Certain regions in the north of the country have modified both their physical aspect and their economic structure as a result of the introduction of this crop. It has been estimated that in 1950-51, 505,000 hectares of cotton were cultivated, representing one of the largest sowings to date. It is expected to surpass last year's production, which amounted to 388,500 tons of raw cotton.

Tung, which produces a valuable oil, figures among the permanent crops. Foreign demand grew considerably during the last war, and the trend of events in the Far East, where the largest plantations are found, has revived interest in the Argentine product.

In order to cover the war-time shortage of imported olive oil from Spain, Italy, France and Greece, large olive groves were developed, the present product of which is destined exclusively for domestic consumption.

The production of olives increased from 9,500 tons in 1945 to 23,600 tons in 1950, and a still greater expansion is anticipated due to the large number of trees planted, which will be bearing fruit within the next few years.

Tea figures among the entirely new crops that have recently been introduced into Argentina. The plantations are located in the Misiones area and in the province of Corrientes. Production began in 1946, increasing from 100 tons in that year to about 500 tons in 1949.

As a result of the trade agreements entered into with Brazil, the harvesting of mate in Argentina was limited in order to continue imports from the former country. However, since 1947, production has increased 50 per cent as compared with the pre-war period.

The number of vineyards has grown slowly and since 1945, when the planting restrictions were lifted, wine consumption has increased substantially, in a measure corresponding closely to the growth of the population and the purchasing power of the labouring classes. In 1945 production of wine was 710 million litres, as compared with 1,070 litres in 1949, a little lower than in the preceding year, which had marked an all-time record.

Fruits and Vegetables

The most striking expansion of any sector of agricultural production was that of fruit and vegetables. It should be remembered however, that the improvements in statistical methods may tend to exaggerate the actual progress made. At all events, there has been a remarkable increase in the production of certain crops, such as tomatoes - leading to the development of an important preserving industry - and many other varieties of fruit.

Table 15. Argentina. Production of Fruits and Vegetables
(In thousands of tons)

I. FRUITS

Crop (Year)	Peach	Tangerine	Apple	Orange	Pear	Grapes (not for wine)
1940/41	90.4	149.8	88.5	313.4	98.7	210.0
1945/46	173.9	77.0	162.9	211.7	121.0	194.7
1946/47	140.8	96.4	143.2	244.0	94.3	141.2
1947/48	133.7	103.8	96.1	249.5	73.3	197.8
1948/49	130.9	94.0	173.0	298.0	115.5	187.5
1949/50	137.7	87.9	196.4	278.5	92.4	213.3

II. HORTALIZAS

Crop (Year)	Sweet potato	Onion	Potato	Tomato	Squash
1940/41	245.7	..	1,053.0	..	..
1945/46	355.1	139.8	1,182.5	155.6	199.9
1946/47	397.9	125.5	814.0	163.7	244.0
1947/48	381.1	101.4	1,063.3	187.3	229.9
1948/49	357.8	81.9	1,012.7	183.2	187.3
1949/50	344.3	82.3	1,167.1	209.9	..

Source: Monthly Statistical Summary of Argentina

The improvement in the standard of living is the main factor in this increase, with the added incentive of exports of such fruits as pears, apples and grapes to Brazil and the United States.

Livestock Production

Livestock production has expanded, in direct contrast to the trend of agricultural production, for the above reasons. Progress in one

/sector has

sector has nearly always coincided with a decline in another, and this trend has been extraordinarily marked during the post-war period. It had nevertheless been observed earlier, when market possibilities for grain were poor as a result of the closing of the continental markets of Europe and meat exports to the United Kingdom continued to expand. On the other hand, domestic consumption of cereals increased solely as a result of the growth of the population, whilst the consumption of meat on the home market expanded as a result of the improved standard of living, and a substantial migration of a part of the rural population towards the towns, where more meat is normally consumed. Another factor which contributed to the development of livestock production is the fact that its labour requirements per hectare are much smaller than those of agriculture, which was seriously affected by the exodus of the rural populations.

Cattle

After a small decrease between 1939 and 1945, total production of meat has continued to increase, as may be seen from the following table.

Table 16. Argentina. Production and Exports of Beef
(In thousand of tons)

Years	Domestic consumption	Exports	Total
1939	596	699	1,295
1945	964	374	1,338
1946	1,101	443	1,544
1947	1,260	643	1,903
1948	1,377	471	1,848
1949	1,449	467	1,916

Source: Monthly Statistical Summary of Argentina.

The most significant development of the period under review is the increase of domestic demand. Whereas before the war, 46 per cent of the total production was destined for domestic consumption, by 1949 83 per cent was used to meet domestic demands. This increase is still greater in absolute terms, as will be seen from the fact that

/consumption

consumption rose from 600,000 tons in 1939 to 965,000 tons in 1945 and to 1,450,000 tons in 1949.

The increase can be partially ascribed to the policy adopted by the Government, whereby subsidies were granted in order to maintain prices at a relatively low level. However, the suspension of this measure in July 1949 did not cause a decrease of domestic consumption because the income level enabled the population to bear the 30 per cent price difference.

Beef exports have followed an entirely different trend to that of domestic consumption. In 1939, 700,000 tons had been exported, principally by the cold storage warehouses. In the post-war period, the volume of meat exports was considerably lower (only 374,000 tons in 1945). The appearance of new buyers on the market served to revive exports, but this was a purely temporary factor, as these purchases were mostly made by devastated European countries, with a view to replacing their stocks of cattle. In 1947, the post-war maximum of 643,000 tons was recorded, since when exports have fluctuated between 450,000 and 475,000 tons, of which 400,000 were placed on the traditional British market, as a result of inter-governmental agreements which are renewed annually.

In 1950 exports fell suddenly to 280,000 tons due to the suspension, in July, of shipments to the United Kingdom. Since the devaluation of the pound sterling, the United Kingdom had refused the Argentine request for a price increase, at least proportional to the devaluation of the pound sterling, in which currency prices had been agreed.

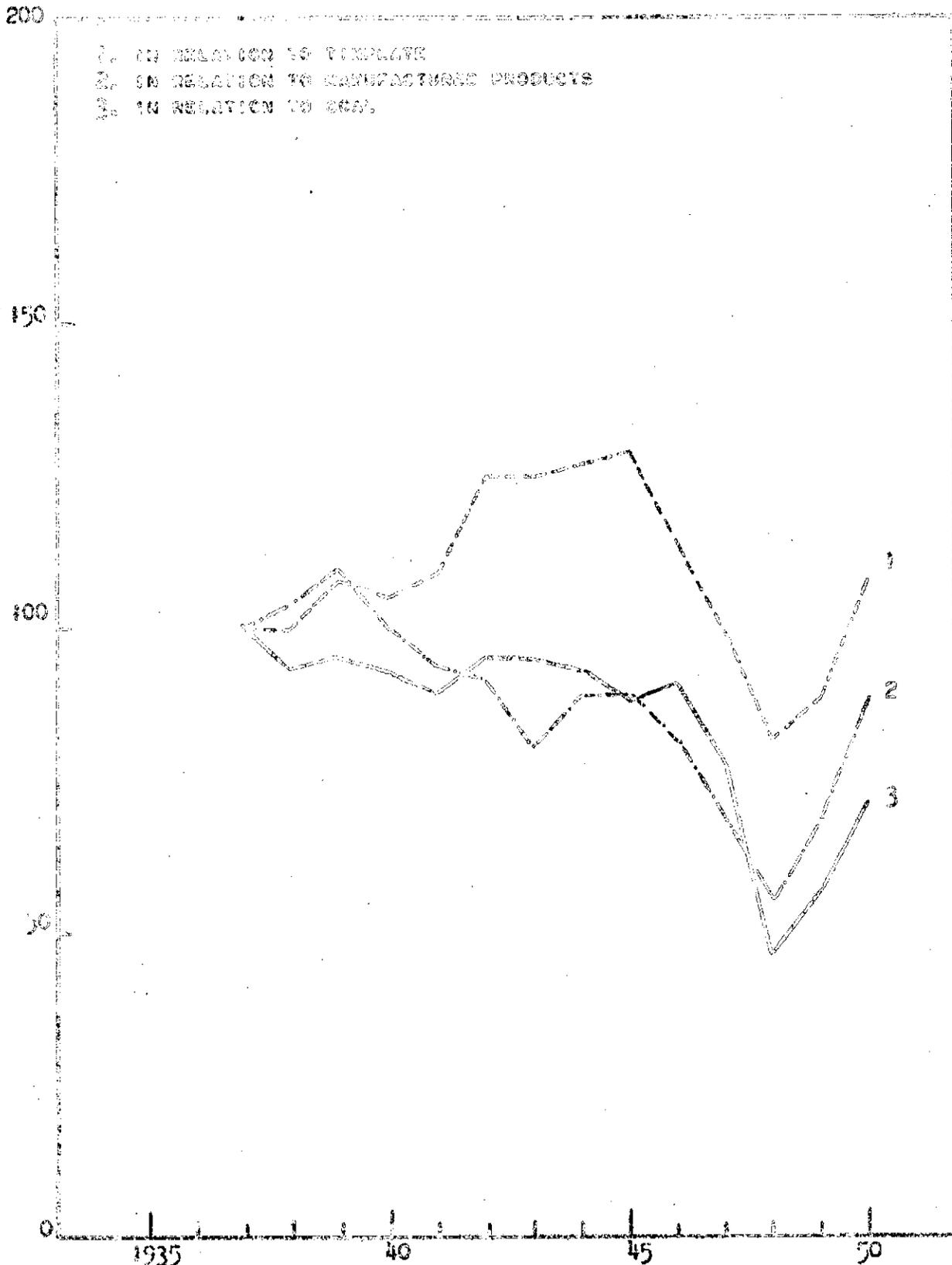
In order to understand the Argentine position better, it is necessary to go back and define the relation between British imports of Argentine goods and British exports to the Argentine since the pre-war period. For this purpose, we have taken British import and export statistics to establish average annual price indices for the principal goods traded, taking the price of meat as a term of reference. The price of meat had increased only 126 per cent in 1949, as compared with its pre-war level (1937=100), while the price of British coal had almost trebled, that of British manufactured goods was two and a quarter times greater and tin plate prices had risen by 155 per cent. The terms of trade were unfavourable to Argentine beef on the British

/market,

TERMS OF TRADE OF ARGENTINE DEAL IN RELATION TO PRODUCTS

1937 = 100

1937 = 100



market, since it could only be exchanged in 1949 for 57.4 per cent of the 1937 purchasing power of coal, 69.3 per cent of manufactured goods, and 88.6 per cent of tin plate. The price relation showed an improvement in 1950, though there was no return to the pre-war level of purchasing power except for tin plate. Moreover, the position as regards this product is unique since the United Kingdom's supplies of tin plate to Argentina are principally used in the manufacture of containers for foodstuffs, which are then exported to the United Kingdom. The attached table and charts indicate that the terms of trade of Argentine meat have only been favourable as regards tin plate prices, and solely during the period of war-time emergency. Rearmament will probably bring about a recurrence of these conditions.

Table 17. Argentina. Indices of Argentine Beef Exports to the United Kingdom and of Products Imported from the United Kingdom

1937 = 100

Years	Frozen beef	Coal	Tin-plate	Manufactured goods ^{a/}	Price Relationship		
					Beef Coal	Beef Tin-plate	Beef Manufactured Goods
1940	129.5	139.2	123.2	129.2	93.0	105.0	100.2
1941	151.3	169.6	139.0	161.8	89.2	106.8	93.5
1942	174.1	182.4	139.8	189.4	95.4	124.5	91.9
1943	181.3	190.2	145.2	224.2	95.3	124.9	80.9
1944	190.2	204.9	149.6	214.1	92.8	127.1	88.8
1945	190.0	215.7	147.4	214.6	86.1	128.9	88.5
1946	200.3	219.6	175.9	243.4	91.2	113.9	82.3
1947	200.2	256.9	202.8	290.4	77.9	98.7	68.9
1948	186.6	400.0	227.1	333.7	46.6	82.2	55.9
1949	226.3	394.1	255.4	326.4	57.4	88.6	69.3
1950	286.3	399.0	266.1	321.4	71.8	107.6	89.1

Source: Annual Statement of the Trade of the United Kingdom, published by the Board of Trade.

Negotiations have continued between the two governments, each of which has, with small concessions, maintained its position and up to the present (March 1951) no further shipments have been made. Due to

/the increase

the increase in domestic consumption, the problem is less serious than it would have been ten years ago; nevertheless, it has been necessary to take steps to lessen the impact on the domestic economy and the balance of payments caused by the loss of the principal market for Argentine meat. In the first place, an effort was made to find new markets, one of the first to be established being Brazil, to which Argentina has undertaken to ship 3,000 tons weekly. Secondly an attempt was made to modify the slaughtering programme in order to concentrate on tinned meats, since these can be placed on markets such as the United States, where there is a ban on the import of frozen or refrigerated meat from countries in which foot and mouth disease is known to exist. In 1950, the United States imported 70,000 tons of tinned meat from Argentina, as compared with 20,000 in 1949. Moreover, it was sought to replace the production of fat steers, which are used for the supply of chilled meat and which require special fields for wintering, by lighter steers of the type consumed on the domestic market.

This measure was complemented by another, designed to enable Argentina to profit by prevailing conditions in order to build up the stocks affected by the great drought which occurred at the end of 1949 and early 1950. Consequently in November of 1950 it was decided to decrease the slaughter of heifers, young bulls and calves as of December first, to a total of not more than 50 per cent of the number registered in the corresponding month of the preceding year. The purpose of this measure is to retain the grown animals in the pasture until their age, condition and weight are such that they will yield a greater volume of meat when slaughtered.

Lastly, with a view to the future, a law was passed in September 1950, establishing the Instituto Ganadero Argentino (Argentine Livestock Breeding Institute). This body functions as an independent government entity regulating the various phases of meat production, until the product is placed on the market.

The main object of this organization, which carries on and amplifies the functions of the old Junta Nacional de Carnes (National Meat Board) is "to avoid in the future the predominance of certain types of production; to obtain the highest possible productivity compatible with the different types of pasture; to shorten the cycle of production and, without additional labour, to increase the tonnage

of meat produced, to render actively productive many zones which had thus far been considered marginal; and, finally, in accordance with the geo-economic characteristics of the country, to stimulate production of the types of cattle best suited to the foreign markets. These aspects are at the core of the Argentine livestock problem, and, therefore, the measures taken in this direction should be closely connected with the Government's trade policy".^{1/}

Sheep

Foreign demand is the predominant factor in this sector of livestock production and breeding is subject to the relative market possibilities of meat or wool. On the other hand, in a large part of the country sheep and cattle are bred alternately, according to the relative price advantage to be gained. During the post-war period, at least until 1949, the market was more favourable for beef than for mutton, and the number of sheep therefore declined sharply. (It was estimated that in 1949 there had been a reduction of 3 to 5 million heads as compared with the 1947 total of 50 million.)

The pre-war level of slaughtering was doubled in 1947 but it has since declined.

Table 18. Argentina. Consumption and Export of Sheep
(In thousands of tons)

Years	Consumption	Exports	Total
1939	65.1	69.7	134.8
1945	55.3	160.6	215.9
1946	55.4	162.8	218.2
1947	53.5	176.5	230.0
1948	55.8	107.7	163.5
1949	52.0	84.9	136.9

Source: Ministry of Agriculture and Livestock Breeding.

^{1/} From the report made by the Minister of Economy during the course of the Parliamentary Debate which preceded the voting on the above mentioned law. September 1950.

The situation has changed radically in the course of the last ten years. In 1939 exports accounted for 52 per cent of total production, whereas in 1945 they accounted for 75 per cent and in 1949 for 62 per cent. Consumption has fallen as a result of the preference for beef shown by the Argentine people who now have a higher income level. The largest consumption of mutton is recorded in the rural areas, among the peons. The exodus of the rural population towards the towns has changed both its habits and the pattern of distribution of meat consumption.

A radical change in the demand for wool has also occurred recently. In this case, foreign demand predominates (domestic consumption in spite of the expansion of the wool industry, absorbs only about 30 to 40 per cent of each shearing). Up to 1948, wool prices were relatively firm; on the whole they tended to increase less than those of other raw materials. The gradual liquidation of war-time stocks had affected the market during the early post-war period, preventing producers from adjusting their selling price in relation to increased costs. It is therefore not surprising that the total production of each shearing was progressively lower. Nor did exports increase, except for a brief period in 1946, when Europe purchased large quantities in order to restore wool stocks.

The improvement in Argentine exports in 1950 was partly due to an increase in the price of wool and the fact that it found a ready market in the United States.

It is estimated that the 1950/51 shearing will be about 10 per cent higher than that of the preceding year, but more ample recovery cannot be expected until the pastures have been improved. Exports may reach a total of 140,000 tons, as there are now no stocks left over from previous shearings and domestic consumption is likely to remain at about 60,000 tons.

/Table 19.

Table 19. Argentina. Production and Exports of Wool
(In thousands of tons)

Years	Production	Export ^{a/}
1945	241.8	158.7
1946	238.3	206.4
1947	230.3	171.7
1948	204.3	181.8
1949	190.0	96.4
1950	180.0	147.0

Source: Ministry of Agriculture and Livestock Breeding, and Monthly Statistical Summary of Argentina.

^{a/} Includes washed and combed wool, in terms of unwashed wool.

The situation was reversed in 1950 due to the liquidation of stocks accumulated by the United Kingdom during the last war. Maximum prices were paid for wool and there was strong competition between foreign and local demand for the better qualities.

The increase in the price of wool might well be termed spectacular. The trend began in 1948, when for the first time the price of wool increased more than the price of leather, another livestock product of great importance in Argentine economy.

In 1950 the price curve rose vertically, especially after the world emergency in Korea as a result of rearmament. No other Argentine export has recorded so great an increase in price.

Table 20. Argentina. Average Prices for Wool and Salted Cattle Hides

Indices 1945 = 100

Years	Wool ^{a/}	Salted Cattle Hides
1945	100.0	100.0
1946	124.7	145.3
1947	141.6	198.1
1948	212.1	200.9
1949	266.0	234.9
1950 March	352.7	232.1
" June	439.4	286.8
" October	827.1	344.3

Source: The Monthly Statistical Summary of Argentina.

^{a/} Weighted average of commercial qualities sold.

/Hogs.

Hogs

Hog breeding in Argentina is much less important than that of cattle, especially as regards exports. During the war, breeding developed consistently as a result of the low price of maize, which could profitably be transformed into pork or poultry. When these exceptional circumstances no longer prevailed, the production of pigs dropped, in some cases considerably, as may be seen from the figures in the following table. In 1949 there was a slight recovery but not to earlier levels.

Table 21. Argentina. Consumption and Export of Hogs

(In thousands of head)

Years	Export	Consumption	Total ^{a/}
1945	2,292	1,592	3,969
1946	1,416	1,069	2,550
1947	790	281	1,100
1948	984	316	1,330
1949	1,375	355	1,768

Source: The Monthly Statistical Summary of Argentina.

^{a/} This refers solely to slaughter in cold storage warehouses, factories and controlled slaughter houses. However, uncontrolled slaughtering is not so important as for sheep and cattle. It also includes the industrial consumption of products which are principally used as foodstuffs.

Prices of hogs have not been limited by official controls and have risen to a greater extent than those of sheep and cattle during the post-war period. However, since no subsidies were granted for the sale of pigs and since prices depend largely on the cost of maize, it is hardly surprising that with the high price of this cereal, the production of hogs has not increased.

Table 22. Argentine. Average Prices for Livestock

Indices 1945 = 100

Years	Cattle	Sheep	Hogs
1946	96.6	113.4	173.9
1947	128.4	123.1	277.4
1948	137.6	126.6	250.7
1949	159.3	164.2	225.5
1950 March	196.1	208.0	255.8
" June	173.8	272.7	314.8
" September	205.6	257.0	375.7

Source: The Monthly Statistical Summary of Argentina.

Note: On the basis of average prices per head in the markets of Liniers, Avellaneda and Rosario.

INDUSTRIAL PRODUCTION^{1/}

Labour

The growth of industry is the most remarkable development in the evolution of Argentine economy, not only in itself, but in contrast with other activities. There are various means of assessing this growth, but the results obtained are not always the same.

In the first place, the position of industry must be considered in relation to the gainfully employed population. Before the war (1937) 13 per cent of the gainfully employed population was engaged in industry, whilst at the close of hostilities this proportion had increased to 17 per cent. According to the latest estimates, more than 20 per cent of the gainfully employed population of Argentina^{2/} is engaged in industry, not including builders and artisans.

Table 23. Argentina. Total Gainfully Employed Population and its Proportion in Industry

Years	Gainfully Employed Population	Gainfully Employed Population in Industry	
	(In thousands of persons) ^{a/}	(In thousands of persons) ^{b/}	(as a % of the total)
1937	5,560	716	12.8
1943	6,000	1,027	17.1
1949	6,800	1,410	20.7

Source: a/ Approximate estimates based on the opinions of various authors, principally Moyano, Llerena and Llorens.

b/ Estimates based on indices of labour activities.

In the six year period, 1944-50, some 400,000 persons have been absorbed by industry, that is to say, about 66,000 yearly. In the preceding six year period, 1938/1944, the total increase amounted to 300,000 persons, or about 50,000 yearly. Since it has been estimated

^{1/} This section is brief and limited because the Commission is preparing a complete analysis of the development of Argentine industry from 1937 to 1950.

^{2/} Argentina, Social and Economic, by Moyano Llerena, R. Marcenaro and E. Llorens, Buenos Aires, 1950.

/that the natural

that the natural growth of the population is such that productive activities and services may draw on an additional 45,000 to 50,000 persons each year, it may be assumed that industry has not only absorbed the whole of the increase of the working population, but also that it offers strong competition to other activities in so far as the demand for labour is concerned. During the first phase of industrialisation, full employment did not prevail in Argentina, though, strictly speaking, there was no unemployment, and industry absorbed a large number of either badly paid or seasonal workers.

Industry gradually recruited labour among the female population of the provincial towns and among the rural populations who migrated to the larger urban centres, drawn by the higher wage levels. The definitely industrialist policy of the governments in power prior to 1943 favoured this displacement of the population which, in other circumstances, would have occurred far more slowly and in the measure in which the mechanization of agriculture provided an available labour surplus for the development of other occupations.

As was pointed out in the section on livestock production, whereas there was a shortage of labour in agriculture, especially in the more extensive crops, and also on the small plantations, the products of which supply the home market, there has been no such shortage in industry.

Immigration, which has intensified during the past few years as a result of government action, has been looked upon as one of the solutions to the problem of shortage and deficient distribution of labour, but only recently have satisfactory results been obtained (138,000 immigrants in 1948; 157,000 in 1949 and 160,000 in 1950).

The number of persons engaged in industry increased 86 per cent in 10 years (1939-1949, whereas during a similar period (1937-1947), the increase in agriculture was only 37 per cent.

However, agriculture as a whole in 1949 still employed a greater number of persons - including the families of the farmers - than industry^{1/}

1/ Persons Engaged in Agriculture and Cattle Breeding
(in thousands).

	<u>1937 Census</u>	<u>1947 Census</u>
Farmers	440	440
Families of farmers	752	449
Gainfully employed workers	807	1,105
	<u>1,999</u>	<u>1,994</u>

Source: Agricultural and Livestock Census and Monthly Statistical Summary of Argentina.

/It is interesting

It is interesting to note that between 1937 and 1947 the number of persons included as families of farmers decreased by over 300,000, which tends to confirm the migration of the underpaid rural population to the towns.

Table 24. Argentina. Population Engaged in Industry
(In thousands of persons)

	1939	1943	1949
Owners or managing directors	57	73	95
Employees	78	110	145
Labourers	574	680	1,070
Families of owners	22	25	30
Home workers	44	55	70
Total	775	1,027	1,410

Source: Industrial Statistics.

Volume of Production

In order to measure the quantum of industrial production, two series of statistics are available. The first, used in Economic Survey of Latin America 1949, was obtained from the estimates of the value of production made by the Argentine Central Bank, covering the period 1935-48. The second series, prepared by the Servicio Estadístico Oficial de la República Argentina (Argentine Official Statistical Service), was published recently.^{1/} Since there is a substantial difference between the two series, it has been deemed advisable to compare them together with the indices of labour employment.

^{1/} In a pamphlet entitled La Actividad Industrial Argentina, desde 1937 a 1949. (Argentina's Industrial Activity 1937-1949), Ministry of Technical Affairs, September 1950.

/ Table 25.

Table 25. Argentina. Quantum of Industrial Production
1937 = 100

Years	Banco Central calculations	Official Statistical Service calculations ^{a/}	Total Labourers Employed
1939	109.1	108.1	109.3
1941	125.3	112.5	124.9
1943	151.3	119.3	149.9
1944	156.4	135.3	163.3
1945	149.8	136.3	172.6
1946	150.7	153.7	185.5
1947	162.6	177.1	195.4
1948	164.9	179.4	197.5
1949	..	172.8	195.5

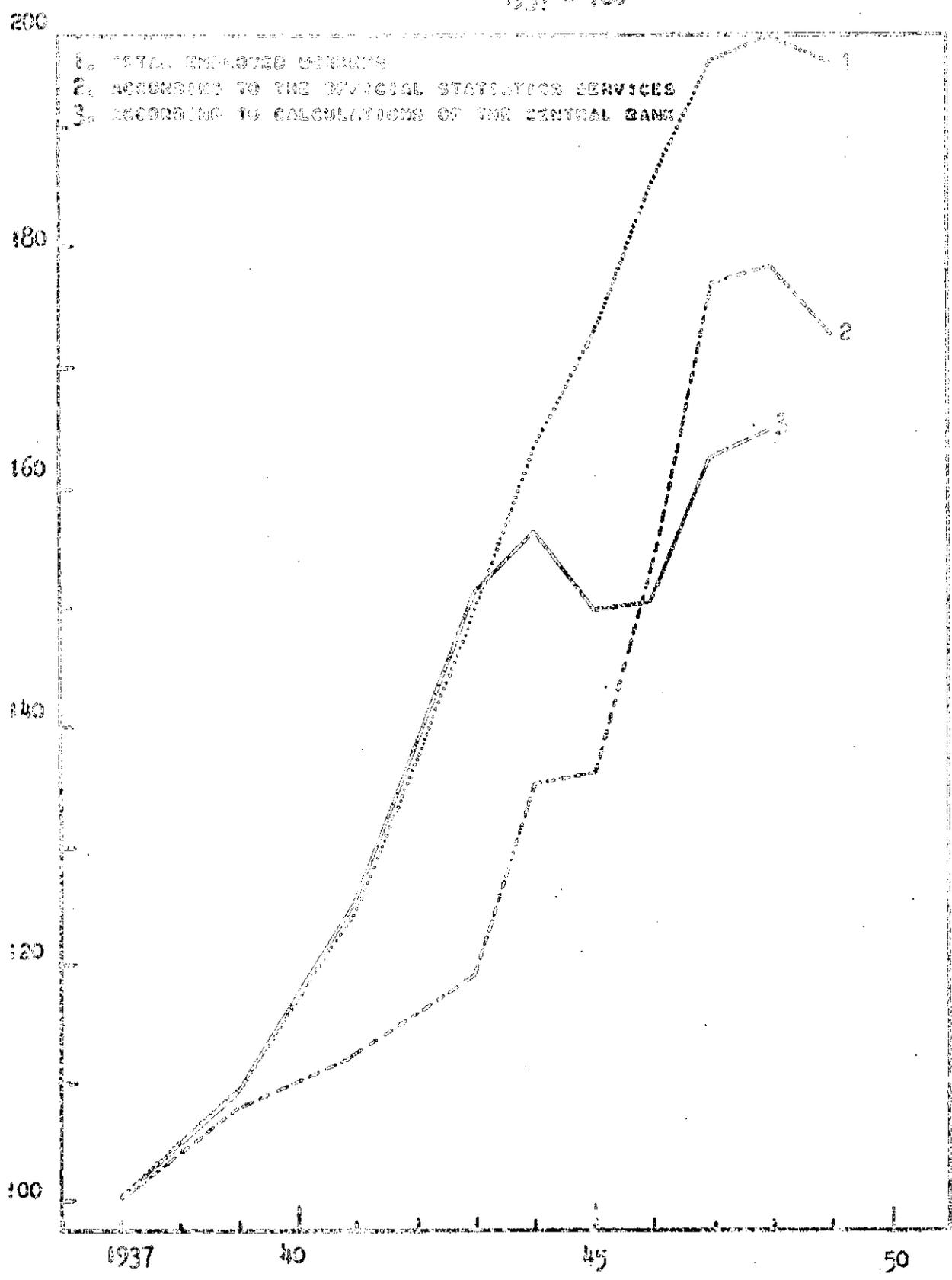
Source: Annual Reports of the Banco Central and La Actividad Industrial Argentina, desde 1937 a 1949 published by the Official Statistical Service. September 1950.

^{a/} Includes manufacturing only.

As may be seen, the differences are appreciable. According to the figures of the Central Bank, the period of most active growth in industry occurred between 1937 and 1944, when the annual rate of expansion was 8 per cent. On the other hand, according to the official statistical service, the rate of increase over this period was only 5 per cent. In the following, that is, the post-war period, the Banco Central's statistics show a more gradual rate of development, with slight reductions in 1945 and 1946. The Official Statistical Service, however, records a constant growth, increasing in rate until 1948. The total increase between 1943 and 1949, when a maximum was reached, is equivalent to 50 per cent, that is, an annual average increase of 10 per cent, whereas the Banco Central figures indicate an annual increase of only 2 per cent. During all the period under observation (1937-1949), according to the former source, the rate of expansion of the quantum of industrial production was 73 per cent. It is not surprising that the report in which these figures were published stresses that this development was the greatest during the period. It should be noted that it is greater than that of Canada (71 per cent), of Chile (69 per cent), of the United States (56 per cent), of Sweden (55 per cent), Finland (43 per cent),

CHART 6
ARGENTINA

QUANTITY OF THE INDUSTRIAL PRODUCTION
1937 = 100





Mexico (41 per cent), Ireland (39 per cent), Denmark (37 per cent) and Norway.

The Banco Central figures also show a substantial expansion (65 per cent) which suggests that Argentina's position would be between that of Chile and the United States.

The preceding table also indicates that between 1937 and 1943 there was a marked correlation between the indices of labour employed and the quantum of industrial production calculated by the Banco Central. This leads to the assumption that the value of production at constant prices in the calculation of national income based on labour employment. However, since 1943, the situation has changed: employment indices still show an upward trend, at a slower rate than that of the expansion of the quantum established by the Official Statistical Service, but well above the indices calculated by the Banco Central. It may therefore be assumed that the Banco Central has not made use of the number of gainfully employed persons in its calculations.

The new quantum index was obtained after more careful analysis: "During the year 1948 a monthly calculation was undertaken of new statistical series for measuring the most representative elements in the development of industry, namely, the quantum of production".^{1/} For the period 1937 to 1943, census data were used as a basis for the calculations, and later estimates were based on samples adjusted in accordance with the results of the 1946 census.

The following comments are, therefore, based on the data supplied in the new official indices. At all events, however, the new analysis shows that the rate of development slowed down in 1948. This may be ascribed to the process of readjustment in Argentine industry during the past two years and also to the difficulty of obtaining foreign supplies in those branches which depend on raw materials, auxiliary products and replacements from abroad.

Development of Larger Sectors of Industrial Production

According to the official indices, expansion has not been uniform in the various sectors of industrial activity. On the whole, mining is of little importance, with the exception of the production of petroleum, statistics of which show a period of great activity between 1940 and 1944, both as regards foreign demand and the attempt to

^{1/} La Actividad Industrial Argentina de 1937 a 1949, page 6.

replace certain imports such as fuel. Since then, the volume of production has gradually contracted until, in 1949, it amounted to 85 per cent of the 1943 level.

On the other hand, industry has been expanding at an increasing rate: 26 per cent between 1939 and 1945 and 31.6 per cent between 1945 and 1948, when the peak was reached. In 1949 there was a decrease of 4 per cent below this peak.

Development within industry itself has varied according to whether durable or non-durable goods are concerned. A greater effort seems to have been made in the production of durable goods, the quantum of which rose 55 per cent between 1945 and 1947. This rate was not maintained after 1947, the indices showing a decline thereafter and reducing the increase between 1945 and 1949 to 35 per cent.

The increase was less sharp, but more regular, in the case of non-durable goods, amounting to 23 per cent during the period 1945-1949.

Table 26 Argentina: Quantum of Industrial Production in the Larger Sectors

<u>Years</u>	<u>General level</u>	<u>Mining industries</u> a/	Indices 1943 = 100.		
			<u>Total</u>	<u>Industrial Manufactures</u>	
				<u>Durable goods</u>	<u>Non-durable goods</u> c/
				b/	
1939	89.5	79.9	90.6	97.1	87.8
1945	112.2	92.1	114.2	120.5	111.5
1946	125.3	80.8	128.8	141.7	123.3
1947	143.5	88.3	148.4	187.1	131.7
1948	146.2	88.2	150.3	179.6	137.5
1949	141.8	85.3	144.8	162.3	137.2

Source: La Actividad Industrial Argentina de 1937 a 1949, September 1950.

- a/ Includes metallic ores, petroleum, common salt and sundry ores.
 b/ Includes wood, stones, glass, pottery, metals, vehicles and machinery.
 c/ Includes foodstuffs, beverages, tobacco, textiles, wearing apparel, paper and cardboard, newspapers and publications, chemical products, petroleum by-products, rubber, hides and other miscellaneous industries.

The provisional indices as they appear in the official statistics for 1950, indicate that, on the whole, as from the second quarter, there has been an improvement over the preceding year. However, since data available refer only to the first seven months, it is not possible to say whether the total index for 1950 will be higher than for 1949.

The steps taken by industrial leaders and the government propaganda
 /to prevent

to prevent absenteeism and raise the declining rate of productivity during the past two years, seem to have proved successful. The quantum of production began to increase again in the first half of 1950, as compared with the same period in 1949. These results were obtained at a lower rate of employment, as may be seen from the following table.

Table 27 Argentina: Labour Productivity

	Indices 1943 = 100	
	<u>First six months</u>	
	<u>1949</u>	<u>1950</u>
Employment	131.2	128.3
Quantum of production	138.6	140.3
Output per labourer	105.6	109.4
Output per man-hour	120.9	124.9

Source: The Monthly Statistical Summary of Argentina.

In some branches of industry, however, the rate of productivity continued to decline up to the first half of 1950. This occurred, for instance, in the tobacco industry, in textiles and wearing apparel, and in the rubber and vehicle industries. On the other hand, in the production of durable goods, such as metallurgical products, stone and glass, machinery and electrical devices, the output per man-hour has increased from one half-year to the other, as a consequence of the increased effort following the restriction on imports of capital goods.

Despite the substantial expansion in the production of durable goods, little change has taken place in the structure of Argentine industry. Taken as a whole, the main branches which produce durable goods have only increased their contribution to total production from 33 per cent in 1939 to 34 per cent in 1949. In 1943, the contribution of these industries declined to 30 per cent of total production. This can be explained by the difficulty in obtaining raw materials during the war and by the preference given to industries manufacturing consumer goods in an effort to cover the gap in imports.

No remarkable change has taken place in the durable-goods producing industries, which have tended to recover their pre-war position. Production peaks in this sector occurred in 1940 and 1946, when the shortage of capital goods imports stimulated the demand for those produced locally, regardless of their cost. The heavy imports of 1947 and 1948 weakened domestic demand for capital goods therefore causing production to decrease in those branches which were, in fact, little more than emergency industries.

The same does not occur in the sector producing non-durable goods. Here two remarkable changes occurred, namely, the relative increase

in textiles and wearing apparel and the decrease in foodstuffs, beverages and tobacco. In other branches the changes were less marked and the structure of the group in 1949 is very similar to that of 1939.

Table 28 Argentina: Structure of Manufacturing Industry
(as a percentage of the quantum of production)

<u>Industries</u>	<u>1939</u>	<u>1943</u>	<u>1949</u>
<u>Industries producing durable goods</u>	<u>33.0</u>	<u>30.0</u>	<u>34.0</u>
Metals, excluding machinery	13.3	9.1	12.7
Vehicles and machinery	9.9	11.0	10.8
Wood	3.8	4.3	4.0
Stone, glass and pottery	3.8	4.3	3.9
Electric machines and devices	1.9	1.3	2.5
<u>Industries producing non-durable goods</u>	<u>67.0</u>	<u>70.0</u>	<u>66.0</u>
Foodstuffs, beverages and tobacco	22.8	23.7	17.7
Textiles and wearing apparel	16.3	18.9	21.0
Printing and publications	9.2	6.3	6.3
Chemical products	4.3	5.6	4.7
Hides and leather	3.3	4.3	3.1
Rubber	3.1	0.7	2.6
Paper and cardboard	1.9	2.3	1.9
Petroleum by-products	1.8	1.7	1.6
Miscellaneous	<u>5.0</u>	<u>6.5</u>	<u>7.1</u>
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Basic data from La Actividad Industrial Argentina de 1937 a 1949

The trend of events in the production of foodstuffs can be explained by the fact that the only strong incentives to expansion are provided by the natural growth of population and by the non-stimulated external demand for such products as preserved and frozen meat which are largely produced for the export market. On the other hand, there is still a good domestic demand for textiles to replace imports.

Productivity

The statistics available for the quantum of production, the number of workers and the hours worked, give an idea of the improvement in labour productivity in Argentine industry.

Table 29 Argentina: Employment and Output in Industry

<u>Years</u>	Indices 1943 = 100				
	(1) <u>Labourers employed</u>	(2) <u>Hours worked</u>	(3) <u>Intensity of labour a/</u>	(4) <u>Output per labourer b/</u>	(5) <u>Output per man-hour c/</u>
1945	115.1	109.1	94.8	97.5	102.8
1946	123.7	114.9	92.9	101.3	109.1
1947	130.3	120.5	92.5	110.1	119.1
1948	131.7	119.0	90.4	111.0	122.9
1949	130.4	116.6	89.4	108.7	121.6

Source: La Actividad Industrial Argentina de 1937 a 1949.

a/ Hours worked divided by labourers employed.

b/ Quantum divided by labourers employed.

c/ Quantum divided by man-hours (as shown in column 3).

As shown in the preceding table, the lower intensity of labour expressed by a smaller number of hours worked per man did not prevent an increase in the yield per labourer, both in the total and man-hour figures. This trend reached a maximum in 1948, but in 1949 all the indices show a slight contraction. In using 1943 as the base year, there may be a slight distortion of the facts, since productivity in that year was low, due to the conditions resulting from the war. During this time producers could not be too demanding as regards materials, and equipment was working full time, without taking into account the number of labourers employed. If the pre-war situation is used as a basis for comparison, different results will be obtained. The yield per labourer in this case would be 12 per cent lower in 1949, as compared with the 1937-1939 average. (It is not possible to compare the number of hours worked, since this series of statistics has only been recorded since 1943.)

Table 30 Argentina: Quantum of Production per Labourer Employed

Indices 1937-39 = 100

<u>Years</u>	<u>Quantum</u>	<u>Labourers employed</u>	<u>Productivity</u>
1945	130.8	164.9	79.3
1946	146.0	177.2	82.4
1947	167.2	186.7	89.6
1948	170.4	188.7	90.3
1949	165.3	186.9	88.4

Source: Sintesis Estadística Mensual de la República Argentina.

1/ Includes mining industries.

It should be emphasized in a summary of this kind, which covers the post-war period, that productivity as a whole has improved in the past five years. Just at the end of the war, it had reached a minimum so far as production per labourer is concerned. This is not surprising at a time when salaries were still very low and it was profitable, in view of the intensity of demand, sharpened by the shortage of imports, to increase production with deteriorating equipment. On the other hand, since 1946 industry has been able to increase productivity by acquiring imported equipment and better quality raw materials, as well as by repairing the deficiencies caused by the use of substitute fuels. This process was accelerated by the raising of the wage level in 1948, which led to the better utilization of labour and efforts to rationalize production in all spheres.

It is therefore interesting to note the trend of wages in industry as compared with that of production.

Wages

The decrease in the number of hours worked, as indicated in the above table, can be ascribed to various factors, among which are the introduction of social benefits, such as annual paid vacations, an increase in the number of compulsory holidays, better observation of payments for sick-leave and, above all, the increase of real wages.

This increase has two aspects, namely, a very great increase of nominal wages, which was proportionately greater than the increase in the cost of living and also more employment for the family. The revenue of the working family has been increased by the fact that the number of its members who work for good wages is now considerably greater. In these circumstances, the necessity of complying with working hours or taking on overtime work is not so great as in the past. The decrease was also caused by the number of strikes, the majority of which aimed at compelling the entrepreneurs to grant various benefits, but especially the periodic raising of the wage level.

Table 31. Argentina: Working Days Lost as a Result of Labour Difficulties

<u>Years</u>	<u>Thousands</u>
1945	509
1946	2,048
1947	3,467
1948	3,159
1949	510

Source: Síntesis Estadística Mensual de la República Argentina.

The number of working days lost through strikes reached a maximum in 1947 during a period of serious labour difficulties, after which conditions returned to normal when their principal objectives were obtained. Since, in the majority of cases, the workers had obtained retroactive wage increases and compensation for the days they were off during the strikes, this process obviously had a highly inflationary effect, following the decline in the production of goods on the one hand, and the increase in the purchasing power of the population on the other.

It is not surprising, therefore, that the cost of wages per unit of production has become greater. The following table shows that the increase of wages per unit of production was greater during this period than the rise of nominal wages. Real wages have also increased substantially. It should be remembered that the real wages calculated by means of the cost-of-living index may be somewhat over-estimated. Actually, this index suffers from the common defect of all such indices when after a period of time the basis for the original weighting is altered. Furthermore, it also includes prices of goods and services which officially remain frozen and which oblige the consumer to change his pattern of consumption or to pay more. As regards house-rents, a distinction should be made between those who were able to remain in dwellings where the rents were frozen and those who had to pay high rents for new residences. Partial indices of clothing prices and general expenses, which have risen much more than the general index, are therefore more indicative of the real situation.

Table 32 Argentina: Real Nominal Wages, and Wages per Unit of Production

Indices 1937-39 = 100

Years	Nominal Average Wage a/	Real Wages b/	Wage per Unit of Production c/
1945	133.6	99.3	138.9
1946	162.2	102.5	177.2
1947	229.6	127.6	250.3
1948	312.2	153.6	333.4
1949	422.2	158.5	463.0

Source: La Actividad Industrial Argentina de 1937 a 1949;
Síntesis Estadística Mensual de la República Argentina;
Banco Central de la República Argentina.

- a/ Obtained by dividing total wages by the number of gainfully employed persons.
b/ Obtained by dividing nominal wages by the cost-of-living indices.
c/ Obtained by dividing total wages by the quantum indices of industrial production (manufacturing).

/This situation

This situation explains the need for "a labour economising policy", on the part of the entrepreneurs. In 1949, for the first time in 12 years, the number of gainfully employed persons, which in 1948 had reached 965,000, was decreased by 9,300 persons, that is, by about 1 per cent.

Machinery

Such a sharp rise in the wage level inevitably encouraged manufacturers to introduce technical improvements in their factories. Full employment had been reached in the post-war period and served as an added incentive in this direction.

Machinery for Argentine industry is supplied both by domestic production and imports. Even though the volume of the former increased four times between 1941 and 1945 (during which period no imported machinery was available) and increased a further 20 per cent between 1945 and 1949, it is still far from meeting the essential requirements of the Argentine economy for new machinery and spare parts.

Table 33 Argentina: Quantum of Industrial Machinery Supplies

Indices 1937-39 = 100

Years	Domestic production a/	Imports b/	Total c/
1945	420	16	340
1946	434	74	362
1947	457	252	416
1948	501	356	472
1949	538	130	456

Source: Basic data from Síntesis Estadística Mensual de la República Argentina.

- a/ Includes domestic production of machinery and electric motors, estimated according to the value added in 1943.
- b/ Machinery and motors for industries.
- c/ The total was obtained by weighting production and imports according to their real value in 1943.

Imports have therefore been a necessary means of supplying industry with capital goods. Unfortunately no complete or detailed data exist after 1946 (the last publication of Anuario del Comercio Exterior) and there are only overall figures for imports of iron and steel, other metals, machinery and vehicles; it is therefore impossible to verify the destination or use of the imported goods.

According to the estimates made to determine the quantum of total imports, foreign purchases of reproductive capital goods showed a

/maximum in

maximum in 1948, - 2,519.5 million pesos (1947 prices), - falling again as a result of import restrictions adopted in view of the shortage of foreign exchange.

Table 34. Argentina: Volume and Price of Imports of Capital Goods

<u>Years</u>	<u>Volume</u> (in millions of 1947 pesos)	<u>Prices</u> Index 1947 = 100	<u>Import Prices</u> 1947 = 100
1945	179.4	96.2	62.5
1946	784.3	80.3	72.7
1947	1,971.9	100.0	100.0
1948	2,519.5	100.7	92.2
1949	1,679.3	101.8	88.6
1950	1,737.7	99.4	97.7

Source: The basic data are drawn from Síntesis Estadística Mensual de la República Argentina.

Note: In order to determine the quantum of imports of reproductive capital goods, the percentage of imports of iron, steel, other metals, machinery, vehicles etc., which can be considered capital goods, was taken as it appeared in the 1946 Anuario. These estimates vary from those published in the Economic Survey for Latin America 1949, since no data are available except for groups of products instead of the details formerly supplied by the Foreign Trade Annual, which has not appeared since 1947.

It is, however, considered necessary to develop mechanization and technical improvements as the sole means of increasing labour productivity.

Energy

Industrial activity has suffered yet another setback to productivity, namely, the shortage of energy. This has principally been due to the fact that domestic production of petroleum has come to a standstill and must therefore be supplemented by increased imports. Since 1949, there have been difficulties in the supply of liquid and solid fuel and, in order to reduce consumption of liquid fuel, the Government has recently been compelled to raise the price of petrol.

The production of electricity has increased about 8 to 10 per cent annually, but a large part of the demand has not yet been met and it has therefore been necessary to ration electricity consumption. New industries have great difficulty in being connected with the distribution system, because the capacity of the power plants is already overloaded, especially

/in the

in the Federal Capital, which remains the country's principal industrial centre, despite the attempts which are being made to decentralize.

Table 35 Argentina: Energy Production

<u>Years</u>	<u>Refined Petrol^{a/}</u> (in thousands of cubic meters)	<u>Gas</u> (in millions of cubic meters)	<u>Electricity</u> (millions of KWH)	<u>Coal Imports</u> (in thousands of 1,016 Kg tons)
1945	3,351	126	2,976	780
1946	3,902	147	3,263	1,146
1947	4,161	176	3,576	1,309
1948	4,909	201	3,911	2,118
1949	5,029	224	4,120	1,362
1950	..	..	..	1,448

Source: Monthly Statistical Summary of Argentina.
The Review of the River Plate (for coal)

a/ Includes fuel oil, petrol, kerosene and other liquid fuels refined in the country from domestic or imported crude oil.

Financing and Loans

Until a few months ago, there was no shortage of financial resources, and industry was able to draw on various sources for all long and short-term loans it might require. To begin with, industry could avail itself of its own excess profits which, at least until 1948, grew steadily. The capital market could, through the stock exchange, completely absorb industrial shares until the beginning of 1949. The policy of both official and private banks as regards loans to industry, has been considered far too liberal. In October 1948, with a view to stemming inflation, the Banco Central ordered the placing of restrictions on loans. The "Banco de Crédito Industrial Argentino" (Industrial Credit Bank of Argentina) which had financed a great many of the new industries, suspended the granting of all loans for the enlargement of factories not deemed essential by the Government. The Stock Exchange Commission in turn, controlled the issue of new stock.

These measures were adopted precisely at a time when the rise in costs - including wages, fuel and raw materials compelled industry to increase its financial resources, if only to meet working capital requirements.

The combined effects of inflation, credit restrictions and the

/increased taxes

increased taxes greatly affected the financial structure of the various industries. Though no accurate and reliable data are available, it is assumed in official circles, that Argentine industry has been subject to a process of decapitalization. Profits and reserves in many cases cannot meet the replacement requirements, at real prices. This is one of the most serious problems faced by Argentine industry added to its vulnerability as regards foreign supplies of fuel, machinery, replacements and some essential raw materials.

The Building Industry

The building industry, which has peculiar characteristics, expanded substantially. Between 1939 and 1945, the built-up area, according to building permits granted in the principal cities, had increased by 36 per cent. that is to say, more than the quantum of total production. In the post-war period this growth continued though at a slightly lower rate. The shortage of building materials largely absorbed by public works programmes, and the wage increases caused by the competition of industry for labour, at times hampered development.

Table 36 Argentina: Building: Built-up Area According to Permits Granted and Cost of Construction

<u>Years</u>	<u>Federal Capital</u>	<u>Suburban Areas a/</u>	<u>Municipalities of the Provinces b/</u>	<u>Total</u>	<u>Indices 1939=100</u>	<u>Prices c/</u>
	(in thousands of square metres)					
1945	1,967	1,342	938	4,247	136.1	168
1946	2,688	1,639	1,105	5,432	174.1	216
1947	2,345	1,888	1,189	5,422	162.1	282
1948	2,232	2,248	1,449	5,930	190.0	421
1949	2,146	2,163	1,422	5,731	183.6	536
1950	2,100 d/	..	..	..	..	624e/

Source: Monthly Statistical Summary of Argentina.

- a/ Includes the districts which make up Greater Buenos Aires.
- b/ Includes the districts of Bahía Blanca, Córdoba, Mar del Plata, Rosario and Tucumán.
- c/ The cost of building, including wages and cost of building materials.
- d/ Based on the first 10 months.
- e/ First 6 months.

The consumption of cement is an accurate gauge of building activity. During the years 1947-1949, when there was considerable expansion of
/building,

building, especially of public works and industrial building, which are known to require proportionately larger amounts of cement, the combined total of production and imports was insufficient to meet demand. Consequently, the rate of building was either halted or decreased. It was estimated in 1950 that cement supplies would practically meet demand, which has been limited due to the shortage of other materials, including sand and gravel, in the Federal Capital and surrounding districts in particular. This shortage is due to the restriction of imports of these materials from Uruguay, which formerly supplied a large proportion of the country's requirements.

Table 37 Argentina: Production, Imports and Consumption of Cement
(in thousands of tons)

<u>Years</u>	<u>Production</u>	<u>Import</u>	<u>Consumption</u>
1945 ^a	1,084	..	1,084
1946	1,120	..	1,120
1947	1,371	100 ^{a/}	1,371
1948	1,254	332	1,686
1949 ^{b/}	1,440	197	1,637
1950 ^{b/}	1,550	450	2,000

Source: Portland Cement Manufacturers Association.

^{a/} The Portland Cement Manufacturers Association estimates that the 1947 imports were consumed in 1948.

^{b/} Provisional data.

The rise in the cost of building has aggravated the housing problem, since the increase is greater than that of industrial wages, which constitute the income of a large part of the population. There is ample justification for the efforts made by the Government to make construction available to the sectors which most require it, by granting long-term loans on which the rate of interest is low.

The freezing of rents has created a vast difference in the situation of persons who occupy dwellings where rents have been controlled for nearly ten years as compared with those who rent newly-built premises. In order to reduce this disparity, in November 1950 the Government ordered that in the future, the rents on new buildings should not yield a net interest of more than 7 per cent. It is questionable whether the measure will bring the desired results or whether, instead, it might discourage

/investment in

investment in new building.

Rent controls have reduced, in some cases almost entirely, the real income of property owners, though it has benefited the tenants, who are thus enabled to spend a larger proportion of their real income on other items.

Mining Production

Mining has never played a very important role in Argentine economy. Production reached a maximum in 1943-44, when it accounted for 4 per cent of total production; since then its volume contracted by approximately 15 per cent. At present it contributes little more than 3 per cent to the total volume of production.

The fundamental reason for this contraction lies in the reduction in the mining of metallic ores,^{1/} which dropped 52 per cent between 1943 and 1949. Mining of other ores has likewise decreased (9.1 per cent), petroleum production was reduced by 9 per cent, while the production of common salt increased by 59.5 per cent.

Table 38 Argentina: Production of Ores and Fuel

<u>Years</u>	<u>Ores</u>					<u>Fuels</u>		
	<u>Sulphur</u>	<u>Lead</u>	<u>Tin</u>	<u>Silver & Tin</u>	<u>Zinc</u>	<u>Asphalt</u>	<u>Lump Coal</u>	<u>Crude Petroleum</u>
		(tons)				(thousands	of tons)	(thousands of m.3)
1945	11,534	27,498	699	3,007	26,543	135.3	3.3	3,537
1946	10,093	28,735	327	2,524	30,388	84.6	3.1	3,297
1947	10,907	35,546	178	1,875	30,960	83.1	14.2	3,473
1948	8,384	33,563	317	502	23,496	82.3	17.5	2,693
1949	10,071	27,287	119	655	20,849	78.7	17.9	3,591

Source: Monthly Statistical Summary of Argentina, October 1950.

The expansion of mining production until 1943-1944 and its subsequent decline may be ascribed to the abnormal demand for certain products during the war by countries that were shut off from their usual sources of supply. When conditions returned to normal, this demand disappeared and exports of mining products rapidly diminished, thus causing a decrease of mining itself. From a total of 183,500 tons of mineral exports in 1944,

^{1/} This group includes antimony, beryllium, bismuth, copper, columbium, talum, chromium, tin, iron, magnetite, manganese, gold, silver, lead, vanadium, wolfram and zinc.

worth 26.4 million Argentine pesos, the volume of exports in 1949 fell to 22,230 tons, worth 4.4 million Argentine pesos. The repercussion of the recent world emergency was felt during the first eight months of 1950, when there was an increase of 33 per cent in the volume and 40 per cent in the value of Argentine mining exports, as compared with the preceding year, in which a minimum of exports was recorded. Despite this increase, the item is of little significance in relation to the country's economy as a whole.

As the figures for mining include petroleum, sand, boulders, marble, granite rocks, coal, asphalt, mineral waters, common salt, talcum, chalk etcetera, the relative unimportance of the mining itself in the general economy is obvious.

Iron

The only iron deposits being worked at present are located at Zapla, in Jujuy. In 1949, 24,000 tons of 47 per cent ore were mined. Systematic surveying of the iron deposits in Sierra Grande (Rio Negro territory) is now being carried out. The ore from these deposits contains 58 per cent iron, which appears to be of some importance, since in the first 22 drillings, where soundings of 2,600 metres were made, extensive ore bearing veins were located.

Coal

The only large coal deposits known are on the Rio Turbio, in the south-west part of the Santa Cruz territory. These reserves are estimated at about 250 million tons. The small amount produced - little less than 20,000 tons, - is consumed locally.

An economic 75-centimetre gauge railway is being built to connect this region with Puerto Gallegos, in order to facilitate coal transport to the principal consuming centres. It is expected that the railway will be completed in 1951 and that production will then be increased.

Petroleum

The 50 per cent deficit of energy supplies in Argentina must be covered by imports. It is therefore logical that measures should be taken to increase petroleum production. In 1949, production amounted to 3,591,300 cubic metres as compared with 3,692,800 cubic metres in 1948. The available data for the first few months of 1950 suggest that the declining trend of 1949 will be reversed and that production will return

/to the

to the 1948 level.

This reduction was caused principally by the difficulty in obtaining petroleum drilling and pumping equipment. If the essential equipment can be obtained, substantial increases of petroleum production may be expected.

CHAPTER II. FOREIGN TRADE AND BALANCE OF PAYMENTS

The trend of foreign trade in the postwar period

The general international situation in the post-war period has brought about changes in the market for products which are regularly exported by Argentina. These changes together with other factors of a domestic nature, determined the far reaching and sudden fluctuations which marked the course of Argentine foreign trade during the period 1945-50, as may be seen from Table 39.

The favourable sellers' market resulting from European demand for food products from 1946 to 1948 was reversed when these countries rehabilitated their economy, and particularly when the United States, because of its exceptional harvest, was able to increase grain exports substantially, chiefly through the Marshall Plan. Consequently international grain prices fell from their former high level. Moreover, the inconvertibility of the pound sterling after August 1947, modified trade relations with the United Kingdom, the traditional and most important customer of the Argentine, so that the latter was unable to employ its credit balances in sterling for imports from hard currency areas.

Domestic factors also adversely affected exports. The Argentine trade policy for the principal products consisted in obtaining the highest possible price on the foreign market; the farmers, however, received prices which barely covered their costs and, in certain cases, were even lower. The deliberate inflationary pressure used to stimulate industrialization further deteriorated agricultural costs conditions and brought about the migration of the rural population to the urban centres. In addition, attention must be drawn to the fact that until August 1950, no changes were made in the basic

/buying rate

buying rate of exchange for the principal export articles, the majority of which were agricultural products.

Table 39. Argentina: International Trade
(Current values in millions of Argentine pesos)

<u>Years</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance in foreign exchange</u> a/
1946	3,973.1	2,331.7	2,273.1
1947	5,504.9	5,348.5	1,064.9
1948	5,541.8	6,189.7	317.3
1949	3,718.9	4,641.7	- 505.3
1950 b/	5,284.0	4,830.0	600.0 c/

Source: Official Statistical Service.

a/ It should be remembered that the Official Statistical Service calculates exports according to the value "received by the exporter when he negotiates his exchange at the buying rates established by the Banco Central". The value of imports is obtained by applying to all long-term transactions the "selling rates of exchange corresponding to the product in question". Though the result of comparing these values shows the position of the balance of trade in pesos, it does not reflect the real movement of gold and exchange transactions resulting from such trade". In order to calculate "the balance of foreign exchange", exports and imports were converted into foreign currency and the average rate for imports was applied to exports. On the other hand, the Banco Central statistics of foreign trade and the balance of payments, which are used below, are based on calculations at the basic official buying rate.

b/ Provisional figures

c/ Estimated.

The short period under consideration includes record minimum and maximum years in the history of Argentine foreign trade. The quantum of exports in 1949 was the smallest since 1910/11, with the exception of 1917, when trade was seriously affected by the First World War ^{1/}. In 1948 the maximum value of trade was reached, whether estimated in dollars or in pesos, together with an absolute maximum in the quantum of imports.

1/ See Economic Survey of Latin America 1949, Document E/CN.12/164, Chapter VII, p.12.

Table 40. Quantum and Price Indices of imports and export, terms of trade, and capacity to import

1947 = 100

Years	Indices of Quantum of exports	Indices of quantum of imports	Indices of Price of exports	Indices of Price of imports	Terms of trade	Capacity to import
1945	76,1	34,5	59,5	62,5	95,2	72,4
1946	94,0	60,0	76,6	72,7	103,4	99,1
1947	100,0	100,0	100,0	100,0	100,0	100,0
1948	92,3	125,5	109,9	92,2	118,1	109,0
1949	68,0	98,0	99,1	88,6	111,1	76,0
1950 a/	85,8	91,5	106,6	97,7	109,1	93,6

Source: Basic data provided by the Monthly Statistical Summary of Argentina.

a/ Estimates. These calculations differ from those of the 1949 survey since it was necessary to use statistics for large groups of products instead of the detailed material contained in the Foreign Trade Annuals, which have not been published since 1947.

Basic changes make it impossible to consider this period as a whole, it is therefore proposed to divide it into four parts:— (a) the first year of the post-war period; (b) the period of the seller's market, covering the whole of 1947 and the first half of 1948; (c) the period of readjustment, and return to the buyer's market, comprising the latter half of 1948 and all of 1949; and finally (d), the year 1950 which marks the beginning of a period of improvement.

a) In the specific case of Argentina, the serious disturbances which the critical years (1941-45) of the Second World War created in world trade, resulted in the closing of her Western European markets, where Argentine products were normally placed. Western Europe and the United States were likewise unable to continue supplying their usual exports to Argentina. During all this period, the average of the indices for the quantum of exports and imports was 65 and 38.9 respectively (1937 = 100).

1946 was thus a year of transition. The foreign markets had been reopened but demand and the transport of merchandise had not yet returned to normal. Exports and imports nevertheless increased

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and for the first time since 1937, the terms of trade were favourable to Argentina. (In the period 1941-45 the indices had dropped to an average of 70.5 with 1937 as a basic year).

b) In 1947 and in the first half of 1948 there was a strengthening of the trends first noted in 1946. It is a well-known fact that The Government, which, as is well-known, exclusively undertakes the export of the majority of agricultural and livestock products, on this occasion made good use of the opportunity to sell Argentine produce for prices which were higher than those on the international market. Though this may appear to be in contradiction with the competitive nature of the market for this type of goods, it was only made possible by extending the purchasing power of certain countries to which credits were granted, or, alternatively, by selling to soft currency countries which were unable to avail themselves of better prices from other sources of supply. (In August 1947 the inconvertibility of the pound sterling was introduced. This policy was later to affect the Argentine foreign exchange position.

Despite the downward tendency of its second half, (which is included in the next period), as was previously stated, year 1948 marks the peak of Argentina's foreign trade. The highest index for the quantum of imports and the most favourable terms of trade were recorded, as may be seen in Table 40, and at the same time both exports and imports reached their highest value in dollars (1,627.4 million and 1,590.40 million dollars respectively).

c) Substantial exports form the United States and the fall of international prices sharply affected Argentine foreign trade. During the second half of 1948, exports began to decrease and this trend became stronger during 1949, so that they reached a record minimum, as has already been indicated. The unsuccessful attempts to maintain earlier prices were followed by a policy of strict readjustment. This was more difficult insofar as exports were concerned, because of the rise of domestic prices, together with the fact that the buying rate of exchange remained unchanged. Insofar as imports are concerned, the policy of readjustment was

/hindered by

hindered by increased Argentine requirements of critical materials for industry and essential consumer goods.

Only at the very end of 1949 were measures taken with a view to increasing exports; prices were readjusted to approach those in the international market, and an official three-year plan for the development of agriculture and livestock was announced. In October, the rates of exchange were modified but it should be noted that the basic buying rate of 335.82 Argentine pesos per 100 dollars, which has been in force since 1939, was maintained. This rate continued to be used for the exchange provided by exports of certain agricultural products, which weakened the effects of the measure in certain important sectors of livestock production and agriculture (meat, some cereals and oilseeds). The new preferential rate of 483 Argentine pesos per 100 dollars favoured certain products, such as wool, hides and vegetable oils, which could be exported to hard currency countries.

The new selling rates involved a greater devaluation and tended to restrict imports.

Though in the last quarter of 1949 an increase in the value of exports was obtained, the total for the year represented a decrease of 33 per cent, as compared with the preceding year. Imports, in turn fell about 25 per cent. In conclusion, imports and exports touched their lowest level and there was a serious disequilibrium in the Balance of Trade.

d) On the basis of the data available for 1950, it is estimated that exports totalled 5,200 million pesos and imports 4,800 million pesos. The negative trade balance has thus been corrected and a favourable balance in foreign exchange attained, estimated at 600 million pesos.^{2/}

The improvement recorded in 1950 is largely due to the rise

1/ Statement by the President of Argentina, September 26, 1949.

2/ In order to explain the difference between the credit balance of foreign exchange amounting to 600 million pesos and the balance shown by comparing export and import figures, reference should be made to the note on Table 39.

in the price of wool and the substantial shipments of this product, mainly to the United States. The outstanding feature of the period is the increase of Argentine exports to the United States, estimated at 200 million dollars, as compared with 100 million in the preceding year. These shipments enabled Argentina to cover the deficit in maize exports, resulting from the failure of the crop, caused by the drought which occurred at the end of 1949.

At the end of August 1950, there was a further important devaluation of the Argentine peso. The basic buying rate of 335.82 pesos per 100 dollars and the preferential A rate of 483.00 pesos, were both eliminated and substituted by a uniform rate of 500 pesos. It is believed that by adopting this rate of exchange, Argentina will be in a position to sell its total production at international market quotations. The new prices established as a result of this exchange reform hardly affected the 1950 accounts, owing to the limited volume of agricultural and livestock production in that year, and to the fact that nearly all stocks had been liquidated. However, the reform is likely to prove an incentive to 1951 exports, if normal harvests are gathered.

Table 41. Argentina: Prices of principal exports products

<u>Years</u>	<u>Wheat</u> (in pesos per quintal)	<u>Maize</u> (in pesos per metric quintal)	<u>Linseed</u> (in pesos per metric quintal)	<u>Linseed oil</u> (in pesos per ton)	<u>Raw wool - greasy basis</u>			
					<u>Choice cross-bred</u>	<u>Fine cross-bred</u>	<u>Medium cross-bred</u>	<u>Coarse cross-bred</u>
					(In Argentine pesos per 10 kilogrammes)			
1946	21,83	17,67	21,87	1,470	20,50	19,42	14,78	9,67
1947	45,50	28,50	c/	2,160	22,87	22,07	16,93	10,05
1948	60,00	34,35	c/	2,200	36,85	34,13	23,36	15,06
1949	32,85	20,66	c/	1,411	43,72	38,19	27,28	25,46
1950a/	27,00	19,50	47,00	1,650 d/	55,00	51,70	41,10	45,40
1950b/	40,20	- -	77,50	1,600 d/	- -	- -	- -	- -

a/ Until August.

b/ After the devaluation of the Argentine peso.

c/ No exports for these years.

d/ From October 1949 to August 1950 at the preferential rate of 4.83 Argentine pesos per dollar instead of 3.36 pesos per dollar.

/ This rapid

Table 42. Argentina: Quantum of Exports

	<u>Value at 1947 Prices</u>					
	<u>(In millions of pesos)</u>					
	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950^{a/}</u>
Agricultural Products	2,059.6	2,704.7	3,158.3	2,980.5	2,063.6	2,962.2
Animal Products	1,695.0	1,948.3	2,000.0	1,874.5	1,551.1	1,622.1
Industrial Products	301.7	380.0	217.1	142.6	70.7	56.4
Sundry	141.0	151.0	139.7	92.3	64.7	92.2
Total	4,197.3	5,184.0	5,515.1	5,089.9	3,750.1	4,732.9

Source: Basic data from Síntesis Estadística Mensual de la República Argentina, December 1950.

Note: a/ Figures estimated from data over ten months (January-October)

Table 43. Argentina: Structure of Exports

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
<u>Agricultural Products</u>	<u>32.4</u>	<u>42.9</u>	<u>57.4</u>	<u>59.0</u>	<u>45.0</u>	<u>44.7</u>
Cereals and Flax	19.6	24.6	36.9	46.3	33.2	23.6
Flour and by-products of Wheat	1.1	1.3	1.6	1.8	1.1	0.9
Other Agricultural Products	11.7	17.0	18.9	10.9	10.7	20.2
<u>Animal Products</u>	<u>49.8</u>	<u>43.0</u>	<u>36.2</u>	<u>36.8</u>	<u>50.6</u>	<u>49.6</u>
On the Hoof	3.0	1.7	1.5	1.9	1.6	1.5
Meats	19.2	14.9	13.9	11.9	20.2	12.0
Hides	6.9	8.6	6.7	7.6	13.0	12.1
Wool	10.8	9.0	5.9	7.4	9.4	16.5
Milk Products	2.8	3.7	3.1	3.0	2.0	2.2
Animal by-products	7.1	5.1	5.1	4.9	4.4	5.3
<u>Industrial Products</u>	<u>13.5</u>	<u>11.2</u>	<u>3.9</u>	<u>2.1</u>	<u>1.9</u>	<u>2.1</u>
<u>Sundry</u>	<u>4.3</u>	<u>2.9</u>	<u>2.6</u>	<u>2.1</u>	<u>2.5</u>	<u>3.6</u>
Forest Products	2.7	1.9	2.2	1.8	2.3	3.3
Mining Products	0.8	0.4	0.2	0.2	0.1	0.2
Game and Fishery Products	0.8	0.6	0.2	0.1	0.1	0.1
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Basic data from Síntesis Estadística Mensual de la República Argentina, December 1950.

This rapid analysis bears out the initial statement that the period 1946-50 is marked by a series of changes. The maximum values for the year 1948 and the minima for 1949 corresponded to circumstances which affected the world markets and influenced official Argentine policy. The post-war period is therefore not marked by any definite tendency.

2. The Structure of exports

The simple structure of Argentine exports is clearly emphasized by Table 42. Traditionally, these exports have been almost entirely made up of agricultural and livestock produce and the most significant changes have resulted from the relative variation in the proportion of agricultural products and livestock. These changes in the period under observation arise from circumstances which were considered previously. Thus, for instance, between 1948 and 1949 there was a sudden change in favour of livestock produce because of the greater vulnerability of agricultural products to current events, such as, for instance, the competition of North American grain exports. Whereas the index of the quantum of agricultural exports fell in 1949 from 94.4 to 65.3, that of livestock exports only decreased from 93.7 to 77.6 (1947 = 100).

Reviewing the period as a whole, with the exception of the year 1947, exports of agricultural and livestock products amounted to more than 90 percent of total exports. Breaking down these exports, the very high proportion of a few, in relation to the total will be noted. This feature, which is characteristic of the greater number of Latin American countries, has always been held responsible for the violent changes which occurred in the Argentine economy, either as a result of external factors or of the varying climatic conditions which affected Argentine harvests. During the period 1946-50, innumerable events stress this vulnerability, as has already been shown.

The fact that Argentine exports are largely made up of a small number of products account for the latter's fluctuation being reflected almost completely in total exports as a whole, though the figures in Table 43 show that nearly all exports varied in this

/manner during

manner during the period under consideration.

Exports of industrial products are one of the outstanding features of this period; in 1945 and 1946, they constituted 13.5 and 11.2 per cent respectively of total exports (quantum indices: 139 and 175 respectively, - 1947 = 100). It should be noted that after achieving these maxima, exports of industrial products fell sharply and did not recover throughout the whole period. The impetus given to industry during the war and the weakening of competition of industrial countries account for this rise. Their subsequent fall can be ascribed to the fact that the sudden development of industry did not have a firm foundation with which to face the re-emergence of competition of these countries, especially of the United States.

The fairly uniform fluctuations of the remaining exports can be attributed to causes of a general nature, which were analysed above. Special attention, however, should be drawn to the increase of wool exports in 1950, already noted. (They accounted for 16.5 per cent of total exports in that year as against 8.5 per cent during the period 1945-49). Another example is that of linseed oil (details of which do not appear in the foregoing tables), which together with linseed is one of Argentina's most important sources of dollar revenue. The policy of very high prices (aided by extension of credits), adopted particularly in 1947, discouraged buyers and provoked competition from other countries, such as the United States. It should be noted that this country ceased its imports of linseed and became an exporter, protecting domestic production of linseed with restrictive measures. Consequently, in 1948 and 1949, Argentina exported only 53,497 tons and 57,461 tons respectively, as compared with 213,500 tons in 1947. The 1950 figure, 198,962 tons, points to a recovery and coincides with the official policy of reducing prices "aggressively". ^{1/}

^{1/} Report of the Instituto Argentino para la Promoción del Intercambio (Argentine Institute for the Promotion of Trade), IAPI, 1949.

In conclusion, post-war events have not altered the traditional structure of Argentine exports; exports of manufactured products which in 1945 totalled 446 million pesos, are no more than "a flash in the pan" and can be accounted for by the prevailing but transitory circumstances. However, if one considers that such circumstances might be less exceptional in the near future and that Argentine industry can raise its present technical level by replacing its equipment and machinery and increasing labour productivity, then the 1946 results will serve as an instructive example of the possibilities of reducing the excessive unilaterality of Argentine exports. The problem is naturally connected with the development of export trade with the rest of Latin America.

Composition of imports

Two significant changes have taken place in the composition of imports during the period 1946-50, as may be seen in Table 45.

On the one hand, foodstuffs and beverages, which in 1945 amounted to 11.7 per cent of the total dropped to 8.3 per cent in 1946 and continued the downward trend until 1949, when they constituted only 4 per cent of total Argentine imports. In 1950, however, there was a slight increase. On the other hand, capital goods, which in 1945 made up only 15 per cent of total imports, in 1946 represented 27.1 per cent and in 1948 reached 41 per cent of total imports. Imports of durable consumer goods also increased proportionally over 1945 and maintained this level throughout the period.

The quantum indices in Table 44 show that imports of both classes of goods have increased in harmony with the general post-war tendency, though evidently the increase has been greater in the case of capital goods.

The explanation of these changes is both simple and well-known. The fact that there were no imports of consumer goods during the war does not imply an accumulation of pent-up demand. The restoration of trade enabled these imports to be increased in order to improve current supplies of goods ordinarily demanded by Argentine consumers, rather than to cover the gaps left by earlier shortages.

/This does not

This does not apply to capital goods. Domestic industry was not only called upon to supply the normal replacements postponed by earlier restrictions, but also to satisfy demand arising from the abnormal depreciation of industry resulting from wartime expansion.

It is therefore not surprising that imports of capital goods and of other durable goods should increase in the post-war period to a greater extent than imports of consumer goods, and that the foregoing changes should thus have occurred in the structure of imports.

Table 44. Argentina: quantum of imports 1945-50

(Values at 1947 prices)

Million of pesos)

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950^{a/}</u>
Foodstuffs (beverages, etc.)	222,6	230,1	254,7	398,7	251,8	175,5
Textiles and textile manufactures	673,6	754,4	853,2	1.437,6	1.395,1	999,8
Paper, cardboard and manufactures	148,3	215,0	230,3	185,4	197,9	137,2
Hides, skins and manufactures	8,3	37,4	94,2	72,3	79,9	87,6
Chemical products and similar goods	148,7	186,6	317,5	274,4	178,1	216,6
Fuel and lubricants	105,3	341,6	396,5	549,4	447,1	546,5
Rubber and manufactured rubber goods	8,0	71,3	152,1	28,0	30,0	55,1
Wood and manufactures	165,4	236,8	294,6	359,2	334,5	307,7
Stone, glass, etc.	73,9	80,7	115,0	149,6	142,4	37,4
Metals and Metallic goods	62,0	79,8	151,2	169,3	101,3	127,8
Durable consumer goods	11,4	69,2	229,4	326,3	167,1	153,8
Capital goods	179,4	784,3	1.971,9	2.527,5	1.679,3	1.787,3
Miscellaneous	38,8	119,8	287,9	235,5	236,7	264,2
Total	<u>1.845,7</u>	<u>3.207,0</u>	<u>5,348,5</u>	<u>6,712,9</u>	<u>5,241,2</u>	<u>4.896,5</u>

Source: Monthly Statistical Summary of Argentina

a/ Calculated for the year on the basis of ten months.

/Table 45.

Table 45. Argentina : Structure of imports

(percentages of the total)

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
Foodstuffs, beverages, etc.	11,7	8,3	4,8	5,1	4,0	5,9
Textiles and textile manufactures	19,9	12,2	16,0	11,1	18,7	11,9
Paper, cardboard and manufactures	8,9	7,1	4,3	3,3	4,3	3,6
Hides, skins and manufactures	1,1	1,8	1,8	1,5	1,3	1,3
Chemical products and similar goods	11,0	7,0	5,9	5,8	4,3	6,6
Fuel and lubricants	8,4	12,1	7,4	11,2	10,5	12,7
Rubber and manufactured rubber goods	1,2	3,4	2,8	0,8	0,5	1,1
Wood and manufactures	10,5	8,0	5,5	5,1	6,7	7,3
Stone, glass, etc.	3,9	2,6	2,2	2,8	3,0	2,7
Metals and metallic goods	3,6	2,6	2,8	2,8	2,1	3,2
Durable consumer goods	0,8	2,4	4,3	4,9	3,7	3,4
Capital goods	15,0	27,1	36,9	41,0	36,8	36,1
Miscellaneous	<u>4,0</u>	<u>5,4</u>	<u>5,3</u>	<u>4,6</u>	<u>4,1</u>	<u>4,2</u>
Total	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>

Source: Monthly Statistical Summary of Argentina.

These changes, moreover, have been aided and in some case imposed by official measures. Import licences granted during 1947, 1948 and 1949 illustrate the policy followed in this respect.

Table 46: Argentina: Distribution of Foreign Exchange Permits
by value granted for imports of merchandise

	<u>1947</u>	<u>1948</u>	<u>1949</u>
Raw materials and semi-manufactured goods for industry	39,8	47,8	52,1
Machinery, motors, accessories and spare parts	23,2	20,3	23,3
Elements for transport	20,1	11,3	11,3
Fuel and lubricants	5,0	10,8	7,7
Consumer goods and other products	11,9	9,8	5,6
Total	<u>100,0</u>	<u>100,0</u>	<u>100,0</u>

Source: The Report of the Central Bank of Argentina.

/The discrimination

The discrimination is based on the need to control imports according to foreign exchange availabilities and the interests of domestic industry. On the one hand, it was attempted to assist industry in modernizing its equipment and to obtain the necessary spare parts, whilst, at the same time, protecting it from the competition of foreign produce.

The proportion of capital goods in relation to total imports is quite high. However, in order to assess the significance of these imports in the country's capitalization, it should be remembered that replacements account for a high percentage. Further reference is made in the corresponding section of this report.

The figures published for 1950 used in computing Tables 44 and 45, show that there has not been any great alteration as compared with the rest of the period. Attention should be drawn, however, to the increase of fuel imports and of rubber goods and rubber manufactures, and the marked decrease of textiles, foodstuffs, glassware, etc., following the trend already analyzed in the Economic Survey for Latin America 1949.

Table 47. Argentina: Foreign trade by zones

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950^{a/}</u>
	<u>In millions of Argentine pesos</u>					
<u>With United States</u>						
Exports	553,8	596,1	547,3	537,4	398,7	1069,0 ^{b/}
Imports	158,9	665,2	2.431,0	2.286,9	689,5	788,0 ^{b/}
<u>With the rest of the Americas</u>						
Exports	518,4	469,7	654,5	604,4	598,7	705,6
Imports	480,3	579,0	806,2	933,8	629,6	810,4
<u>With the United Kingdom</u>						
Exports	649,1	876,7	1,651,2	1,535,5	848,7	956,5 ^{b/}
Imports	116,2	307,8	446,4	775,2	721,6	569,0 ^{b/}
<u>With the rest of Europe</u>						
Exports	507,6	1.532,2	2.173,7	2,413,7	1.649,0	2100,4
Imports	222,5	488,0	1.256,6	1,629,1	1,952,2	1862,3
<u>With other countries</u>						
Exports	268,9	498,2	478,2	450,8	222,2	453,6
Imports	176,0	291,7	408,3	564,7	648,8	800,4
<u>TOTAL</u>						
Exports	2.497,8	3.973,1	5,504,9	5.541,8	3,717,5	5284,1 ^{b/}
Imports	1.154,0	2,331,7	5.348,5	6.189,7	4,641,7	4830,1 ^{b/}
	/As percentages					

Table 47 (Continuation)

	<u>1945</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
	<u>As percentages</u>					
<u>With United States</u>						
Exports	22,2	15,0	9,9	9,7	10,7	20,2
Imports	13,8	28,5	45,5	36,9	14,8	16,3
<u>With the rest of the Americas</u>						
Exports	20,8	11,8	11,9	10,9	16,1	13,4
Imports	41,6	24,8	15,1	15,1	13,6	16,8
<u>With the United Kingdom</u>						
Exports	26,0	22,1	30,0	27,7	22,8	18,1
Imports	10,1	13,3	8,3	12,5	15,5	11,8
<u>With the rest of Europe</u>						
Exports	20,3	38,6	39,5	43,6	44,4	39,7
Imports	19,3	20,9	23,5	26,3	42,1	38,5
<u>With other countries</u>						
Exports	10,7	12,5	8,7	8,1	6,0	8,6
Imports	15,2	12,5	7,6	9,1	14,0	16,6
<u>TOTAL</u>						
Exports	100,0	100,0	100,0	100,0	100,0	100,0
Imports	100,0	100,0	100,0	100,0	100,0	100,0

Source: The Monthly Statistical Summary of Argentina, December 1950, and "Foreign Trade in 1950" published by the Ministry for Technical affairs.

a/ Estimates based on the figures for the first ten months.

b/ Complete data for the year.

Direction of Trade

Insofar as destination of its exports and the origin of imports are concerned the structure of Argentine foreign trade has always followed a comparatively constant pattern which is in accordance with the equally uniform composition of its imports and exports. The Second World War did not cause any fundamental change in this direction, as may be seen in Table 47. However, there have been some alterations which should be mentioned .

Exports to the United States during 1946, 1947, and 1948 remained practically at their 1945 level, which, however, was abnormal. In 1949 they decreased sharply but the upward trend in 1950 raised their level to /the maximum

the maximum recorded in the country's economic history. This expansion was mainly due to the substantial sales of Argentine wool at remunerative prices. Imports, on the other hand, were subjected to marked fluctuations. After the abnormal war-time period, reflected in the low figures for 1945, two factors began to operate in the same direction. These were the reconversion of North American industry, which recovered its former position, and the existence of pent-up demand in Argentina. Imports increased notably in 1946 reaching a maximum value in 1947 and 1948. In view of the insufficiency of exports, imports could only be increased by employing the foreign exchange reserves which Argentina had accumulated during the war and by the utilization of a part of the credit balance accruing from her trade with the United Kingdom, whilst the pound sterling remained convertible. In 1949, reserves had been exhausted and exports decreased, thus compelling Argentina to reduce her imports from the United States considerably. In 1950, the remarkable expansion of exports, to which reference has been made, enabled the country to increase its imports and even provided a surplus; total imports, however, were well below the 1947-1948 level.

The participation of the United States in Argentine exports is also quite different from her participation in Argentine imports. In 1947, Argentine imports from the United States were equivalent to 45.5 per cent of her total imports, whereas her exports to that country only amounted to 9.9 per cent of total exports. In 1949 and 1950 the position was more or less similar.

The balance of trade with the United Kingdom shows totally different results. Admittedly, there is little variation in the proportion of Argentine exports to the United Kingdom in relation to her total exports; but their absolute values have increased substantially since the war, reaching a maximum of 1,651.2 million pesos in 1947, as compared with 649.1 million pesos in 1945 and thus showing a tendency to return to pre-war conditions. Argentine imports from Great Britain, on the other hand, increased, but at a much lower rate than those from the United States, due to Britain's inability to supply the required quantities of goods she formerly provided. In 1949, Argentine exports decreased and

/imports

imports likewise contracted lightly; exports recovered somewhat in 1950, but imports continued to diminish.

Observing the trend of trade between Argentina and the rest of Europe during this period it will be found that both exports and imports recovered after 1946, the former reaching their maximum value in 1948 and the latter in 1949. Throughout this period, with the exception of 1948, the balance of trade was always favourable to Argentina. Within this group of countries, France and Italy are of most interest.

Argentine exports to France increased until 1950 as a result of the credits granted by Argentina; but the greater part of France's imports from that country were not intended for domestic consumption but were employed in triangular trading. It is more important to note, however, that France became one of the leading exporters to Argentina and that Argentina is now a debtor of France. During the first eight months of 1950, France was one of the leading exporters to Argentina; for the first ten months of the year, these exports amounted to 630.9 million pesos (16.1 per cent of the total) an amount only surpassed by the United States.

For the first and only time in 1949 Italy occupied the leading position as an exporter to Argentina, her sales to that country totalling 742.4 million pesos (16 per cent of the total); she is also one of Argentina's creditors now.

The fact that for the first time these two countries have occupied leading positions as exporters to Argentina indicates the high level of the Argentine capacity to import; in fact, her imports are only limited by the shortage of hard currency, which has restricted imports to areas offering better prospects of supply. This is the explanation for the contraction of the volume of Argentine imports from the United States. However, when, as in the case of France and Italy, facilities are granted either in the form of credits, the right to make use of previous balances, or the expansion of imports from Argentina then Argentine purchases abroad increase steadily, especially as all the European industrial countries produce goods which find a ready market there. The problem of these countries does not only consist in ascertaining what goods can be exported, but also what products it is advisable to import from Argentina

/in order to

in order to supply her with the means of payment with which to finance imports.

This reference to the principal areas of Argentine foreign trade is sufficient to emphasize the lack of uniformity during the period 1945-1950. It is not surprising that this has occurred in view of the abnormal conditions prevailing in the post-war period. In the case of Argentina, these conditions have been clearly reflected in foreign exchange availabilities, one of the predominant factors in determining her foreign trade policy. The substantial volume of goods initially imported from the United States had necessarily to be decreased along with the contraction of accumulated foreign exchange reserves. At the same time, the shortage of British supplies and, consequently, the impossibility of using the sterling balance to cover imports from that country, together with the industrial recovery of other European countries, brought about the sudden changes mentioned.

Nevertheless, these alterations are not sufficiently important to force a reorientation of Argentine trade, in order to adapt it to post-war conditions. On the contrary, despite these changes, certain traditional characteristics have prevailed. These consist mainly in the fact that there is an unfavourable balance for Argentina in her trade with the United States, in contrast with the position in relation to Europe. The direction of Argentine trade, with the exception of abnormal Argentine exports to the United States during 1947 and 1948, shows a tendency to return to its normal pattern.

In short, the conditions of triangular trade for which the Argentine authorities had officially declared their preference are being revived. The report of the Banco Central for 1949 emphasized the damage to international trade caused by the system of bilateral compensations, which isolated trade in a series of water-tight compartments, and proved the inability of Argentina to bring about an improvement or change of prevailing methods, due to its small share in world trade. The 1948 Report of the Central Bank, in referring to bilateral agreements which it was necessary to establish, insisted on these points of view and alluded to the profits which the country would obtain by the restoration of multilateral foreign trade.

The course of events in 1950 evidently influenced by bilateral obligations presents a different picture. Trade with the United States shows a credit balance of 280 million pesos, despite the increase of imports (as compared with the preceding year) and trade with Europe, (not including the United Kingdom) practically reached a point of equilibrium. Changing circumstances which have led to this situation make it impossible to forecast the course of development in the near future. Everything depends on the permanence or transitory nature of the factors which have contributed to producing this situation, particularly on the maintenance of the policy of restrictions which has played so important a role.

Changes in the Structure of the Balance of Payments

Table 48 contains a summary of the position of Argentina's balance of trade from 1946 to 1949; showing that a striking change has taken place in its structure. In 1949, capital operations were reduced to a very small amount and, in contrast with the two preceding years, the deficit was considerably less. The final figures for 1950, not yet available in their entirety, will probably show a credit balance. Until November 7th, the Banco Central's foreign exchange holdings had increased by 564.8 million pesos ^{1/}.

These changes correspond to the trends indicated in the analysis of foreign trade contained in the preceding chapter, and to government policy between 1946 and 1948 adopted with a view to redeeming foreign loans and investments. It has been officially stated that this policy is soon to be suspended, and that once the machinery, raw materials and consumer goods required to meet pent-up wartime demand have been acquired, future imports will be adjusted in accordance with gold and foreign exchange availabilities ^{2/}.

^{1/} Weekly balance of the Banco Central.

^{2/} Report of the Central Bank 1949, page 24.

Table 48. Argentina: Summary of Argentina's Balance of Payments 1946-49

<u>Current transactions</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Exports F.O.B.	3,918	5,421	5,463	3,467
Imports C.I.F.	-1,975	-5,683	-5,341	-4,003
Balance of other current transactions a/	= 327	= 216	= 60	= 16
Net balance of all current transactions	1,616	= 478	182	= 520
<u>Capital operations</u>				
Private capital	= 329	= 134	19	44
Redemption of the public debt	= 442	= 334		
Redemption of private foreign investments	= 331	= 43	-2,017	= 13
Net balance of capital operations	-1,102	= 511	-2,052	= 31
Differences, errors and omissions	= 275		2	176
Net balance	239	= 989	-1,872	= 313

Sources: Report of the Central Bank of Argentina.

a/ Includes freight and port dues, public expenditure, net balance of financial services, private gold imports and other miscellaneous charges.

Reference has already been made to the changes in foreign trade and the balances derived therefrom.

In 1946 and 1947, despite the negative balance for other current transactions small surpluses remained. The principal difference lies in the reduction of the services on the public debt and private investments, which decreased from 451 million Argentine pesos in 1946 to little more than 50 million pesos in 1948 and 1949.

It is likely that the net balances of financial services for private firms are abnormally low during this period, due to the difficulty of obtaining exchange for these remittances and the profit investment policy adopted by many foreign firms.

According to British and American sources, the transfer abroad of substantial sums in dividends and other profits was delayed. The following table shows the transactions for both countries.

Table 49: Servicing of Public and Private Debts

	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Servicing of the public debt	77	36	19	15
Net balance of financial services of private firms	<u>374</u>	<u>240</u>	<u>34</u>	<u>37</u>
Total	<u>451</u>	<u>276</u>	<u>53</u>	<u>52</u>

Source: Reports of the Central Bank of Argentina.

At all events, the downward trend of the negative balance in this sector of current transactions is a logical consequence of the policy of redemption of the public debt and foreign investments implying a radical change in the structure of the balance of payments as compared with the pre-war period.

Between 1937 and 1939, interest and dividends represented 20 to 25 per cent of the total value of exports, so that only 75 to 80 per cent of Argentine exports contributed to the capacity to import.

Since 1948, however, Argentina has been able to apply practically the whole of the resources derived from exports to imports.

There was a substantial reduction of capital transactions in 1949, only 13 million Argentine pesos being employed in redeeming the public debt and foreign private investments. No outstanding operations of this order were effected during the course of 1950.

The largest allocation for the redemption of private investments was the sum of 2,071 million pesos paid in 1948. Of this total, 2,029 millions were transferred as total payment for the British railways in Argentina, 30 million for the purchase of the Compañía de Aguas Corrientes y Salubridad de Rosario, a British undertaking, and 12 million pesos to complete the incorporation of the French railways as Argentine national property. In the Central Bank Report for 1948, from which the foregoing data were obtained, it is stated that "it should be pointed out, as regards this latter settlement, that investments equivalent to the funds belonging to French investors were simultaneously made in Argentine trade and industry".

"On the other hand, it should also be pointed out that the Government has practically completed the redemption of the foreign public debt by the
/payment

payment of 32 million Argentine pesos in sterling, of which 25 million correspond to the final debentures of the 3 1/2 per cent 1936 Conversion Loan and the rest to the Avellaneda Highway Loan, floated by the Government of the province of Buenos Aires. The only bonds still in circulation are those of the 4 per cent 1933 Convenio Roca Loan, which cannot be redeemed prior to their maturity. The figure of 32 million pesos mentioned above does not appear in the balance of payments, having been compensated by a transfer of funds used in 1947 for the repatriation of part of the foreign debt which was turned over to Argentina in 1948, since it was held by Argentine citizens".

The consolidated foreign public debt, which amounted to 929.8 million Argentine pesos in 1943 had been reduced to 47.9 millions by June 30, 1950. The principal redemptions were made in 1946 and 1947, when a total of 776 millions was allocated for this purpose.

The most important repatriation of foreign private investments, effected prior to 1948 was the purchase of the United River Plate Telephone Company in 1946, which involved the greater part of the 331 million Argentine pesos invested that year.

Distribution by Areas

The analysis of the balance of payments by areas indicates that radical changes have occurred, not only in values, but also with respect to whether there were credits or debits.

In contrast with the favourable balance of free exchange in 1949, there were large negative balances in 1947 and 1948. On the other hand, the negative balance in compensation currencies in 1949 contrasted with an important surplus in 1947, although there was a negative balance in 1948 due to the redemption of the British railway investments.

In the following tables (50 and 51) the balance of payments data for free and compensated currencies have been summarised:

Table 50. Argentina: Balance of Payments in the Convertible
Currency Area

	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Assets	2,484	2,316	1,716	924
Liabilities	- 2,055	- 3,765	- 3,333	- 1,300
Balance	- 421	- 1,449	- 1,617	- 376
Conversion of free currency	311	401	188	30
Redemption of the public and private debt	- 837	- 218		
Differences in foreign trade figures and other expenditure	- 138	- 946	431	537
Net balance	- 235	- 2,212	- 998	191

Source: Reports of the Central Bank of Argentina.

Table 51. Argentina: Balance of Payments in Compensated
Currency Areas

	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Assets	1,751	3,383	4,140	2,772
Liabilities	- 812	- 1,356	- 2,320	- 2,872
Balance	939	2,027	1,820	100
Conversion into free currency	- 311	- 401	- 188	- 30
Redemption of public and private debt and private imports of gold	-	- 172	- 2,071	- 13
Differences in the foreign trade figures and other expenditure	154	- 270	468	361
	474	1,184	- 907	504

Source: Report of the Central Bank of Argentina.

The substantial surplus obtained in 1946 and 1947 from trade with compensated currency areas was principally due to the fact that Great Britain and Western Europe were unable to deliver the goods required by Argentina. Importers therefore turned to the hard currency areas, and particularly the United States. The liabilities in the balance of payments point to the considerable increase of imports from this area in 1947 and 1948.

During 1946 and 1947, a total of 712 million Argentine pesos in compensated currency were converted into free currency, thus enabling Argentina to obtain a better position in the very profitable triangular trading system. When the United Kingdom suspended the convertibility

/of sterling

sterling in August 1947, these transactions were seriously limited. Throughout the two following years (1948 and 1949) only 218 million Argentine pesos in compensated currency were converted into free currency.

In 1949, there was a tendency to equilibrium in the balance of trade in convertible currency, though a deficit occurred in compensated currency. This was, to some extent, covered by the partial redemption of credits granted for exports during the preceding years. The tendency to a balance of trade, as between zones, will probably persist as long as the balances which Argentina obtains from her trade in Western Europe cannot be converted into free currency.

In 1950, the balance of trade with the United States improved. The granting of a 125 million dollars loan by the Export-Import Bank enabled Argentina to consolidate the commercial debts which had accumulated during the most critical period of the dollar shortage. This debt was being gradually amortized with a fraction of the dollar revenue derived from current Argentine exports to the United States.

CHAPTER III. MONEY AND PRICES

Banking and monetary reforms and inflationary policy

During the postwar period there were several important reforms of the banking and monetary system in Argentina which changed the system in force since 1935. These reforms, in addition to creating a precedent for modern economic policy by expanding the money supply illustrate the main orientation of the Government.

Decree 8503, issued on March 25, 1946, altered the Central Bank of Argentina, from a mixed institution into a purely State establishment, in which the Board of Directors was controlled, directly or indirectly, by the Government.

Decree 11,554 (1946) nationalized bank deposits, making their registration with the Central Bank compulsory, whilst other banks merely acted as agents. For their usual discount and investment operations, banks generally rely on their own resources (capital and reserves) and those granted by the Central Bank in the form of rediscounts and guaranteed loans. The endorsement of each document and its surrender to the Central Bank are no longer required; it is sufficient that a general transfer of all the rediscounted or guaranteed assets be made on its behalf as the banks have become deposit agencies. Within the limits for rediscount fixed by the Central Bank individual banks employ the deposits received on behalf of the central establishment.

The Central Bank, in order to regulate the Government bond market, is authorized to buy and sell bonds up to an amount equivalent to its capital and reserves, which may be increased by 10 per cent (later 15 per cent) of the average deposit balance registered by all the banks authorized to operate during the past three years.

/Until November

Until November 15, 1948, the total amount of bank notes and subsidiary currency which had left the Bank was included under "Currency in Circulation". Nevertheless, by the previous reform, cash deposited in the banks could be considered similar from the monetary standpoint to that in the Central Bank. The following year it was thus decided that "Currency in Circulation" should include only the cash balance held by the public^{1/}, instead of the whole amount issued. Thus reserves increased to 33.04 per cent of the issue as of December 31, 1948, after dropping to a lower level.

In 1949, the final step was taken in the reform programme. Law 13571 of September of that year modified the Organic Charter of the Central Bank and its actions were bound by the economic policy laid down by the "Consejo Económico Nacional" (National Economic Council). The Bank thus became an autonomous body, attached to the Ministry of Finance. The regulation limiting the holding of foreign exchange to 20 per cent of the total of reserves was suspended, together with the order compelling the Bank to maintain gold and foreign exchange reserves equivalent to a minimum of 25 per cent of currency issues and sight deposits. Despite its apparently transitory nature this latter measure was officially based on the theory that "the issue of currency must correspond to national income, and that of gold or foreign exchange reserves to the fluctuations of the Balance of Payments".^{2/}

The importance and novelty of the reforms will not be discussed from the theoretical standpoint. Attention is drawn however to the principal features of Law 13,571. The nationalization of deposits, the consequent establishment of rediscount as the almost exclusive source of banking credit, and the suspension of compulsory minimum gold and foreign exchange reserves.

From the practical point of view, the reform taken as a whole means

^{1/} Report of the Central Bank 1948, pages 89-90.

^{2/} Statement made by the Argentine President, quoted in the Annual Report of the Central Bank 1948, page 5.

that the money supply is given virtually the maximum elasticity technically conceivable, or in other words it can be manipulated by the authorities at will.

By and large, the process of reform was closely associated with the trend of events. During the early postwar years, the substantial reserves accumulated facilitated the expansion of the money supply within the scope of the regulations in force. In 1947 and 1948, the substantial volume of imports and the nationalization of several foreign-owned public utilities resulted in the reduction of these reserves, and monetary expansion could not continue except by eliminating or easing customary banking and monetary restrictions.

Despite certain restrictive methods occasionally adopted to moderate the intensity of the expansion, inflation in Argentina was a deliberate measure, to judge by official statements. Until the first half of 1948, the Government stressed that inflation, as measured by the increase in money supply corresponded to the increase of production, and that it followed the rate of world inflation. Recently it was expressly stated that when inflation is not exaggerated, it is of benefit to the population because wages rise to a greater extent than prices.^{1/} On the other hand, industrialization has been made to benefit from monetary expansion and according to the Report of the Central Bank, "the measures introduced in previous years to check the inflationary process were still in force in 1949, but were adjusted to the realities of the domestic market and to the necessity of granting credits to activities which increase the necessary volume of available goods for the public". It was also pointed out at the same time that "after the intense development of the preceding years, it was impossible to stem this expansion abruptly without causing irreparable damage to the fundamental elements of national economic structure and without affecting business requirements during a period of monetary expansion."^{2/}

^{1/} Speech made by the Minister for the Interior, October 26, 1950.

^{2/} Report of the Central Bank 1949, page 19.

Evaluation of the means of payment

Between 1946 and 1949 the annual rate of expansion of the means of payment was almost 26 per cent, that is to say, a little more than 2 per cent monthly. In absolute terms, the increase during this period amounted to 13,593 million Argentine pesos, that is to say, an increment of 174 per cent, as compared with the end of 1945, when the figure was 7,805 million pesos.

Table 52. Argentina : Money Supply

End of:	Millions of pesos
1945	7,805
1946	10,308
1947	13,560
1948	17,475
1949	21,398
1950 (June)	22,500
1950 (October)	24,027

Source: Monthly Statistical Summary of Argentina

The available figures for 1950 show that the rate of expansion was slightly lower.

Table 53 and Chart 7 show the domestic and foreign factors which have been operative in increasing the means of payment during the period 1946-1949. It will be seen that the means of payment deriving from domestic sources totalled 21,611 million pesos, whereas external factors led to a decrease of 1,914 million pesos, and circulation accounted for 6,118 millions.

Table 53. Argentina : The Monetary Situation

<u>Items</u>	<u>Variations</u>			
	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
<u>Means of payment</u>	<u>4,184</u>	<u>4,201</u>	<u>6,162</u>	<u>5,150</u>
<u>Domestic factors</u>				
Public loans and investments in private scrip	3,830	5,385	6,800	5,596
Mortgage transactions	708	2,384	2,394	1,468
Control of the domestic stock market	1,440a/	297	1,011	1,262
LAPI transactions	173	232	84	- 189
Nationalization and financing of public utilities	268	1,395	811	1,339
Fiscal requirements	351	314	1,695	651
	<u>890</u>	<u>763</u>	<u>805</u>	<u>1,065</u>
a) Redemption of the foreign debt	442	334	- -	- -
b) Miscellaneous	448	429	805	1,065

/Foreign factors

CHART 7
ARGENTINA

FLUCTUATIONS OF THE MEANS OF
PAYMENTS

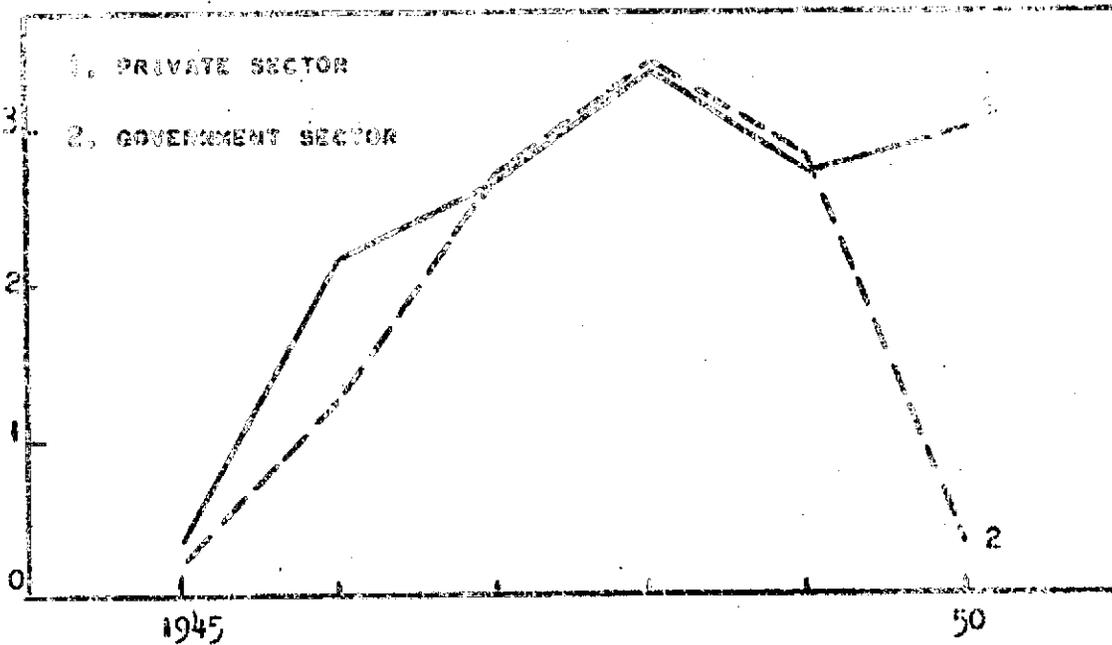
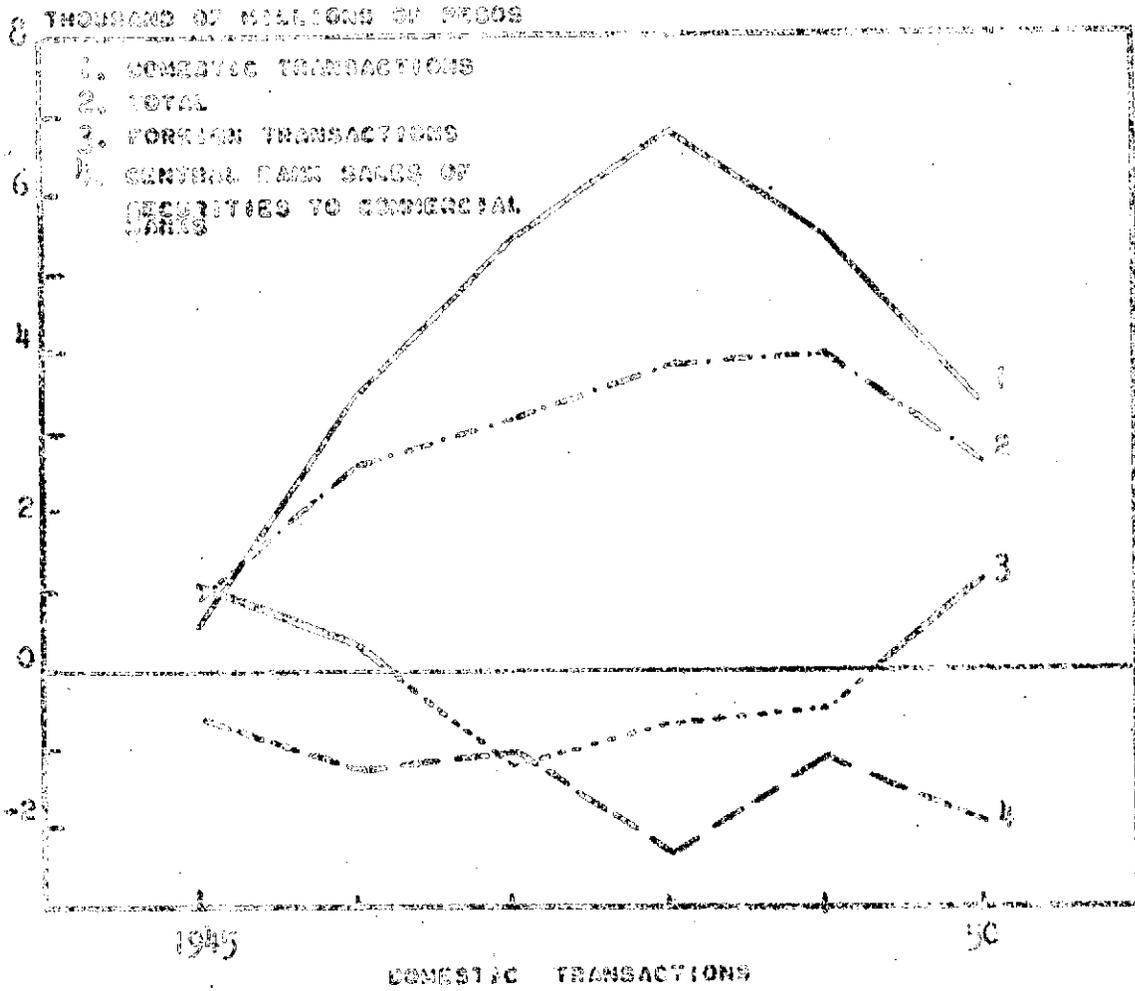


Table 53. (Continued)	1946	Variations		1949
		1947	1948	
<u>Foreign factors</u>	+ 354	-1,184	- 638	- 446
Foreign exchange for nationalization of public utilities	- 331	- 52	-2,071	- 13
Foreign exchange for redemption of the debt	- 442	- 334	- -	- -
Gold and foreign exchange derived from ordinary transactions	+ 895	-1,351	1,060	- 224
Credit exports	+ 232	+ 553	+ 373	- 209
<u>Means of payment absorbed</u>	<u>1,619</u>	<u>1,008</u>	<u>2,265</u>	<u>1,226</u>
Long-term savings deposits and other long-term deposits	870	573	1,676	1,066
Central Bank bonds held by the public	380	- 29	- 50	+ 43
Capital reserves and profits	227	308	474	584
Miscellaneous accounts of the banks	142	156	165	- 467
<u>Net increase in the money supply</u>	<u>2,555</u>	<u>3,193</u>	<u>3,897</u>	<u>3,924</u>
<u>From private sources</u>	<u>2,176</u>	<u>1,855</u>	<u>3,970</u>	<u>4,004</u>
Currency	999	1,193	1,965	2,329
Current deposits and loans to the public	1,177	662	2,005	1,675
From governments and official departments	389	1,338	- 73	- 80

Source: Report of the Central Bank of Argentina

a/ Includes sums paid to redeem mortgage loans

Banking credit has played an important role in Argentine inflation. These loans have been granted under four different forms: a) loans to the public, which must be added to investments in private scrip; b) Mortgage loans; c) Government loans to the I.A.P.I. (Argentine Institute for the Promotion of trade); and d) loans to meet fiscal requirements, either for ordinary purposes or in order to redeem the foreign debt.

a) The total amount granted in loans expanded rapidly during 1947 and until October 1948, in compliance with a deliberate policy to stimulate industrial production preferentially. In 1947 industrial loans increased by 96 per cent, as compared with the previous year whilst commercial and agricultural loans were increased 79 per cent and 25 per cent respectively.^{1/}

As a result of the difficulties encountered by Argentina in 1948 in placing her exports abroad, it was necessary to introduce a selective credit policy which took the form of a decree, issued in October of that year, suspending the granting of any speculative loans, and ordering the Central Bank to raise the rediscount rates and to reduce the funds

^{1/} Report of the Central Bank, 1947, page 74.

allocated for this purpose. Lastly, the decree stated that "in view of the shortage of labour, the Argentine industrial credit bank would not consider requests for loans to establish new industries nor to expand those already in operation, with the exception of industries considered to be of national utility, or which on entering the country, bring the necessary labour supply".^{1/}

In view of the conditions prevailing when this measure was adopted (1948) there was an increase of 70 per cent in industrial loans. On the other hand, the rate of expansion of commercial loans fell to 25 per cent and that of agricultural loans to 41 per cent.^{2/}

The effect of these restrictions was already felt in 1949 and the increase of loans in these activities was limited to 34 per cent, 18 per cent and 25 per cent, respectively, for industry, trade and agriculture. Nevertheless industry continued to predominate in the distribution of credit, and in 1949 industrial loans accounted for 50 per cent of the total loans, whilst 32 per cent were granted to trade and 10 per cent to agriculture.^{3/} However, the restrictions were not applied to official loans: "the Central Bank had to distinguish between the rediscount of general loans to the public and official loans, which in their majority were to finance the operations of IAPI, and finally, other special loans, such as those to meet seasonal requirements of production and distribution, public utilities, or the allocations involving social security".^{4/} During 1950 (until October) the value of loans to the public were again greater than that of Government loans, as may be seen from the following table:

Table 54. Argentina: Bank Loans
(in millions of pesos)

<u>End of:</u>	<u>Total</u>	<u>Public</u>	<u>Official</u>
1947	10,348	6,054	4,284
1948	16,237	8,379	7,858
1949	20,119	9,925	10,194
1950 (June)	21,502	10,764	10,738
1950 (October)	22,443	11,824	10,619

Source: Monthly Statistical Summary of Argentina, November 1950, page 100.

^{1/} Decree 33,425/48.

^{2/} Report of the Central Bank 1949.

^{3/} Report of the Central Bank, 1949. It should be pointed out that this classification includes only loans of more than 50,000 Argentine pesos.

^{4/} Report of the Central Bank 1949, page 56.

/b) Until

/b) Until June

b) Until June 1946 the mortgage loans had no inflationary effect since they were financed by mortgage deeds taken up by private persons or organizations, as the banking law forbids banks to handle them. By the issue of deeds, the Mortgage Banks was limited to transferring savings from one part of the population to another which is willing to offer its immovable property as a guarantee; the Bank, as an intermediary, charged a low commission for this service. In June 1946, however, the Central Bank decided that the system should be radically altered. Referring to the matter, the Bank's annual report for that year states that "in reorganizing the country's banking system, a change was made in the financial regime of mortgage transactions effected by the National Mortgage Bank; it was decided that the Central Bank should supply the latter with the funds necessary for this purpose, giving the mortgage in guarantee. As a result of this regulation, mortgage deeds amounting to 1,497.3 million Argentine pesos were withdrawn from the market.

Simultaneously mortgage bonds were issued, yielding 2 1/2 per cent interest annually, and by December 1946, a total 384 million pesos of these bonds was in circulation. In its report, the Central Bank states that "it was believed that there was no purpose in increasing the amount taken up in such bonds, since this is not the compulsory source for the supply of the funds required for the transactions of the National Mortgage Bank".

The disappearance of a traditional and securely guaranteed system such as that of mortgage deeds was based on the need to lower the cost of loans for housing by making use of the funds which the Central Bank could well supply - after the reforms carried out that year - without having resort to genuine savings at a higher rate of interest.

During the year 1947 and the early part of 1948, the mortgages granted by the official banks (the National Mortgage Bank and the mortgage portfolios of other banks) were charged 4 to 5 per cent interest annually. During this period, the interest on mortgage loans between private persons fluctuated at about 6 per cent and mortgages involving very substantial sums were probably at somewhat lower rates.

This rate of interest was tenable whilst conditions abroad enabled available goods to increase at about the same rate as the means of payment,

/but when

but when the means of payment increased to a greater extent than the supply of available goods, the rate of interest, as a result of inflation, rose to 8 and 10 per cent annually; and in some cases as much as 15 per cent was charged on private loans.

Under the new system, mortgage loans granted by the official banks were undoubtedly inflationary and directly increased the means of payment.

c) The loans granted to IAPI have largely contributed to Argentine inflation, especially in 1949. In 1948, the funds obtained by the Argentine Institute for the Promotion of Trade by means of bank loans were used in purchasing the British-owned railways, in building the gas pipe-line between Buenos Aires and the petroleum deposits at Comodoro Rivadavia, in extending the telephone services, and in purchasing cereals and oilseeds. In 1949, the greater part of its transactions were limited to crop purchases. Sufficient data are not available for 1950, but it is believed that there has been a decrease in the credits because of smaller crop purchases and dealings in accumulated stocks.

d) The means of payment issued to cover fiscal requirements (see Table 53), which in the past few years have fluctuated at about 1,000 million pesos, naturally represent only a part of the funds which the State obtains from loans. The greater part is derived from the sale of bonds and shares, the market for which has undergone considerable change during the past few years. At present, they are chiefly sold to the social security institutes and to government departments and, on a smaller scale, to banks. In 1949, for instance, the social security institutes took up bonds, stocks and shares amounting to a total of 2,249 million Argentine pesos, whilst the banks and official departments absorbed 905 and 199 million pesos, respectively.^{1/}

The general public does not only take up the official issues but tends to sell them for more profitable investments, because of the low rate (3 per cent) of interest. These sales involved a total of 371 million and 703 million pesos in 1949 and 1948, respectively.

3. Inflation, the balance of payments and the rate of exchange.

External factors have not contributed to the expansion of the means

^{1/} Report of the Central Bank, 1949, page 78.

of payment. On the contrary, their influence tends to moderate such expansion. As may be seen from Table 53, between 1946 and 1947, external factors reduced the means of payment by 1,912 million pesos, despite the fact that during this same period 2,467 million pesos of foreign exchange were used in nationalising public utilities and 776 millions in the redemption of the foreign debt, thereby creating a domestic means of compensatory payments.

On the other hand, the repercussion of domestic expansion on the Balance of Payments was considerable, though lower than would have otherwise occurred and different from normal expansion in some aspects.

Owing to the strict control of imports, for which prior exchange permits are required, the increase which would have occurred as a result of inflationary pressure was not reflected in the debit side of the balance of payments and especially not in imports. The number of prior exchange permits to import which have been refused or reduced considerably, has grown extraordinarily, especially since about the middle of 1948. It is not difficult to visualize the difficulties encountered in reducing this demand to a sum equivalent to the foreign exchange availabilities by means of a system of fixed rates of exchange. However, the results of domestic monetary expansion may be clearly observed on the asset side of the balance of payments, principally in the reduction of exports.

Costs of agricultural and livestock production increased substantially owing to monetary inflation and were thus unfavourable to producers who obtained no part of the benefits accruing from the high prices obtained by I.A.P.I. By 1948 the margin earned by I.A.P.I. had disappeared as a result of the fall in world prices, and consequently large stocks began to accumulate, which could not be placed on any market.

Domestic costs of other goods not controlled by I.A.P.I. had increased to such an extent that the producers were unwilling to accept the prices obtaining on the world market.

If it is kept in mind that the rates of exchange have remained practically constant since 1939 (especially the basic official buying rate of 335.82 Argentine pesos per 100 US dollars), it will be easier to see why monetary expansion and the subsequent domestic devaluation of Argentine currency failed to produce the results which might normally

/have been

have been expected.

In the first place, domestic depreciation did not give rise to foreign devaluation of the peso, because of the rigidity of the official rates of exchange; nor, moreover, did it prove an incentive to exports, which is generally the case when foreign devaluation occurs under normal trade conditions. Since Argentine exports were canalized through the official institutes monopolizing foreign trade, the prices obtained by the producers were to a certain extent independent of the true value of the currency and were previously fixed by the authorities. In this case, the State derived the advantages to be gained from the high prices which it charged to foreign importers and similarly, it suffered losses when prices on the world market fell and it was compelled to make the necessary adjustments, as occurred later.

Imports, although subject to the issuing of priority licenses according to whether they were essential and whether adequate foreign exchange was available, likewise were not affected by domestic monetary devaluation. It would seem necessary, however, to further clarify the case of Argentina, pointing out that in many respects this example is similar to the majority of Latin American countries. The income elasticity of imports is greater than their price-elasticity. The expansion of the means of payment immediately reveals the high propensity to import which is only feebly checked by the rise in the price of imported goods. The large volume of imports recorded in 1947 and 1948 would most assuredly have been even greater had no restrictions been imposed. This is to be assumed from the increase in the means of payment during this period and in the fact that accumulated demand for imports was brought up to date; this is confirmed, moreover, by the numerous exchange licenses for imports which were rejected or reduced.

Moreover, the sellers rate of exchange, though higher than the buyers rate, was lower than would probably have been the case had the real tendencies of the market been allowed to operate freely. They do not, therefore, act as a check on imports.

Theoretically, the readjustment of the rates of exchange had been necessary for some time and became extremely urgent after the beginning of 1949. However, for practical reasons it was decided not to act in

/this matter

this matter until similar decisions taken by other countries had been made known. When Great Britain devalued the pound sterling on 18 September 1949, it was believed that the time had come and on 3 October 1949, Argentina readjusted her rates of exchange.

The number of multiple rates of exchange, used as incentives for the exports of a variety of products (wool, hides, linseed oil, etcetera), were increased and the selling rates for these products were changed from a basic rate, which remained at 3.3582 Argentine pesos, to a preferential rate A of 4.83 pesos per dollar.

No explanation was given for maintaining the basic buyer's rate at 3.3582 Argentine pesos per US dollar. This may have been done in order to strengthen Argentina's position in her negotiations with the British Government, regarding the readjustment of meat prices after the devaluation of the pound sterling.

The explanation for the other buyer's rates is given in the report of the Central Bank for 1949: "Export goods were divided into four categories; the basic buyer's rate is still applied to meat exports, and those of certain cereals and oilseeds, for which the rate of the peso has been maintained in relation to the currency which has not been devalued.

"The preferential buyer's rate and the special buyer's rate are applied to foreign exchange derived from exports of certain agricultural and livestock products and manufactured goods; these rates were established as an incentive to exports and facilitated competition in view of the new conditions prevailing on the buyer's markets".^{1/}

Experience has shown that it was difficult to effect sales at the buyer's rate and moreover that the low basic seller's rate did not discourage demand for imports.

On the other hand, the establishing of a total of nine different rates of exchange (both buyer's and seller's) caused a good deal of difficulty.

^{1/} Report of the Central Bank, 1949, page 30. A more detailed explanation of the system will be found in Document E/CN.12/165 of March 1950: Commercial tendencies and policies in the Latin American Countries, submitted by the Economic Commission for Latin America during the III Session at Montevideo, May 1950.

Because of its complex nature, it was therefore deemed advisable to simplify the system.

In order to stimulate agricultural production, and especially wheat growing, a price of 28 Argentine pesos per quintal was fixed for the 1950-1951 harvest. This was higher than the world price at the basic rate of 3.36 pesos per US dollar.

These events, together with monetary expansion, which increased domestic production costs led to the establishment of new rates as of 28 August 1950.

The most important feature of this reform was the reduction in the number of multiple rates from 9 to 5, and the fact that after 11 years the basic rate of 3.3582 Argentine pesos per US dollar was abandoned for a rate of 5 Argentine pesos per US dollar.

The following table shows the alterations made in the Argentine rates of exchange.

Table 55. Argentina : Alterations in the Rates of Exchange
(in pesos per unit)

<u>Rates</u>	<u>3 October 1949</u>		<u>28 August 1950</u>	
	<u>Dollar</u>	<u>Pound sterling</u>	<u>Dollar</u>	<u>Pound sterling</u>
<u>Buyer's</u>				
Basic	3.3582	9.49	5.00	14.00
Preferential A	4.8321	13.53	7.50	21.00
Preferential B	5.7286	16.04		
Special	7.1934	20.75	--	--
<u>Seller's</u>				
Basic	6.0857	17.04	7.50	21.00
Preferential A	3.7313	10.45	5.00	14.00
Preferential B	5.3714	15.04		
<u>Open Market</u>	7.02	25.26	14.55	40.74
<u>Bidders Market</u>	12.53	35.09	--	--

Source: Circulars issued by the Central Bank

The new basic buyer's rate, implying a devaluation of 32 per cent as compared with the previous quotation of 3.3582 Argentine pesos per US dollar and of 3 per cent in relation to the preferential rate of 4.83 pesos, covers the most important constant sector of Argentine exports. It is estimated that between 80 and 90 per cent of the country's exports /are transacted at

are transacted at this rate.

The preferential buyer's rate of 7.50 Argentine pesos per US dollar was established in order to facilitate the exports of goods designated by the description "irregular".

The "free market" rate, that is, the selling of US dollars at the daily quotation - 14.55 Argentine pesos - is applied to exports which involve a higher degree of manufacturing or domestic costs. It should be pointed out that the "free market" rate is not entirely free to respond to conditions of supply and demand, but that it may only be used in transactions which have been previously authorized. This rate is controlled by the Central Bank, even though it is allowed to fluctuate slightly.

The preferential rate of 5 pesos per US dollar is only applied to fuel imports, that is, for petroleum and its by-products, coal and coke. The bulk of Argentine imports (between two thirds and three fourths thereof) are transacted at the basic seller's rate of 7.50 Argentine pesos per dollar. This group includes raw materials and some manufactured goods required by industry, together with other goods essential to the country's economy.

Two other means have also been established for importing goods; the "free market" rate may be applied to products which are not "essential" and also, providing certain conditions are fulfilled, for merchandise which "does not involve the utilization of foreign exchange".

The statistical data at present available, does not enable an assessment to be made of the effects of the new rates of exchange, nor, moreover, is it possible to forecast how long they will continue in force. This will depend on the trend of international prices and domestic costs. The various aspects of Argentine trade policy, which have been examined, suggest, however, that the economic readjustment sought - the stimulation of production and exports and the restriction of imports - will not be as effective as might be expected under normal conditions of trade. The spontaneous reactions which might be anticipated after monetary devaluation have been modified in the field of production and of exports by such measures as the fixing of prices which at present guide the immediate policy of producers. The selection and reduction of

/the volume

the volume of imports in turn will be affected by restrictions in the granting of import licenses rather than by devaluation of the peso.

Means of payment

If the rate of monetary expansion is compared with the increase of prices, it will be seen that the former was much higher than the latter until 1949. Since then and during the first few months of 1950, the position was reversed and prices rose at a much higher rate than the means of payment. This is confirmed by the statistics available, though their reliability may be subject to certain reservations. Indeed, in general, few price indices have been published in Argentina in the recent past; there are only partial indices for the cost of living, which include the prices of foodstuffs, clothing and housing.

Thus, the means of payment which averaged 4,952 million Argentine pesos in 1943 had been increased to 19,287 million in 1949, that is, an increase of 289 per cent. The cost of living indices rose 137.4 per cent, but if rents are not included (they have been practically frozen since 1943) the indices will be found to have increased 166.8 per cent; the cost of foodstuffs has risen 145.6 per cent, of clothing 202.2 per cent and of building 260 per cent.

During 1949, the means of payment had increased 25.5 per cent, as compared with the preceding year. During the same period, the cost of living (exclusive of rents) had increased 36 per cent, foodstuffs 30.5 per cent, clothing 42 per cent, and building 26.8 per cent. It will be seen that this upward tendency prevailed during 1950, though no accurate data for the expansion of the means of payment in that year are available.

This speeding up of the rate of increase of prices may be ascribed to the policy adopted in 1949, whereby indirect taxation of production was increased and the subsidies formerly granted to certain essential goods (meat, sugar, milk, oils, etc.) were suspended. The only product which is still subsidized is baking flour.

/Table 56.

Table 56. Argentina : Indices of Partial Prices

(Base 1937 = 100)

Years	Cost of living a/	Cost of living b/	Foodstuffs	Clothing	Cost of building
1943	100.0	100.0	100.0	100.0	100.0
1946	140.5	146.4	144.2	144.7	145.0
1947	150.5	170.1	165.2	178.4	189.0
1948	180.4	196.1	188.7	212.3	283.0
1949	237.4	266.8	245.6	302.2	360.0
1950 c/	300.9	344.0	320.7	369.6	510.0 d/

Source: Cost of living, foodstuffs and clothing: Monthly Statistical Summary.

Cost of living, exclusive of rents, calculated by ECLA

Cost of building, gauged from the indices published by the Revista de Construcciones (Building Magazine) of the Cámara Argentina de Construcción (Argentine Builders Association)

- a/ Official indices
- b/ Exclusive of rents
- c/ Adjusted
- d/ Estimated - provisional data.

The indices for prices of selected basic products included in "Foodstuffs" will be found in Table 57.

Table 57. Argentina : Indices of retail prices for selected consumer goods

Base 1943 = 100

Years	Bread	Beef (steaks)	Oil (mixed, excluding olive oil)	Milk	Butter	Sugar	Ordinary Red Wine	Ham
1946	108.6	128.2	132.0	126.7	166.7	111.9	168.1	122.2
1947	112.9	153.5	164.1	160.0	166.7	111.9	170.2	122.2
1948	128.6	157.7	174.8	200.0	211.3	111.9	170.2	125.0
1949	149.0	212.8	236.7	240.6	302.5	153.7	207.4	146.3
1950a/	171.0	288.5	287.4	333.3	400.0	357.1	244.7	194.4

Source: Monthly Statistical Summary of Argentina, October 1950.

a/ August.

The moderate rise in prices in relation to the expansion of the means of payment until 1949, may be attributed to two factors: a) the official policy of subsidies, fixed prices and limited profits; and b) the increase in the volume of available goods.

a) The Argentine Government adopted 3 different types of measures to stem the rise of prices.

/Until 1949,

Until 1949, and especially during 1947 and 1948, IAPI used a part of the profits obtained from exports to subsidize producers of certain essential articles, such as bread, sugar, oil, meat, dairy products, etcetera. When in 1949 these profits were no longer obtainable, as a result of the fall in world prices, the system had to be abandoned.

The second type of measure established maximum profit margins for entrepreneurs on their volume of production. This system was considered simpler and more easily controlled; moreover, by not freezing prices or imposing a ceiling on investment profits it was believed that production would be stimulated and larger profit would follow.

The principal producers affected were the manufacturers of cement (for whom a profit of 0.50 Argentine pesos per 50 kilogramme bag of cement was authorized) and the textile manufacturers.

The maximum profits authorized varied as follows:

	<u>Decree of</u> <u>October 1947</u>	<u>Decree of</u> <u>February 1949</u>	<u>Decree of</u> <u>August 1950</u>
	(per cent of total sales)		
Spinning and weaving of wool	19	13	11
Spinning of carded wool	15	10	8
Washing of wool	7	5	3
Spinning and weaving of cotton	20	14	12
Weaving of rayon	15	11	9
Dyeing	11	11	9
Full-fashioned hosiery factories	16	11	9
Seamless hosiery factories	14	10	8

In October 1947, the wholesalers and importers in the textile trade were allowed an 8 per cent profit margin on their sales. In February 1949, the importers' profit was reduced to 7 per cent, and to 6 per cent and 5 per cent respectively for wholesalers, according to whether credit or cash transactions were involved. After August 1950, profits were further reduced to 5 per cent, 4 per cent and 3 per cent respectively. A gross profit of 20 per cent on its sales was authorised for the retail trade in August of 1950. Previously, the net profit allowed was 8 per cent.

Experience has shown that this system enables production to expand, but it has the disadvantage of not benefiting efficiency at all, since profits will increase in a measure with costs.

The third type of measure referred to above, is the establishing of official prices, especially for essential goods. This policy was adopted /throughout the

throughout the whole period under observation. Special reference should be made to Decree 24,574 of September 1949, whereby entrepreneurs were compelled to cover wage increases from their profits and not pass them along to the consumer. Inflationary pressure on wages has been so great that in many cases wage increases have absorbed profits entirely, it becoming necessary to establish certain exceptions. These, however, have not checked the losses suffered by manufacturers in the period between the raising of the wage level and the time when this increase was recognised to be part of costs. The textile industry, for example, was placed in a very difficult position until August 1950.

Maximum prices were periodically fixed and are strictly enforced by police methods, violators being severely punished.

Methods such as this do, to some extent, offset certain symptoms of the inflationary process, retarding its effect on a limited number of controlled goods; but they cannot get at the roots of the process itself. Controlled prices constitute vulnerable points in the spreading of the phenomenon of rising prices causing shortages (either real or simulated) of certain goods and creating a reaction in the sectors affected by official action. Over the long period, moreover, rising prices are the inevitable result of monetary inflation, as has been shown in the case of Argentina by the rise which occurred in 1949 and 1950, and which was sharper than the expansion of the means of payment.

b) As has already been pointed out in this report, available goods increased significantly in 1946; in 1947 and 1948 the trend was intensified. In 1949, however, there was a contraction.

This would appear to be the most logical explanation for the relative moderation of the price rise. However, it should be pointed out that the increase of available goods was greatly influenced by the volume of imports, which amounted to 34.4 and 34.9 per cent of total available goods in 1947 and 1948. On the other hand, capital goods amounted to 36.9 and 41 per cent of total imports in 1947 and 1948, respectively. Thus, available consumer goods either did not increase in the proportion suggested by the figures for available goods or did not increase at all.

From the foregoing conclusions it may be inferred that these checks have not been intense enough to offset the normal effects of the inflationary process and that the price increase of goods not included in the cost of living indices, or not subject to official controls, was

/disproportionately

disproportionately greater than the latter. On the other hand, from the meager data available - figures on bank clearings, for example - it might be assumed that the velocity of circulation of money has not increased, but rather remained practically constant; or declined somewhat over the period under observation through 1949.

Monetary expansion and domestic production

The policy of expanding the money supply was adopted in order to further the country's industrial development. From the data shown elsewhere, it will be seen that the principal objectives in this campaign have largely been achieved.

Inflation undoubtedly favoured the process of industrialization by increasing demand and facilitating the raising of the price level, with a subsequent increase of costs at a later date. But the initial impetus was given by the country's isolation during the war. This first period of increase ended in 1944 and was followed by a slight contraction in 1945, aggravated by the depreciation of old equipment. In 1947, the trend of inflation swings upward again as a result of imports of capital goods, reaching a peak in 1948 (slightly higher than the 1944 level) and falling again in 1949 and 1950.

The highest level of total production was reached in 1944. The curve for industrial production is very similar to that of total production, though in the case of the latter the 1944 level has not since been surpassed.

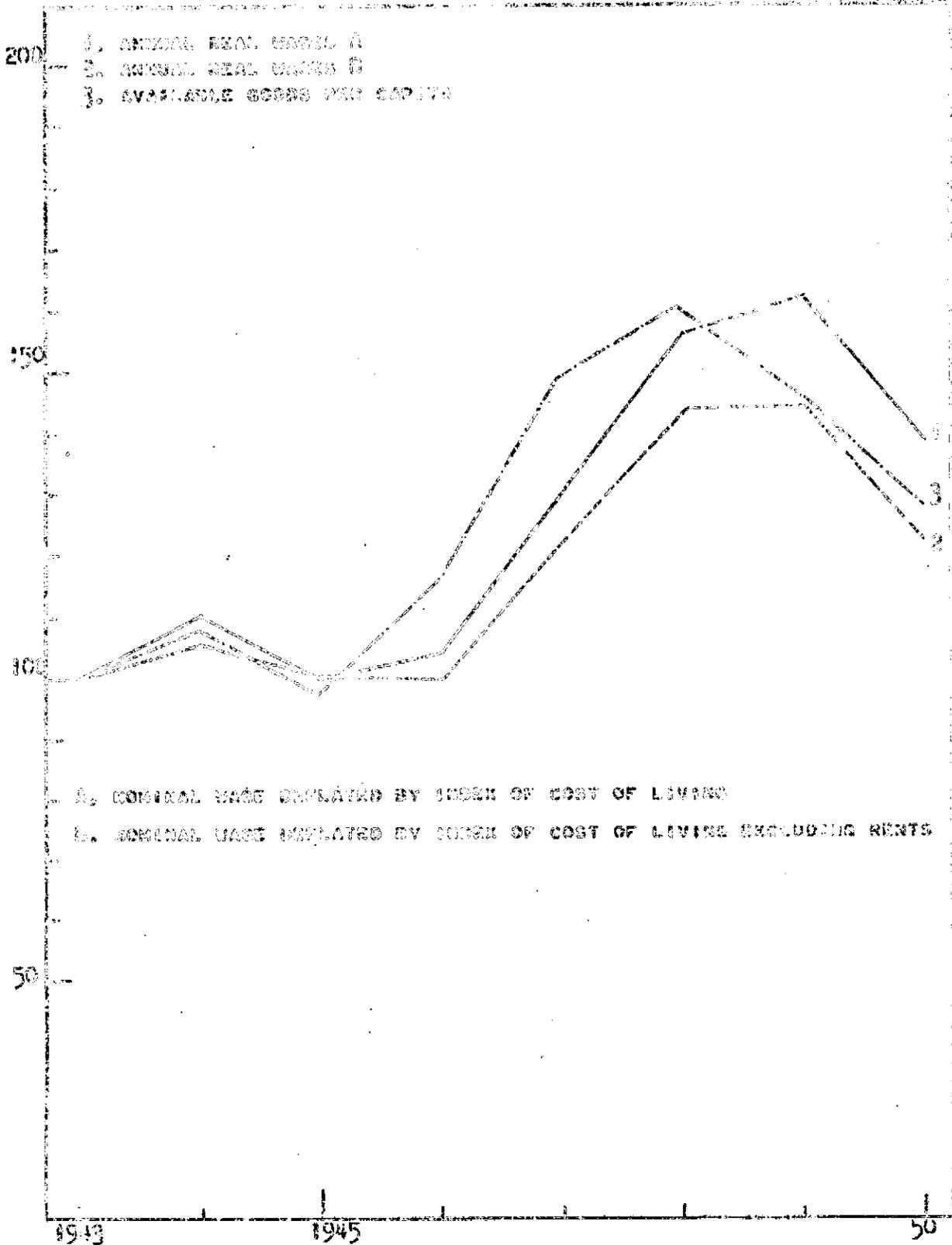
If these data (given in fuller detail in Chapter II) are compared with the trend of the means of payment, it will be seen that maximum production was obtained in the early stages of the inflationary process and that the 1945 and 1946 contractions coincide exactly with the expansion of the means of payment. In 1947, both industrial and agricultural and livestock production increased, whilst in 1948 the latter has increased in proportion with the decrease of the former, the means of payment continuing to expand at a constant rate. When production decreased for a second time (1949 and 1950), the means of payment again maintained a constant rate of increase.

This shows that the influence of inflation on production as a whole has been secondary. If, in fact, Argentina had attained full employment before the end of the war, it is evident that the mere monetary expansion was not in itself sufficient to bring about further increases of production
/and that it

CHART 8

ARGENTINA

REAL WAGES AND AVAILABLE GOODS
1913 = 100



and that it could normally only lead to price inflation. At all events, it can be admitted that the policy of monetary expansion increased production to the extent that it displaced factors to more productive activities, or in other words, when there was disguised unemployment rather than full employment. This is probably what occurred when industrial production grows at the expense of agricultural production.

Real wages and available goods

It was pointed out in Chapter I that between 1943 and 1946 nominal wages increased in a measure with the cost of living, so that during this period there was only a 3.9 per cent increase in the real wage level. Between 1947 and 1949, nominal wages rose at a higher rate, so that in 1949 they were 62.1 per cent over 1943. In 1950 the index of real wages fell sharply from 162.1 to 139.4.

Uncertainty prevails in nearly every country as to the accuracy of the cost of living indices. In Argentina, for instance, these indices include rents, which have been legally frozen since 1943. Since the situation of the workers varies according to whether or not they occupied their dwellings before or after 1943, the possible margin of error could be decreased by excluding rents from the calculation of the real wage. In Table 58 the trend of real wages has been shown, both including and excluding rents.

Table 58. Argentina : Indices of real wages and available goods

<u>Years</u>	<u>(1943 = 100)</u>		
	<u>A. Real Wages (including rent)</u>	<u>B. Real Wages (Excluding rent)</u>	<u>Available goods per capita</u>
1943	100.0	100.0	100.0
1944	109.9	106.2	108.8
1945	100.3	99.8	97.6
1946	103.9	100.0	115.7
1947	129.5	121.9	148.4
1948	156.2	144.4	159.8
1949	162.1	145.4	145.4
1950	139.4	123.2	127.9

Sources: Monthly Statistical Bulletin of Argentina

The real wage, readjusted to exclude rent, rises less sharply, though the upward trend is quite marked, especially in 1948, when it rose to 44 per cent over 1943. After rising another point in 1949, the index of real wages fell, in 1950, to 123.2.

/The trend

The trend of real wages (whether readjusted or not) follows that of per capita available goods, as can be seen clearly in Chart 8. Over the period 1945-48, the curve of available goods rises sharply and then falls in 1949 and 1950. The rate of expansion of real wages, though less marked, remained constant until 1949, and only fell in 1950, according to the data available. Thus the curves for real wage and per capita available goods have lately tended to come together again.

The Stock Market

The usual repercussions of any inflationary process have been clearly revealed on the Argentine stock exchange.

Table 59 and Chart 9 point to two phenomena which, though independent of one another, tend to appear together in this process. These are a) changes in the composition of stock transactions, and b) a pronounced expansion leading up to a crisis which is followed by a sharp fall.

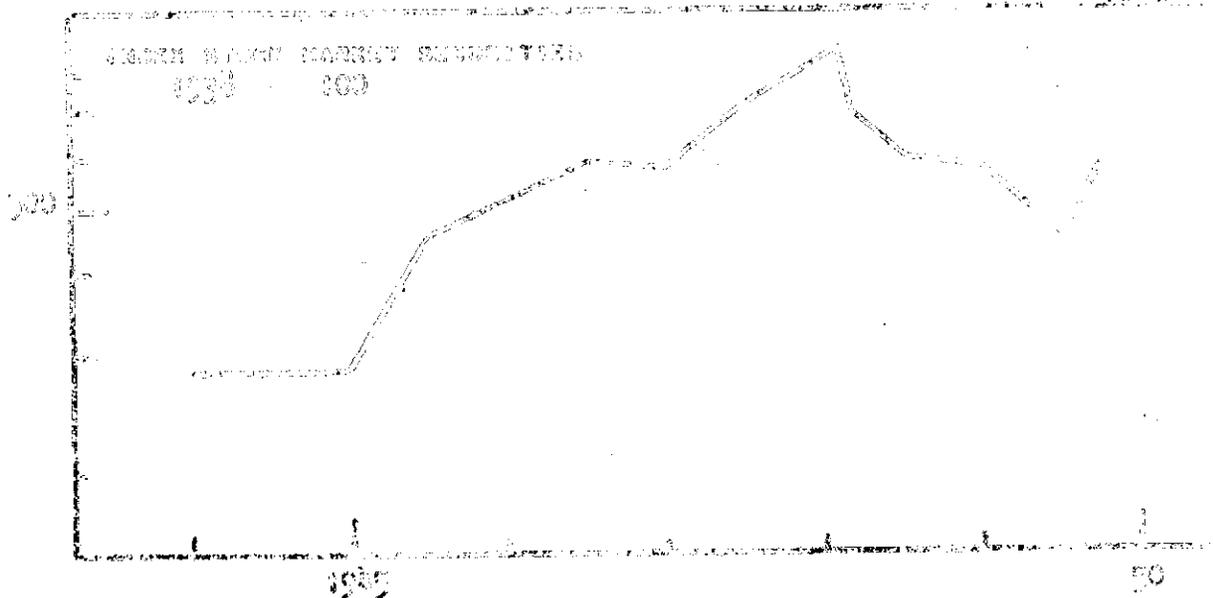
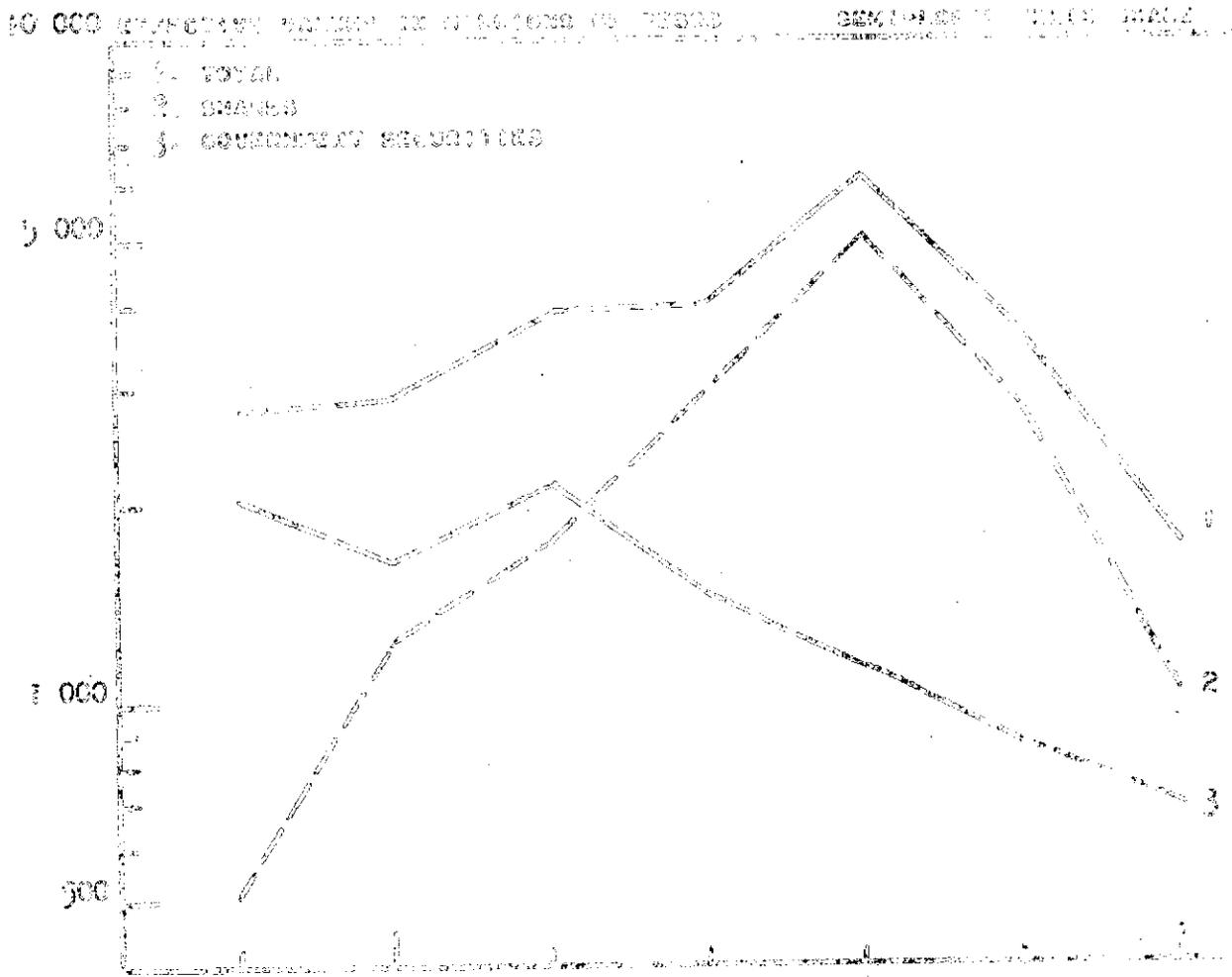
a) Domestic devaluation of the currency lowers the value of scrip with a fixed rate of interest, whilst enhancing that of variable yields. It is therefore not surprising that Argentine monetary expansion has caused the following changes: whereas in 1944 shares accounted for only 18 per cent of total stock exchange transactions, by 1949 they accounted for 81 per cent, the real value of these operations increasing from 513.4 million pesos to 5,155.0 million pesos over this period. On the other hand, the real value of public stock transfers over the same period fell from 2,017.8 million to 1,116.7 million pesos.

This change was partly brought about on one hand by the process of industrialization, which required the investment of real savings, and on the other by the official policy of maintaining quotations of Government securities and of reducing their yields when the long term market rate was high. The preference of investors was thus diverted to shares and the Government began to place its scrip in social security institutes and public entities, and to a lesser extent, in the banks. The disappearance of mortgage deeds on the other hand, to which reference has already been made, marks the end of a form of investment which for many years has been adopted by small and medium investors in Argentina.

b) The rise in private security quotations, which was to be expected from the circumstances noted above, was stimulated by credit policy. Two periods can be distinguished in this rise. The sharp rise which occurred

/in 1946

EMERGENCY COUNCIL STOCK MARKET TRANSACTIONS



in 1946 may be accounted for by public confidence after the restoration of a constitutional government. On the other hand, the rise in 1948 corresponded to a predominantly speculative expansion, which was favoured by credit facilities, the increased number of long-term transactions, and the incentive provided by substantial and rapid earnings in the phase of optimism created by the abundance of money.

The credit policy of the banking system was affected by the unfavourable prospects in various sectors of Argentine economy at the end of 1948, especially in the field of foreign trade. It became gradually more difficult and more expensive to obtain loans for unsecured transactions, and the upward movement of the stock exchange was checked after February 1949, when the recession began. In a single month the indices of stock market securities fell from 861 to 683, reaching the low point in only 1950.

Table 59. Argentina : Buenos Aires Stock Exchange

<u>Years</u>	<u>Transactions</u>		<u>Quotations</u>	
	<u>Total a/</u>	<u>Government Bonds</u>	<u>Shares</u>	<u>Shares b/</u>
	Real value in millions of pesos. Indices: 1938 = 100			
1944	2,837.1	2,017.8	513.4	369.9
1945	2,908.2	1,657.1	1,221.5	278.3
1946	3,966.7	2,141.3	1,762.4	517.0
1947	4,080.2	1,449.4	2,985.0	577.4
1948	6,295.7	1,116.7	5,155.3	823.9
1949	3,697.2	874.5	2,810.3	576.3
1950	2,038.8	873.6	1,154.0	553.3

Source: Monthly Statistical Bulletin of Argentina, and Bulletin of the Chamber of Commerce.

Indices of quotations: Swan, Culbertson & Fritz.

a/ Includes debentures

b/ Average prices of the leading shares at the end of each year.

The fall would have been even greater and its consequences more serious had the Government not intervened through the "Instituto Mixto de Inversiones Mobiliarias", established in June 1947, in order "to regulate, systematize and strengthen the securities market generally". During the February 1949 crisis, the IMIM advanced 65 million pesos to share purchasers for unsecured transactions, and 55 million for a special credit operation for a term of one year and guaranteed by securities.^{1/}

^{1/} Report of the Central Bank, 1949, page 87.

/Since the

Since the period of readjustment has probably ended, the improved prospects in international trade and a tax reform to facilitate transactions in this type of scrip,^{1/} account for the reaction which occurred during the second half of 1950 and which may be traced on the attached chart.

^{1/} Reform of the profit tax law, which levies the greatest proportion of the tax on the company and not on the individual shareholder.