ECONOMIC COMMISSION FOR LATIN AMERICA

ECONOMIC BULLETIN FOR LATIN AMERICA

Volume XII, No. 2

UNITED NATIONS
New York, 1968

UNITED NATIONS PUBLICATION

Sales No.: E.68. II.G. 5

Price $U.S. 2.50
(or equivalent in other currencies)

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The Economic Bulletin for Latin America has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included, as well as informative and methodological notes.

The ECLA secretariat assumes entire responsibility for the *Bulletin*. Its content—intended for the information both of public officials and of the general reader—was not submitted to the Commission's member Governments before publication.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. Since 1964, a new publication, the *Statistical Bulletin for Latin America*, has been issued twice a year, to provide the public with a regular flow of statistical data on economic matters.

EXPLANATION OF SYMBOLS

Three dots (. . .) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—300) indicates a deficit or a decrease.

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate partially or totally estimated figures.

"Tons" and "dollars" are metric tons and United States dollars, respectively, unless otherwise stated.

Minor discrepancies in totals and percentages are due to rounding.

INTRODUCTION

Planning, income distribution and economic policy rank high among the subjects with which ECLA is perennially concerned. Different aspects of these questions are studied from time to time, from a conceptual or methodological standpoint or in relation to specific cases. It is hoped in this way to build up a store of useful source material for economic decision-making which will shed further light on the long-term implications of the policies being implemented.

This issue of the *Bulletin* has been devoted to an examination of these three questions. It includes a review of the most recent evaluation of the planning process in Latin America, it summarizes the findings and conclusions of the ECLA secretariat's research on income distribution and it reviews some of the effects of the economic policy followed since the fifties by two Latin American countries: Bolivia and Colombia.

The section on planning reproduces three documents. The first is an ECLA secretariat paper on the present state of planning in Latin America, with special reference to the difficulties of plan implementation. The paper was used as a background document for the discussions on this question at the second session of the United Nations Committee for Development Planning (Santiago, Chile, 10-20 April 1967) and at the twelfth session of ECLA (Caracas, 2-13 May 1967). It is followed by the relevant portion of the report of the Committee, which examines the role of planning and Latin America's experience in plan implementation. The third document contains a résumé of the debates on planning in Latin America at the twelfth session of the Commission and the text of the resolution adopted on that subject.

Although the substance of all three papers is closely related and may even seem repetitive in certain aspects, it was considered useful to publish them together in view of the high technical standing of the Committee, which is composed of economists from the different regions of the world, and of the wide range of political opinion reflected by the resolution adopted at ECLA's twelfth session. The papers indicate that there is a substantial measure of agreement between the diagnosis of the situation and the recommendations made by regional and international experts and the representatives of the Latin American Governments.

The *Bulletin* also includes an ECLA secretariat note originally submitted to the twelfth session of the Commission suggesting a series of hypotheses concerning the nature of the problems of income distribution in Latin America. The analysis is based mainly on the studies prepared on Argentina, Brazil and Mexico, and the fragmentary data available on other countries. From this body of information, conclusions have been drawn concerning the relationship between economic growth and income distribution.

The third section offers an analysis of economic policy in Bolivia and Colombia in the light of their long-term development, which is comparable in its methodology and objectives to the economic policy studies of Brazil and Chile.[1] In this analysis, a special effort has been made to distinguish the main policy aims and objectives and to determine how policy instruments are being used to achieve them. The cases of Bolivia and Colombia were chosen for different reasons: the first because of the interest naturally aroused by the economic policy model instituted as a result of the 1952 revolution, which changed the structure of the economy and has largely shaped its present characteristics. Colombia's experience is interesting for some novel features it displays, chiefly the original and efficient use made of policy instruments. In short, these countries, together with Brazil and Chile, offer a wide range of experience in terms of different economic policy aims, the use made of certain instruments and their ability to achieve the desired goals.

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[1] *Economic Survey of Latin America, 1964* (United Nations publication, Sales No.: 66.II.G.1) pp. 288-315.

PLANNING IN LATIN AMERICA*

I. PAST HISTORY AND PRESENT STATUS OF PLANNING ACTIVITIES IN LATIN AMERICA

1. Past history

The need for a development planning policy has only recently been recognized in Latin America as the result of a combination of internal and external factors.

During the forties, the need to enlarge the economic infrastructure, particularly the transport network and power supply, and adapt it to new development conditions, as well as to encourage relatively large-scale projects in key industries led to the preparation and implementation of some partial programmes dependent mainly on public investment.

Subsequently, particularly towards the end of the fifties, it became increasingly apparent that the Latin American economies lacked the necessary dynamism to maintain moderately satisfactory rates of growth, to remedy critical imbalances in their foreign trade and external financing, to contain inflationary pressures, to provide sufficient productive employment for a rapidly increasing labour force, and to improve living conditions and at the same time fulfil rising expectations created by a knowledge of the tremendous possibilities brought about by technological advances. Economic policy thus came to hinge on development in its most comprehensive sense as an economic and social concept encompassing both internal and external limitations. Furthermore, ECLA, whose objectives are to analyse the development problems of Latin America, and suggest technical norms for a development programme and methods of projecting future needs, helped to instil that more comprehensive outlook. While its work was focused more on analysis than on planning, the increasing use of projections as a method of anticipating certain problems and analysing policy alternatives helped to lay the groundwork and provide a methodological tool for the preparations of plans.

Bolivia, Chile and Colombia were the first Latin American countries in this decade to formulate national development plans and to establish the necessary machinery, largely with the help of international technical assistance. However, it was not until the Punta del Este Conference in 1961 that the Latin American Governments recognized that planning should be the fundamental instrument for mobilizing national resources, bringing about necessary structural changes, enhancing efficiency and productivity and securing more international financial co-operation.

Since then, virtually all the Latin American countries have prepared plans of different kinds and scope. At the same time, the plans have been analysed and assessed by regional organs which have helped to sustain planning efforts by bringing them into line with the volume and orientation of foreign financial assistance.

A valuable fund of experience has thus been built up, but its true significance may be hard to appreciate because planning is a relatively recent phenomenon and began in very special circumstances. Until fairly recently, no experience had been obtained in this field, apart from some preliminary experiments and certain sectoral programmes, and the very idea of planning was resisted. There were no background data on which to draw for planning purposes, and no methodology that had already proved its worth in the particular circumstances of Latin America. Nor was there a flexible administrative structure which could be adapted to functions and methods other than those enshrined by custom and tradition. Nevertheless, this period was marked by the preparation of the technical bases for planning and the training of cadres on an ever-increasing scale. All the countries now have the necessary machinery for the preparation and orientation of plans (offices and general plans); the criteria used in the allocation of resources are becoming more rational,

* Document E/CN.12/772, prepared by the secretariat of the Economic Commission for Latin America and submitted to the second session of the United Nations Committee for Development Planning (Santiago, Chile, 10 to 21 April 1967) and to the twelfth session of the Commission (Caracas, 2 to 13 May 1967).

especially in the public sector, and, last but not least, planning has become a widely accepted idea.

An account will be given below of some of the main features of these developments, which certainly denote a period of great progress. Further improvements upon the progress already achieved will, however, meet with a number of obstacles and limitations that have been emerging, and this suggests the need for a second stage in which more workable systems of planning would be set up, participation in the preparation of the plans would be broadened and the institutional reforms required for really effective planning would be carried out.[1] The second part of this paper will review these shortcomings and obstacles, and pinpoint in greater detail the internal and external factors that are hampering the execution of the plans. Lastly, it will draw a few general conclusions which may help to overcome some of the problems discussed.

2. Planning organs

Recognition of the need for planning was immediately followed by the establishment of planning offices in the countries where they still did not exist. By now, they are to be found in every Latin American country, and in one case—that of Uruguay—the existence of the planning office has been formally acknowledged in the Constitution.

As planning is a new function of Government, the first task to be undertaken was the establishment of special planning organs. The nucleus was formed by the central planning offices, which evolved in different ways depending on the extent to which they were accepted as part of the traditional structure of government. Generally speaking, they were established in such a way as to become directly responsible to the Office of the President of the Republic. In some cases, an intermediate advisory body acts in a liaison capacity between the planning office and the President and his Cabinet, in which the major decisions are discussed and weighed.

Table 1 lists the different policy-making and technical offices to be found in Latin America, and indicates their structure. The situation is less homogeneous as regards the sectoral and regional offices since some countries have none, while others are still organizing them (see table 1).

As a rule, the planning bodies act in an advisory capacity to the top-level political authorities. They often have other duties, such as helping to prepare the annual national budget estimates, advising on the external financing of particular investment projects, and co-ordinating foreign technical assistance.

3. The plans prepared

In the majority of cases, the planning offices prepared "general medium and long-term development plans", for periods ranging from four to ten years. It was not long before nearly all the Latin American countries had such plans. The plan usually consists of a diagnosis, a set of projections and over-all and sectoral targets, a statement of the particular social goals, a broad assessment of changes required and fields for the application of economic policy, some indications concerning research and utilization of specific natural resources, public investment targets and estimates of external financing requirements. More recently, shorter-term plans have been drawn up, often on a biennial basis.

Table 2 lists the plans that have been prepared in the different Latin American countries. Most of the long-term plans have also indicated, at least in the form of general statements of principle, the goals to be achieved in land reform, tax matters, education, administration, and national integration through infrastructural works (particularly roads and the opening up of new areas for agricultural settlement). In some cases, a salient feature of the plan is a large-scale project to which particular importance is attached.[2] On the other hand, specific objectives for income redistribution and measures or policies for unemployment and underemployment are seldom stated.

As an integral part of the over-all plan or to supplement it, various countries have prepared public investment plans for two or three-year periods which, in relation to the general macro-economic framework, specify the sectoral investment targets of Government agencies (the

[1] This analysis deals with the features common to the whole region, so that certain comments may not be applicable to specific countries. In particular, they do not refer to Cuba because the data available on the Cuban experience are inadequate.

[2] This applies, for instance, to big hydroelectric and irrigation works (Mantaro in Peru, Chocón-Cerros Colorados in Argentina), industrial complexes (Guayana in Venezuela) and roads (Carretera Marginal de la Selva) that predated the plan, but were fitted into the general framework so that their significance could be assessed more accurately in relation to the rest of the economy and for the purpose of securing external financing. Some of those projects are now being implemented while others are still bogged down because the final plan has not been adopted and financing is lacking.

Table 1

PLANNING AGENCIES IN LATIN AMERICA

(*Table 2 overleaf*)→

Table 2

LATIN AMERICA: ESTIMATED GROWTH RATES OF THE PRODUCT, IMPORTS, CONSU INVESTMENT AND EXPORTS IN THE PERIOD PRIOR TO THE PLAN AND DURING TH AND ACTUAL RATES

Country	*Gross domestic product*				*Imports*	*Consumption*	*Investment*
	Total	*Agriculture*	*Mining*	*Industry*			
Argentina							
Pre-plan (1957-63)	0.5	—0.2	17.1	0.0	—0.5	—0.8	2.6
Plan (1965-69)	5.8	4.4	7.7	7.6	4.7	5.6	5.7
Actual rates (1965-66) ...	3.2	2.2	7.5	7.2	—8.8	2.5	—1.8
Bolivia							
Pre-plan (1950-58)	—0.2	0.3	—5.7	—2.4	4.4	0.9	...
Plan (1963-64)	6.2	4.8	10.2	6.5	16.2	5.2	27.7
Plan (1965-66)	5.5	3.0	11.8	7.7	7.6	4.0	10.5
Actual rates (1963-66) ...	5.9	3.0	7.6	6.3	9.7	6.5	9.8
Chile							
Pre-plan (1950-59)	3.2	0.0	0.3	7.1	4.7	3.8	1.3
Plan (1960-65)	4.8	3.7	7.3	5.0	6.6	3.9	12.0
Actual rates (1960-65) ...	4.1	2.0	3.8	6.2	7.0	3.7	10.1
Colombia							
Pre-plan (1950-59)	4.6	3.4	5.7	6.5[a]	1.2	4.1	2.6
Plan (1959-64)	5.7	4.1	7.4	8.6	7.2	4.4	12.9
Actual rates (1959-64) ...	4.7	2.2	2.6	6.1	10.3	6.0	5.4
Ecuador							
Pre-plan (1950-61)	5.6	5.0	6.3	5.1	6.2	5.1	7.4[a]
Plan (1964-73)							
Hypothesis I	6.4	4.7	7.2	8.6	4.2	5.4	10.3
Hypothesis II	6.5	4.7	8.0	8.5	5.1	5.7	10.1
Actual rates (1964-65) ...	3.3	1.0	2.1	4.5	5.4	5.1	2.3
Mexico							
Pre-plan (1958-61)	5.3	3.0[b]	1.1[b]	6.8[b]	—0.2	4.3	5.2[a]
Plan (1962-65)	5.4	4.5	2.6	6.9	8.8	5.5	8.6
Actual rates (1962-65) ...	7.3	4.4	4.7	10.1	9.3	7.0	12.4
Panama							
Pre-plan (1961-63)	8.7	2.4	22.5	17.3	15.2	7.9	11.8
Plan (1963-70)	5.5	...	...	...	5.3	5.0	6.4
Actual rates (1963-65) ...	6.5	7.6	2.7	6.2	4.6	5.3	3.9
Paraguay							
Pre-plan (1950-64)	3.2	3.9	25.0	6.9	7.6	3.0	5.4
Plan (1965-66)							
Hypothesis I	4.7	4.9	2.8	8.5	23.0	4.2	22.0
Hypothesis II	5.8	...	...	...	29.0	5.4	32.0
Actual rates (1965-66) ...	3.9	3.4	0.0	1.9	10.6	5.2	1.7
Uruguay							
Pre-plan (1961-64)	0.9	2.0	[d]	0.5	—4.7	—0.1	—4.2
Plan (1965-67)	4.4	2.2	[d]	6.0	9.1	1.7[c]	14.5
Actual rates (1965-66) ...	1.8	4.9	[d]	0.1	—7.7	—0.6	—0.5
Venezuela							
Pre-plan (1959-62)	2.8	7.7	3.9	5.1	—10.4	—0.6	—4.6
Plan (1963-66)	7.6	7.9	4.3	12.0	2.2	...	...
Actual rates (1963-66) ...	6.0	6.9	1.7	9.0	1.7	6.2	8.8

SOURCE: ECLA, on the basis of development plans and official statistics.

[a] Gross fixed investment.

[b] 1950-58.

[c] Government consumption.

[d] Included in the industrial sector.

Table 1

PLANNING AGENCIES IN LATIN AMERICA

Country: 1. Year when first planning agency established[a] 2. Date when present system established	*Agencies responsible for policy lines (Title and membership)*	*Technical agencies*	*Sectoral agencies*	*Regional agencies*
Argentina .... 1. 1961 2. September 1966	National Development Council (CONADE): President of Argentina and Ministers	Secretariat of CONADE	The Ministry of Public Works and Services and certain State enterprises work out sectoral programmes	Federal Investment Council
Bolivia .... 1. 1953 2. July 1963	National Economic and Social Development Council (President of Bolivia and the Ministers with economic and social responsibilities)	National Planning and Co-ordination Department (directed by the Minister of Planning and Co-ordination)	In the Ministries of National Economy; Agriculture, Livestock, Land Settlement and Irrigation; Mines and Petroleum; Education and Culture; Rural Affairs; Health; and Labour and Social Security	In process of organization
Brazil .... 1. 1956 2. July 1963	Ministry of Planning and Economic Co-ordination. Consultative Planning Council (experts, press representatives, entrepreneurs, workers and state or regional development agencies). Advisory Group on Administrative Reform Studies; Alliance for Progress Liaison Committee; and Fund for Financing Project and Programme Studies	Short-term planning: Ministry of Planning groups; Long-term planning: Office of Applied Economic Research (EPEA)	Sectoral planning sections in the Ministry of Planning. Specific bodies (e.g. Executive Group for the Integration of Transport Policy)	Ministry for Co-ordination of Regional ... cies (for federal regional planning age... Department for the Development ... Amazon Region; Department for the ... opment of the Nordeste. Planning ... in almost all states, dependent on ... governments
Chile .... 1. 1939 2. November 1964	Economic Committee of Ministers, presided over by the Minister of Finance. National Planning Office (ODEPLAN)	ODEPLAN	Sectoral planning section of ODEPLAN. Sectoral offices in the Ministries of Agriculture, Housing, Education and Health; and in the Development Corporation (CORFO) for industry	Regional planning section of ODE... Regional planning agencies (ORPLA...
Colombia .... 1. 1951 2. December 1963	National Council on Economic Policy (the President of Colombia, the Ministers with economic responsibility, Chief of Planning, Manager of the Bank of Colombia and Manager of the National Federation of Coffee Growers), and the Economic Advisory Group (eight members appointed by the President of Colombia on the basis of nominations by trade associations)	Planning Department	Planning Committees (which establish the general policy, and are presided over by the Minister concerned), Offices of Planning, Co-ordination and Evaluation (technical)	Departmental Government: Advisory C... (policy) and Departmental Planning S... (technical). Autonomous Development ... porations: Cauca, Magdalena and Sin... Bogotá savannah and Ubaté-Chiquinq...
Costa Rica .... 1. 1963 2. January 1963	Ministry of Planning, Technical Committee for the Evaluation of Investment Projects (Ministers, senior officials and private associations). Consultative Planning Committee (Heads of Departments of the Ministry of Planning and representatives of private associations)	Ministry of Planning. Planning Office	In all Ministries and in the decentralized autonomous agencies	—
Cuba .... 1. 1960 2. February 1961	Central Planning Board (JUCEPLAN), presided over by the Prime Minister, and consisting of the Ministers responsible for the central economic agencies	Technical secretariat of JUCEPLAN. Planning control activities: National Bank of Cuba	Each Ministry has to translate the instructions of the Central Planning Board into specific plans for each sector and unit	Co-ordinating Centre for Northern O... and Nuevitas
Dominican Republic ...... 1. 1962 2. November 1965	National Development Council (President of the Republic, Ministers of Finance, Public Works and Communications, Agriculture, Education, Health and Social Welfare; Governor of the Central Bank and Technical Secretary of the Office of the President; associate members: National Planning Director and National Budget Director)	Technical secretariat of the Office of the President (directed by a Technical Secretary)	In the Ministry of Agriculture. To be established in Ministries with economic and social functions and in the autonomous institutions	—
Ecuador .... 1. 1954 2. August 1961	National Board for Economic Planning and Co-ordination (Ministers with economic responsibility, the Managers of the Central Bank and the National Development Bank, and three citizens of note)	General Office of Economic Planning	Programming offices in the Ministries of Education; Public Works and Communications; Industry and Trade; Social Welfare, Labour and Public Health; Finance; and Agriculture and Livestock. Also in the Ecuadorian Land Reform and Land Settlement Institute and the Development Centre (CENDES)	Centre for the Economic Reconversion c... Austro; Board for the Economic Rec... of Loja and Zamora-Chinchipe; Centr... the Rehabilitation of Manabí; Develop... Boards of El Oro, Carchí and Esmer...
El Salvador .... 1. 1962 2. April 1962	National Council for Economic Planning and Co-ordination (President of El Salvador, the Ministers of Finance, Economic Affairs, Agriculture, Labour and Social Security, and Public Works, the President of the Central Reserve Bank, two representatives of private enterprise, and the Executive Secretary)	Technical Planning Office, directed by an Executive Secretary	Planning Committees are being organized in the Ministries of Public Works, Agriculture, Education and Public Health	—
Guatemala .... 1. 1954 2. November 1954	National Economic Planning Council, Office of the President (the Ministers of Labour and Economic Affairs, Finance and Public Credit, Communications and Public Works, Agriculture, Public Health and Social Welfare, the Presidents of the Bank of Guatemala and of the Institute for the Development of Production, and three representatives of the President of Guatemala)	General secretariat of the National Council of Economic Planning	—	—
Haiti .... 1. 1962 2. July 1963	National Planning and Development Department (CONADEP)	CONADEP	—	—
Honduras .... 1. 1955 2. October 1965	Higher Economic Planning Council (President of the Republic, Secretaries of State for Economics and Finance; Communications and Public Works; Natural Resources; Presidents of the Central Bank and the Development Bank; one representative from management and one from labour)	Technical secretariat of the Higher Economic Planning Council (directed by an Executive Secretary with ministerial rank)	In the Ministry of Agriculture	—
Mexico .... 1. 1958 2. March 1962	Inter-Ministerial Development Planning Committee (representatives of the Office of the President and of the Ministry of Finance and Public Credit)	Technical office of the Inter-Ministerial Committee	The secretariats of the Ministries, the decentralized agencies and the enterprises with State participation all work out investment programmes	National committees for specific projects ... the Papalcapán Basin)
Nicaragua .... 1. 1952 2. February 1952	National Economic Council (Ministers of Economic Affairs, Finance, Development and Agriculture, the Presidents of the Central Bank and of the National Bank, and the General Manager of the National Development Institute. Planning Office, Office of the President	Technical secretariat of the National Economic Council (under the Ministry for Economic Affairs)	Research and programming offices in most of the Ministries	—
Panama .... 1. 1959 2. June 1959	General Office of Planning and Administration, Office of the President	General Office of Planning and Administration. Departments of Planning Budget, Administrative Organization and Personnel Administration	In the Ministries of Education; Agriculture, Trade and Industries; and Labour, Social Welfare and Public Health	—
Paraguay .... 1. 1948 2. September 1962	National Council for Economic Co-ordination (President of Paraguay, the Ministers of Finance and Economic Affairs, the Chairman and a representative of the Monetary Board of the Bank of Paraguay. Two members of the Chamber of Representatives attend in an advisory capacity. The President may appoint three other members)	Technical Office for Economic and Social Development Planning, Office of the President (Executive Secretary)	—	—
Peru .... 1. 1962 2. October 1962	National Council for Economic and Social Development (President of Peru, Ministers of Finance and Trade, Development and Public Works, Education, Health and Social Welfare, Agriculture, Labour and Indigenous Affairs, and the Armed Services Departments, and the Chief of the National Planning Institute)	National Planning Institute (whose Chief has the rank of Minister), the Advisory Planning Council (presided over by the Chief of the Institute, with a membership of representatives of entrepreneurs, workers, professionals and universities)	In the Ministries of Labour and Indigenous Affairs; Public Education; Development and Public Works; Public Health and Social Welfare; and Agriculture. Also in the National Town Planning Office and the National Economic Development Fund	Offices for the planning of geographical ... economic regions, and political and adm... trative divisions, are envisaged. There ... development corporations for Cuzco, ... quipa, Madre de Dios, Tacna, Puno ... Ica
Uruguay .... 1. 1960 2. November 1966	Budget and Planning Office (directed by a Committee made up of the Ministers of Finance; Agriculture; Industry and Trade; Labour and Social Security; Public Works; Public Health; Transport, Communications and Tourism; and Culture; and presided over by the Director of the Office)	Budget and Planning Office	In the Ministries of Agriculture, Public Education and Social Welfare; and Public Health	—
Venezuela .... 1. 1958 2. December 1958	President of Venezuela, in the Council of Ministers	Central Office for Co-ordination and Planning	Sectoral offices in the Ministries and autonomous institutions. Sectoral co-ordination groups	The Venezuelan Corporation of Guayana; C... mittee to promote the development of ... Andes; and the Zuliano Planning Counci...

[a] This relates to agencies that represent the origin of the present system.

central Government, autonomous agencies and, in some cases, State-owned enterprises), on the basis of draft or final projects. This is the kind of plan that has been most effective in bringing the planning offices into closer contact with the budgetary organs and in modernizing and streamlining government budgets. These plans have also proposed criteria for the allocation of resources to projects already under way, projects to supplement them or new projects, and have had to tackle the problem of distributing resources between productive investment, direct development expenditure, the expansion of current expenditure and investment expenditure in the different social services.

Thus over-all long-term plans have made a major contribution to the establishment of general development policy. Supplemented by medium-term plans, they have served to rationalize public sector activities. However, the countries of the region have not made an analysis in depth of specific short-term economic policy programmes which help to ensure that immediate action is compatible with the long-term objectives.

The small number of annual operational plans, except for public investment schemes, can be explained by various factors, including methodological shortcomings, inadequate descriptions of individual projects and failure to establish short-term economic policies.

Experience with regard to regional plans has been varied, and the guiding principles observed in their formulation have not always been uniform. In some cases, for example, an attempt has been made to distribute some public investment targets of the over-all plan among the various regions responsible for sectoral targets. In other cases, the policy has been to formulate a general programme, more or less unrelated to the over-all plan, for an especially backward region or for a region with a very favourable combination of natural resources.

4. Implementation of plans

Apart from the difficulty of assessing the various plans in terms of the actual expansion of economic activity, such an assessment may be meaningless in some instances, and in others may overlook or under-estimate the contributions of planning.

A case in point is afforded by the over-all growth targets for the product and its major components. Table 3 presents, in relation to ten Latin American countries, the growth rates of the total product and of the agricultural, mining and industrial sectors, as well as of the aggregate components of demand (imports, consumption, investment and exports); in each case, the rates envisaged in the various plans are recorded, together with those attained previously and those reached during the early years of the plan's operation.

Although such figures would seem to constitute a factual basis for evaluation, it would be hazardous to draw final conclusions from them, other than the very general observation that as a rule there is a relatively wide gap between the targets of the plans and actual economic trends. The extent to which the plans were politically supported, their intrinsic nature, the evolution of exogenous variables mainly relating to foreign trade and financing, and many fortuitous factors would require detailed consideration of each specific case, although many have features in common, such as those discussed in the relevant sections of this note.

Much the same is true of the general lines of development policy followed in the plans. In most instances, they represent principles or proposals worked out before the plans were officially sanctioned and incorporated in them as decisions, thus strengthening them and directly or indirectly helping to bring them into operation. Hence, although the progress achieved in certain fields may not be directly attributable to the content of specific plans, it is unrelated to all that the planning process involves. For example, since 1961—when planning first became a widespread practice—agrarian reform laws have been passed by fourteen of the Latin American countries, and most of them are adopting tax legislation and improving tax administration with increasingly favourable effects on the income of the public sector.

From another standpoint, the preparation of plans has compelled more thorough study of each country's economic situation and investigation of the causes of its underdevelopment. The planning effort has been reflected in substantial improvements in the basic statistical data available, has encouraged surveys of natural resources, created greater awareness of internal and external financing problems and helped to identify the essential features of a Latin American development strategy. Although all this has not produced immediate and tangible results, it implies a substantial though gradual change in the approach to problems. As the process has been gradual, this change of attitude has sometimes escaped notice, but when analysed, it reveals a considerable difference between the approach to development problems

Table 3

LATIN AMERICA: MAIN ACHIEVEMENTS OF NATIONAL PLANNING

Argentina:	National Development Plan, 1965-69. National economic budget, 1966
Bolivia:	Economic and Social Development Plan, 1962-71. Sectoral plans, 1963-64. Performance budgeting since 1961. Two-year economic and social development plans, 1963-64 and 1965-66
Brazil:	Target plan (1957-60). Three Year Economic and Social Development Plan, 1963-65. Government Programme of Economic Action, July 1964-March 1967. Ten-Year Plan, 1967-76 (in preparation)
Chile:	Sectoral short-term plans (power, steel, petroleum, etc.). National Development Programme, 1961-70. Five-Year Development Plan (in preparation)
Colombia:	Performance budgeting since 1961. General Economic and Social Development Plan, 1962-70. Four-year public investment plans, (1961-64, 1962-65)
Costa Rica:	Performance budgeting since 1964. Economic and Social Development Plan, 1965-68
Cuba:	Plan for the National Economy (annual, beginning 1962)
Dominican Republic:	Performance budgeting since 1964. Bases for national development (1966). Two-year development plan (in preparation)
Ecuador:	Bases and directives for the programming of Ecuador's economic development. Short-term development plan. Performance budgeting since 1963. General Economic and Social Development Plan, 1964-73
El Salvador:	Two-Year Public Investment Programme, 1964-65. Performance budgeting since 1964. Economic and Social Development Plan (1965-69). Annual public investment plans since 1966
Guatemala:	Performance budgeting since 1964. Economic and Social Development Plan (1965-69)
Haiti:	Short-term plan (two-year investment plan). Emergency programmes (1966)
Honduras:	National Public Investment Plan, 1963-64. Preliminary version of the Four-Year Economic and Social Development Plan, 1962-65. Performance budgeting since 1964. Economic and Social Development Plan (1965-69)
Mexico:	Sectoral plans. Short-term plan, 1962-64. Development Plan, 1967-70 (in preparation)
Nicaragua:	Performance budgeting since 1964. National Economic and Social Development Plan, 1965-69
Panama:	Economic and Social Development Programme, 1963-70. Performance budgeting since 1966
Paraguay:	Performance budgeting since 1963. Two-year plans (1965-66 and 1967-68)
Peru:	Public investment programme, 1964-65 and 1966. Performance budgeting since 1963. Economic and Social Development Plan (1967-70)
Uruguay:	Economic Survey of Uruguay (1963). National Economic and Social Development Plan (1965-74)
Venezuela:	Four-Year Plan, 1960-64. Performance budgeting since 1963. Annual plan of operation (1964). National Plan, 1962, 1963-66 and 1965-68

adopted by Governments and the public today, and the situation a few years ago. It has been rightly contended that the existence of a plan is less important than the fact that it has been worked out.

One of the most direct and immediate results of development plans is the effort to rationalize the public sector, shown both in general policy and in the formulation of public investment plans, the use of programme and performance budget techniques and the evaluation of projects.

The general principles set forth in the plans have served to elucidate the development process and to weld into a whole the many piecemeal measures involved in government action. This does not mean that the decisions adopted have been strictly in line with the plans, but it does imply the existence of a yardstick to measure the deviations caused by unfavourable conditions and the extent to which favourable circumstances have been exploited. Furthermore, familiarity with the plans and public discussion of them at the national level, together with their evaluation by international technical agencies, have made for the inclusion of decisions requiring structural reforms.

The rationalization of public expenditure has been especially noteworthy in the countries where public investment plans have been drawn up, since sectoral budgets have had to be fitted into an over-all concept encompassing a breakdown of investment to be made by State agencies and projects and preliminary projects for a two-year or three-year period. Although in most cases the quantitative targets established may not have been attained, this is probably the type of plan that has operated most effectively in Latin America, among other reasons because it relates to one of the special provinces of the public sector, on which it is binding.

The adoption of programme and performance budgeting has gradually superseded the traditional process and has resulted in the increasingly rational allocation of public expenditure and investment. The efficient operation of this system calls for conditions that have not yet been fully established (skilled personnel, reliable statistical data, identification of executive units, integration of the accounting systems of the public sector, costing and evaluation, channels of communication between the central and sectoral budget offices, etc.). Nevertheless, in the countries where it is applied, budgeting and planning are better co-ordinated at the budget programming stage, and budgets are presented in a more rational form. At the same time, the processes of execution and evaluation of the budget are being brought into line with the new system, and some countries already have adequate machinery for accounting, costing and evaluation of results.

Where public sector projects are incorporated in an over-all strategy, the process of evaluating them has necessarily involved assessing their relative importance, establishing a satisfactory order of priorities, considering the compatability of projects and groups of projects and taking into account their direct and indirect effects on the economy as a whole. It has thus been possible to prevent, in part at least, situations such as have recently arisen in some countries, in which the haphazard launching of projects has led to disproportionately heavy external borrowing or serious distortions of the structure of production.

5. External technical co-operation

External technical co-operation has without a doubt exerted a marked influence on planning efforts in Latin America, directly in some cases and indirectly in others. It has been responsible for much of the headway made in overcoming limitations to planning. This influence has operated mainly with respect to methodology, training of cadres, the actual formulation of plans, and the promotion of specific projects.

Technical assistance in the field of planning methods was particularly important because the region was lacking in experience, statistical and technical data were not abundant, and the economic and social characteristics of Latin America did not make it easy to transplant methods used in other parts of the world. Consequently planning helped to develop an appreciation of the efforts of international agencies to secure a fuller and deeper understanding of the Latin American economies and their development problems, as well as the usefulness of their work in programming and projection techniques, programme and performance budgeting, and preparation and evaluation of projects.

This applies to some of ECLA's general studies,[3] and to its subsequent analyses of over-all programming techniques,[4] its specific studies on the development of a number of countries,[5]

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[3] See, for example, Raúl Prebisch, "The economic development of Latin America and its principal problems", *Economic Bulletin for Latin America*, vol. VII, No. 1 (1962), pp. 1-22; *Economic Survey of Latin America, 1949* (United Nations publication, Sales No.: 51.II.G.1); and *Problemas teóricos y prácticos del crecimiento económico* (United Nations publication, Sales No.: 52.II.G.1; issued in English in mimeographed version only, under the titled "Theoretical and practical problems of economic growth" (E/CN.12/221)).

[4] See the provisional study on the technique of economic development programming, revised and reissued in July 1955 under the following title: *Analyses and projections of economic development: I. An introduction to the techniques of programming* (United Nations publication, Sales No.: 55.II.G.2).

[5] *Analyses and Projections of Economic Development: II. The Economic Development of Brazil* (United Nations publication, Sales No.: 56.II.G.2); *III. The Economic Development of Colombia* (United Nations publication, Sales No.: 57.II.G.3); *IV. The Economic Development of Bolivia* (United Nations publication, Sales No.: 58.II.G.2); *V. The Economic Development of Argentina*, vols. I, II and III (United Nations publication, Sales No.: 59.II.G.3); *VI. The Industrial Development of Peru* (United Nations publication, Sales No.: 59.II.G.2); *VII. The Economic Development of Panama* (United Nations

and its discussion of programme and performance budgeting and project preparation and evaluation techniques.[6] The Commission also helped to relieve the serious shortage of specialists in these subjects, by initiating training courses on development planning in 1952. These and other activities were considerably strengthened by the establishment of the Latin American Institute for Economic and Social Planning in July 1962. Its objectives were to strengthen the training programme, help Governments to initiate the planning process and carry out studies on basic development problems and planning techniques.

The special impact of its training efforts has been reflected in the fact that only very recently have subjects specifically relating to planning and development been included in the regular curricula of Latin American universities. The first planning efforts were supported only by small groups of technical experts trained under special programmes designed and implemented by international agencies. While such programmes could not take the place of previous academic training, they have fulfilled a useful function by laying down general guidelines and providing the methodological tools required to cope with immediate responsibilities. Moreover, they have helped to bring together specialists with different technical backgrounds and experience (economists, engineers, sociologists, educators, doctors, administrators) for planning purposes on the basis of a minimum of common training and language, and to fit them for the team work that planning entails.

publication, Sales No.: 60.II.G.3); *VIII. The Economic Development of El Salvador* (United Nations publication Sales No.: 60.II.G.2); *IX. The Economic Development of Nicaragua* (in press); *XI. The Economic Development of Honduras* (United Nations publication, Sales No.: 61.II.G.8).

6 "The fiscal budget as an instrument in the programming of economic development" (E/CN.12/521); "Algunas consideraciones sobre las relaciones entre la programación del desarrollo y el presupuesto fiscal" (E/CN.12/BRW.2/L.5); "La experiencia de algunos países de América del Sur en materia de reforma presupuestaria" (E/CN.12/BRW.2/L.10); *Manual on Economic Development Projects* (United Nations publication, Sales No.: 58.II.G.5).

The co-operation of ECLA, and later of the Institute, has also been extended to cover the provision of advisory services for the purpose of organizing and establishing planning machinery and formulating plans. Several countries have obtained the co-operation of "advisory groups", set up by these international agencies most often with the participation of the Inter-American Development Bank (IDB) and the Secretariat of the Organization of American States (OAS), or with occasional advisory services in specific fields.[7] Later, such services were also offered by official agencies or foreign foundations under bilateral co-operation programmes.

In addition to these direct forms of external technical co-operation there are a number of different ways in which planning has been enlarged in scope and made more effective. The panel of experts established under the agreements contained in the Punta del Este Charter, whose function is to evaluate plans and make recommendations on external financial assistance, was instrumental in improving plans and strengthening national planning systems. The Inter-American Committee on the Alliance for Progress was subsequently established as a committee of the Inter-American Economic and Social Council to make an annual review of the economic situation and the implementation of plans in each country and to estimate the amount of external financing required. Its establishment was another milestone in the progress of planning in Latin America. The significant contribution of the Inter-American Development Bank to the development of the region took the form, *inter alia*, of financing regional programmes, national planning organs and international and regional agencies engaged in planning. The expansion of the activities of international financial institutions (IBRD, United States Government agencies and others) has also stimulated the preparation of investment projects and helped to improve their quality.

7 Advisory groups were set up in Colombia (May 1959); Bolivia (April 1960); Haiti (end of 1961); Uruguay (March 1962); Paraguay (end of 1962); Peru (February 1963); and Central America (early in 1963).

II. OBSTACLES TO THE IMPLEMENTATION OF PLANS

Although planning in Latin America has made a number of important advances in certain aspects, it still has serious weaknesses and improvement of planning and implementation of plans is still being hampered. Recently, the planning process has been experiencing a period of stagnation, and in some cases can be seen to have lost ground. The impetus to prepare the over-all plans has spent itself, and the same fervour has not been applied to the tasks of translating over-all planning policy into specific economic policy programmes and short-term operational plans, and establishing efficient instruments for the periodic review and up-dating of plans and the evaluation of their *implementation*.

It is in such tasks that the various limitations and obstacles are most apparent. Some of them stem from internal factors, ranging from the most general, including the political stability or amount of political support that planning efforts actually enjoy, to factors more directly related to the actual operation of planning machinery. In evaluating these latter factors, particular account should be taken of the relatively short period of time that has elapsed since planning was initiated, and of the fact that in other countries efficient planning was the fruit of many years' sustained effort. Moreover, a number of other usually serious problems, arising from external factors, mainly related to instability and the limited development of foreign trade and inadequate conditions of external financing are impeding the attainment of planning targets in Latin America.

It is more pertinent, therefore, to point to the obstacles now hampering planning in Latin America and to possible ways of overcoming them, than to draw up a balance sheet of progress made and existing limitations.

1. Internal problems

(a) *The functions of planning*

Although the need for planning as an instrument for a coherent development policy has been generally accepted by Governments, there has been no effective unity of aims as regards planning aims and basic priorities. From the beginning, a number of different attitudes emerged. In some instances there was a tendency to regard planning primarily as an instrument for mobilizing external financial resources and as an additional requirement for international financial co-operation, thus emphasizing the urgency for some kind of plan and tending to highlight those aspects of the plan most directly related to foreign aid. In others, planning was seen from a professional and theoretical point of view as an instrument for shaping the structural changes essential to Latin America's development and an expression of an action programme by the various economic sectors aimed at achieving economic and social gains which planning itself would help to formulate. Sometimes planning was identified as a means of attaining the limited goal of more rational administration. In one way or another all these points of view were incorporated in the plans drawn up, but substantive aims of economic and social policy often were not reflected in specific decisions.

The problem is particularly important since the structural changes essential to the development of Latin America confront the planners with a different and more difficult task than planning in developed economies, where the changes required are usually less drastic and where there is a wider consensus on more issues.

Moreover, those different outlooks have given rise to a destructive and sterile controversy concerning the planning most suitable for Latin America, based on much confused thinking. It has been argued that "over-all" or "macro-economic" planning should be abandoned and that efforts should be concentrated on building up a sufficient number of well-planned specific projects. On the other hand, where stress has *been laid on planning as an instrument* for formulating basic long-term policy, immediate problems have sometimes been neglected or deferred for future study. Instead of attempting to co-ordinate efforts to define long-term policy, which are indispensable to effect the wide-ranging changes essential to Latin American development, with the machinery designed to implement that policy by immediate action, there has been a tendency to reject or underestimate one aspect and concentrate exclusively on the other.[8]

(b) *Political support for planning*

The need for planning the economic and social changes essential to the development process raises the problem of the political viability of Latin American plans and the amount of effective support required by the planning effort. The plans generally encounter resistance from sectors which feel threatened by specific measures or are exerting pressure for a larger share of national income. At the same time, they often encounter resistance from the traditional government administration, which is reluctant to institute changes and jealously guards its policy-making power against any possible transfer of authority which may imply a reorganization of the administrative structure to facili-

[8] These and other problems touched upon in this note were the subject of detailed study at a seminar organized by the Latin American Institute for Economic and Social Planning and held in June 1965. In this connexion, see *Discusiones sobre Planificación* (Mexico, Editorial Siglo XXI, 1966).

tate the establishment of the policy-making machinery which planning requires.

Thus, plans inevitably suffer from serious obstacles during the implementation stage which cannot be overcome unless the governments provide ample and sustained support, a support which is not always forthcoming in Latin American experience.

Moreover, apart from substantive reasons, the difficulties of successful planning arise to some extent from the manner in which the plan takes shape. In some cases, there was little or no communication between the technical planning officials and the government departments during the preparatory stages.

(c) *Participation of the private sector*

The problem of political support is even greater where the private sector is concerned. Resistance from some parts of the private sector is inevitable whenever plans incorporate decisions to institute changes affecting specific situations or interests, but there seems to be a wide margin of potential support which has not been mobilized because of deficiencies in the planning process itself.

In general, there is a lack of communication between planning organs and the private sector. Rarely is any attempt made, during preparation of the plan, to consult representative national opinion groups (parliament, political parties, trade unions, employers' associations, universities, etc.) or the sectors directly concerned (entrepreneurs, importers, exporters, consumer associations, etc.).

This phenomenon, like others, arises partly because planning is not expressed in terms of specific economic policy measures which might induce the private sector to follow particular guidelines. The private sector regards the plan as an over-all review of the economic situation providing valuable information on the intentions of the public sector, but the plan does not guide its activity by providing incentives or disincentives in the form of, for example, credit, trade or tax policy measures.

(d) *Operation of planning machinery*

The varying degrees of political support for planning, the poor definition of its functions and its relationship with the decision-making centres, and the limited participation of the private sectors, are not calculated to promote the more efficient operation of the planning machinery. On the other hand its operational flaws and weaknesses make yet more remote the possibilities of forging closer links between the planning offices and the permanent decisions of the government authorities and other interested sectors.

The opposition which is bound to arise from the traditional policy-making organs, both among the political authorities and in the national administration as a whole, would seem to necessitate some sort of "strategy" for introducing planning machinery, which would obviate such friction as far as possible so that planning could be progressively built into the administrative structure and procedures.

In this respect, planning in Latin America has manifested serious shortcomings. Isolated as they usually are from the traditional channels of administration and decision-making, the planning offices have often been saddled with the responsibility of preparing a development plan with a minimum of guidance from the political authorities or none at all. As a rule, contacts have continued to be sporadic and inadequate throughout the formulation stage, and the planning agencies have not been punctual in presenting the technical alternatives together with a justification and evaluation of implications, which would have required decisions at the political level. In the circumstances, the plan which has been drawn up has not been discussed in sufficient detail by the various government policy-making and executory organs, and therefore creates resistance in the Ministries and decentralized agencies.

There have also been instances of an over-concentration of resources and activities in the central planning agency. While such a concentration was essential at the time, the result was that a high proportion of the planning experts—who are in any case few and far between—were grouped in this central office, and since the Ministries and autonomous agencies have done very little in the way of planning, that office has tended to assume direct responsibility for the preparation of sectoral plans and projects.

While there would seem to be every justification for making the central planning office a division of the Office of the President of the Republic since the support of the Chief of State and his Cabinet is a *sine qua non* for the satisfactory operation of the central agency, this has not automatically guaranteed the institution the stability and backing it needs or the maintenance of easy channels of communication. In some instances, a change of Government has halted planning processes that were making good headway, and in others it has pumped new life into efforts that seemed to be petering out. An attempt has been made to maintain communication through development councils or boards consisting of Ministers, high-level officials and technical experts. However these organs have not always served their purpose. In other instances they have done useful work in co-ordinating development policy with the work of other departments of the national administration, but this co-ordination is apt to peter out at the operational level for lack of proper direction and supervision. The absence of efficient sectoral and inter-sectoral co-ordination machinery means that the co-ordination achieved at the core of the system weakens or disappears altogether at the lower levels as a result of organizational and procedural deficiencies.

The direct link which exists in some countries between the head of the central planning office and the President of the Republic seems to impart greater flexibility to the central planning agency by forestalling the difficulties inherent in the operation of pluripersonal bodies, which in Latin America have, as a rule, proved to be slow-moving and lacking in dynamism. It is observable, however, that when the technical director of the planning office does not have ministerial rank or a voice in the Cabinet, he finds himself at a definite disadvantage, and the central planning agency cannot discharge its functions efficiently, especially that of co-ordinating the public sector for purposes of implementing the plan. At the same time, the technical director in charge of the central agency is exposed to political pressures, and is often replaced when the government changes, since he is held responsible, whereas that responsibility would otherwise be assumed by the planning council or board.

The sectoral planning agencies are generally weak and faced with organizational and procedural problems. However, this is far from being the rule in the various Ministries and decentralized agencies. They are often regarded merely as operational instruments for compiling statistical data; they are assigned routine duties which relegate programming activities to a secondary status, or they are used as agencies for the study of the most widely varying questions. They do not get the political support they need to carry out their functions, and are usually cut off from the central planning agencies, the operational agencies of the Ministry concerned, and the decentralized and autonomous agencies in their sector.

Similarly, regional planning has had to cope with innumerable obstacles, not the least of which is the fact that political divisions and economic areas are not the same. Since the regions suitable as a basis for planning often comprise different political divisions, each with its own interests, and provincial, state or local pressure groups, it is very difficult to reconcile opinions and advance towards common objectives. Furthermore, some provincial or state governments are riddled with administrative weaknesses or are not sufficiently active in promoting economic and social development.

In the last analysis, those problems are simply so many corollaries of the general rule that planning organs have been superimposed on an administrative structure which has not been adapted to the demands of planned development policy.

In recent years, several countries have established central organization and methods offices, which have assumed responsibility for administrative reform. In many cases, these central offices have had no connexion with the agencies of the planning system, or with those in charge of staff and budget administration. Action taken to promote the reform has nothing whatever to do with national development activities. Thus, although general planning efforts have indirectly served to focus attention on administrative streamlining, this task has usually been undertaken independently of economic development policies.

(e) *"Operability" of the plans*

In addition to the problems arising from administrative organization and the position of planning machinery within the administration, other factors help to widen the gulf between the planning organs and the policy-makers.

The trouble is, in essence, that the plans formulated thus far cover only a part of the planning process; in other words, the planning effort has not yet been carried through to a conclusion, either from the standpoint of the plans drawn up or from that of the establishment and operation of effective machinery for the periodic revision of plans and for the supervision and evaluation of their practical application.

Many of the over-all plans embody forecasts based on an improvement—sometimes substantial—in previous trends and on the anticipation of potential limiting factors. As a result, the over-all plans leave a wide gap between macro-economic considerations and general principles and their implementation by means of specific policies (monetary, exchange, fiscal) and operational plans. At the other extreme, some plans for immediate action which have begun to operate merely enumerate partial proposals and certain specific projects often without evaluating them in broader perspective.

The lack of an effective "bridge" between the two dimensions of the planning effort has been detrimental to the two types of plan, in the first instance because it greatly detracts from their viability, and, in the second, because the plans fail to come to grips with the fundamental obstacles to development. This absence of an organic relationship between the long-term general plan and the corresponding specific plans, in terms of the use of the various instruments of economic policy and mobilization and allocation of resources, is still one of the principal shortcomings of planning efforts in Latin America.

It is as much the result of poorly conceived development policy as it is of failure to design and implement effective short-term planning schemes.

(i) *Definition of development policy*. The lack of a clear definition of that policy is reflected in the fact that the growth targets of long-term plans are not usually expressed in terms of the employment, productivity and training of human resources. Despite the significance and magnitude of the underemployment problem in Latin America, most plans do not deal with it specifically and little attention is devoted to the occupational structure and educational pattern of the employed population. Similarly, due regard is not given to the supply and demand for labour, or to the need to bring the economic expansion targets established in the plan into line with available manpower, and particularly skilled labour. The problem of sectoral differences in productivity and the assimilation of technology is hardly mentioned in the majority of the plans, and the relevant proposals are confined to the broadest generalizations, no attempt being made at analysis in depth.

Much the same may be said in connexion with the continuing high degree of income concentration in Latin America, which is another factor exerting a marked influence on the region's development. The plans often allude to this problem in the diagnosis, and even go so far as to list certain general palliatives (absorption of the unemployed, increases in productivity, and/or price and wage, tax, public expenditure and education policies); but these statements of principle are not translated into specific terms, nor is due allowance made for the effects of the targets established in the plan and in the proposals for attaining them on income distribution.

From another standpoint, although a broad and integrated view of development in which economic and social factors are closely interrelated has been gaining wide acceptance in Latin America, there remains the specific practical problem of how to decide whether to allocate funds to particular "social services" (education, housing, and public health) or to apply them to enlarge the economic infrastructure and the immediately productive field of the economy. In the absence of objective guidelines, decisions are influenced in the end by circumstantial factors, such as the power of the authorities responsible for the respective fields, or political considerations of the moment. Through force of circumstance rather than as a result of deliberate policy, there has been a rapid increase in the relative proportion of social expenditure in most Latin American countries, and this process has been encouraged by the direction taken by foreign aid over the last few years. It is a matter of conjecture how far this concentration of effort can be maintained, unless a similar effort is made to broaden the economic base which must sustain it. Moreover, serious doubts are beginning to emerge as to the effectiveness of certain kinds of social action on behalf of particular social groups, when they are intended to relieve shortages which really reflect more deeply-rooted problems of economic and social marginality. All this places a very heavy burden on those responsible for planning, who have neither sufficient experience nor the necessary technical machinery for discharging their responsibilities, and are hampered by the failure of government to adopt the political decisions to support them.

Finally, it should be pointed out that, with the exception of Central America, most Latin American development plans have not explicitly incorporated regional economic integration prospects in their plans as a variable affecting their development policies. Integration appears to be following its own course, along channels relatively removed from planning efforts. Although there are several fundamental reasons for this phenomenon, it would seem reasonable to suppose that this separate development is also affected by the fact that economic integration would raise new problems and the technical planners do not have the necessary methodological instruments to cope with them.

(ii) *Short-term planning schemes*. The second problem arises from the fact that countries have not yet succeeded in developing and activating the essential technical machinery required to complete the various stages of planning so that general economic policy can be translated into effective and immediate action.

Despite considerable progress in improving procedures for allocating public sector resources by means of medium-term public investment plans and the use of programme and performance budgeting techniques for the annual Government budget, there are still acute problems. No comparable progress has been made, for example, in working out annual operational plans, in economic policy or in standardizing annual economic budgets, etc.

For example, in the application of public investment plans, there is a marked disparity between targets and financial estimates, either because the tax reforms on which they are based are not carried out to the extent or in the time anticipated owing to delays in international financing or special problems of financing local cost, or because any unexpected shortage of financial resources in the public sector affects investment much more than current expenditure. The operational capacity of the public administration to undertake new or increased activities is often overestimated because there are no proper criteria or machinery for evaluating it objectively, although there has been some significant progress in that respect. On the other hand, there is a general tendency to underestimate the volume of projects under way and, consequently, to underestimate the lack of flexibility in the allocation of resources because priority, save in exceptional circumstances, must be given to partially executed projects.

The programme and performance budget has been adopted as the model for annual public sector budgets in most countries of the region, and Uruguay's new political Constitution expressly stipulates that the Executive must present a breakdown of the national budget by programmes. On the other hand, similar progress has not been made in the preparation of annual plans of operation, an exercise regularly carried out only by Venezuela. The formulation of experimental numerical models for the analysis of economic policy is being tried out chiefly in Venezuela and Chile. As regards national economic budgets, the only practical experiments thus far have been conducted in Argentina, where such a budget was drawn up and comprised a series of quantitative estimates of the probable behaviour of the chief macro-economic variables —including private investment—and of the compatibility of public expenditure with the situation and needs of the national economy.

The continuing wide disparity between the plans and the conduct of economic policy is usually most pronounced in countries suffering from acute and persistent inflactionary pressures. Those countries are confronted not only with the practical problems associated with the level and system of prices, but with the substantive difficulty of reconciling the plan's objectives with the requirements of stabilization policies. Growing concern with this problem has led to the preparation of plans specifically designed for that purpose. However, what happens most often is that two unrelated and frequently contradictory policies are superimposed on one another: the policy implicitly or explicitly related to development plans or based on them, and the policy intended primarily to stabilize prices.

(iii) *Procedures for controlling the implementation of plans.* The lack of progress in the formulation and implementation of operational plans is clearly demonstrated by the non-existence of machinery for controlling the implementation of plans, evaluating the problems which arise and insisting on the rectifications which are patently necessary.

Not only must administrative organs be established to assume those functions; it is particularly necessary for evaluation techniques to be developed which will be applicable to Latin American conditions.

(f) *Specific investment projects*

There is no doubt that the lack of sufficient specific investment projects has proved a serious obstacle to the effective implementation of Latin American development plans.

This subject was examined in detail at a recent seminar at which a number of suggestions were put forward, which might appropriately be summarized here.[9]

One suggestion referred to the need for a very broad interpretation—particularly under present-day conditions in the Latin American economies —of the "project" concept, covering every unit of activity capable of implementing a development plan.

The persistent shortage of projects, despite the progress achieved in certain immediate factors which are usually regarded as decisive, posits the existence of other root causes. It appears that the shortage of projects is merely another manifestation of the weakness of the decision-making and implementation machinery, and is no more acute than it was before in absolute terms; in fact, quite the reverse. What seems to be happening is that traditional policies of unplanned development in one way or another provided incentives for public and private enterprise which led to the formulation of specific projects,

[9] The seminar in question was organized by the Latin American Institute for Economic and Social Planning and was held at Santiago, Chile, from 6-14 July 1965.

some of marked importance. There is still a continuous flow of investment decisions, some of which materialize in project form, but planning has imposed additional and much greater demands.

First, projects are now required to meet specific investment objectives and targets stated in the plans and to fit into certain over-all strategies. In so far as they are not clearly defined, these objectives and that policy do not provide sufficient incentives for suitable projects, nor do they in themselves represent strategic projects. The economic integration of Latin America illustrates this point: until the political decisions have been taken and political agreements concluded at the appropriate levels, no public or private initiatives in the form of specific projects can be launched.

Secondly, planning not only requires the initiation of a certain number of projects but also arranges them in the proper order of priority and determines the relationship between projects and groups of projects with due regard for their direct and indirect effects on the economy as a whole.

Viewed in this context, the problem of promoting, identifying, preparing, evaluating and executing projects is closely linked with the establishment of an effective planning system and with the necessary administrative reforms. Naturally, the difficulties of translating a development strategy rapidly into operational plans cannot be disregarded, any more than the difficulties connected with the shortage of trained personnel, experience and technological resources. When the first plans are drawn up, a high proportion of investment capacity—particularly in the public sector—is tied up in projects in progress, which can only occasionally be replaced by other projects better adapted to the new plans. In other words, the maturation period of projects of a certain magnitude tends to be longer, as suggested by the experience of the Bank, which found that a large power or transport project may take from three to five or more years from the time it is decided to undertake the economic and engineering studies to the time they are completed, the financing of the project can be approved and implementation started.

(g) *Availability of information*

Improvement of the planning process in Latin America is being hampered by problems of the availability and quality of the basic information on which it is based. The information is mainly, but not exclusively, statistical data.

There are serious deficiencies in the quantity, quality and timeliness of data that are basic to planning. Moreover, full justice has not been done to the statistical function within the planning effort. In general, national statistical offices occupy a very subordinate role in public administration as a whole; their employees are frequently ill-paid and their staff unqualified. Very few have adequate financial resources or mechanical equipment for the efficient collection and elaboration of data. From another standpoint, there are gaps in the legislation making it compulsory to supply certain data and, above all, in the machinery for giving effect to that legislation. The various sectoral, regional and local statistical services are not sufficiently co-ordinated and national statistical programmes have not been drawn up.

Problems have also cropped up in relations with the users, one being underestimation of the information requirements of the public administration and private sector. Moreover, proper facilities have not been set up to enable the offices providing the data to use them as a guide in decision-making. Relations with the planning offices in particular are usually characterized by sporadic demands for data made when plans are already in course of preparation. These relations have never been systematized, let alone developed into a mechanism providing a permanent flow of up-to-date information that would facilitate the periodic revision and evaluation of plans.

The quality of the data is uneven, depending on the sector to which they refer. Foreign trade statistics are the most accurate, followed by population data, while data on domestic trade, services construction, road transport and unemployment are particularly poor. When censuses are used as a basis for the work, there is a lack of continuity, one of the results of this being the preparation of a new industrial directory every time an industrial census is taken instead of the up-dating of an earlier edition. Delays are a common feature of the data processing, but in some cases attempts have recently been made to overcome this problem by using sampling techniques. Another shortcoming is the lack of a systematic and continuous series of indicators for tracing short-term changes in the economy. Lastly, there is usually a long delay before the data are published.

2. External problems

The limitations and obstacles cited have undoubtedly detracted from the effectiveness of planning, and can only be overcome by decisions taken in the countries themselves and by the progressive improvement of planning machinery. It should be noted, however, that the implementation of Latin America's development plans has been hampered and is still being hampered by serious obstacles created by the evolution of trade and financial transactions with countries outside the region.

These obstacles are known as "exogenous" factors, not only because they are largely beyond the country's control or because they arise from new circumstances which could not have been predicted when the plans were being formulated, but in particular, because they alter the economic context in which the plans must be implemented.

A review of recent trends makes this situation quite clear. In the short space of time that has elapsed since planning activities first began to gain ground, several important factors have assumed considerable significance: the insufficient and unstable growth of exports, external debt commitments, the need to replenish gold and foreign exchange reserves, and—as a result of those factors—the irregular trend of imports and the urgency of a policy of import restriction.

(a) *Export trends*

Exports expanded irregularly, as shown by the fact that the annual growth rates in terms of volume fluctuated between a high of 9.2 per cent in 1962 and a low of 2.2 per cent in 1964, while the figure for 1966 was 4 per cent. These averages for the region as a whole reflect occasional violent fluctuations in certain countries, resulting in sharp reductions in absolute terms.

Export trends in terms of current prices have been somewhat steadier. Nevertheless, thus far in the sixties, Latin America has lost a substantial proportion of its share in world trade. The sharpest drop was in its contribution to total United States imports—from about 21 per cent in the three-year period 1960-62 to less than 16 per cent in 1966—but there was also a marked reduction in its share of imports by the European Economic Community (from 6 to 5.5 per cent) and the European Free Trade Association (from 5.4 to 4.2 per cent). These decreases have not been offset by the substantial increase in intra-Latin American trade.

The recent trends were influenced by structural and institutional factors created by the preponderance of primary commodities in Latin American exports and their scant diversification, and by the limitations, obstacles and adverse conditions which continue to affect world trade. Although the problem may arise in part from the shortcomings of national export promotion policies, serious imbalances are expected to develop, judging from projections of the future value of exports based on trends over the past fifteen years and compared with the potential demand for imports. In the circumstances, by 1975 the trade deficit might well range from 4,600 to 5,500 million dollars at 1960 prices. This huge deficit will be further inflated by the sums required to finance outflows in the form of amortization, interest and profits, with the result that it would become impossible to obtain new inflows of foreign capital.

(b) *External debt*

The gross inflow of foreign capital has reached high levels and increased rapidly in the present decade, as shown by the fact that the public external debt for the whole region rose from 6,100 million dollars in 1960 to over 12,000 million dollars in 1966.

This is not reflected in an equally large net contribution to Latin American development financing. On the contrary, net external financing —defined here as the balance on current account—has fallen off considerably as a result of debt commitments: from 1,100 million dollars in 1961 it rose to its peak (1,230 million) in 1962, declined steeply to 500 million dollars in 1965 and recovered only partially in 1966 (950 million dollars). Variables which are strategic in the implementation of plans have not only shown a negative trend, but have fluctuated very widely.

The critical situation in some countries has prompted Governments to renegotiate the cumulative debt, consolidating and reconverting loans to mitigate the immediate effects on the balance of payments. However, considerable progress has been made in extending the scope of external financing to other fields of economic activity and in obtaining more favourable terms, although the interest rates on some foreign loans have increased in the last two years.

In addition, loans are generally repayable over a very short period. A balance sheet of the position at 31 December 1964 shows that, in accordance with the original repayment periods, the debt was made up as follows: 18 per cent repayable in less than five years, 28 per cent in five to ten years and 54 per cent over more than ten years. But the repayment periods applicable at that time reflected a critical position: 47 per cent of the total debt had to be paid off in the next five years, 24 per cent in five to ten years, and 29 per cent over more than ten years.

(c) *Other factors*

Other factors have further reduced the already feeble impact of the growth of exports on real import capacity, one being the need to build up international reserves to a reasonable level in the last few years. Latin America's gross gold and foreign exchange holdings in 1960 amounted to 3,000 million dollars, but dropped sharply to 2,200 million dollars in 1962; a subsequent recovery brought them up to 3,200 million dollars in 1965. In other words, 1,000 million dollars were used to build up reserves during those three years. Moreover, monetary liabilities, including balance-of-payments loans, were cut by 500 million dollars over the same period. In short, this meant a total reduction of 1,500 million dollars in the purchasing power of exports between 1962 and 1965.

The evolution of the terms of trade has had a similar effect. Although the trend has not been particularly unfavourable during the sixties, the losses due to the deterioration in the terms of trade since 1960 amount to roughly 1,000 million dollars for the region as a whole. Some countries have suffered more than others, Venezuela's losses amounting to 1,800 million dollars and Brazil's to not less than 500 million dollars during the same period.

(d) *Import trends*

The factors described above are responsible for the irregular trend of imports, and in some cases have necessitated a policy of import restrictions. This weakened the possibility of increasing supplies that were urgently needed for the implementation of development policy and plans.

The value of imports of goods and services in 1960 was practically the same as the value of exports: about 8,600 million dollars. Not until 1964 did Latin America reach the 1957 level of imports (some 9,300 million dollars). It is even more significant that in recent years imports expanded more slowly than exports, the trade surplus being over 1,200 million dollars in 1966. In fact, exports amounted to about 12,000 million dollars, compared with 10,760 million dollars for imports of goods and services.

3. Conclusions

Like every process, planning must be developed and improved. Thus far Latin America has gone through the first stage; it has established planning agencies, prepared a variety of plans, worked out consistent development policies with some success, allocated public resources more systematically, trained a large group of professionals in new techniques locally and accumulated a fund of valuable experience. At the same time, it has encountered limitations and obstacles including general lack of political support for planning, inadequate over-all development strategies, absence of effective co-ordination between policy and operational machinery, and other more specific drawbacks.

Measures to overcome those limitations and obstacles would represent a second stage of planning in Latin America, in which development plans would be better formulated and, above all, more efficiently carried out. Some conclusions from the foregoing analysis might usefully be analysed by national agencies and the competent foreign financial and technical co-operation organs.

(a) *National planning machinery*

(*a*) The planning systems thus far developed should be completed by renewed efforts in many areas and, in particular, by:

- (i) Establishing a closer relationship between over-all guidelines and short-term operational machinery, preferably by drawing up annual plans of operation incorporating decisions to mobilize and allocate resources and implementing detailed economic policy;
- (ii) Supplementing the process of formulating and implementing plans by that of periodic evaluation of results, and establishing appropriate organs for that purpose.

(*b*) Planning systems should be brought into line with long and short-term development priorities:

- (i) Through action to co-ordinate national planning with Latin America's economic integration aims;
- (ii) Through action to relate planning to the assimilation of new techniques, employment and training, income distribution and improvement of living conditions;
- (iii) Through action to relate planning to anti-inflationary measures.

(*c*) Stronger co-ordination should be established between planning agencies and the political authorities, the national administration and the private sector by:

(i) Carefully reviewing the relations between planning offices and top-level national authorities;

(ii) Ensuring that administrative reform programmes allow for proper co-ordination between planning bodies and the general, sectoral or regional decision-making centres;

(iii) Establishing or improving existing channels of communication with the various representative bodies of the private sector (political parties, trade unions, entrepreneurs' associations, etc.).

(*d*) Further research should be carried out to discover the most effective technical means of implementing the various planning activities. The following questions should be urgently considered:

(i) Methods and techniques for preparing annual plans (including such instruments as the national economic budget);

(ii) Methods and techniques for evaluating and supervising the implementation of plans;

(iii) Methods and techniques for formulating development policy with due regard for the maximum utilization of human resources, the economic integration of Latin America, the redistribution of income and a reasonable allocation of resources between social and economic objectives.

(*e*) It is imperative to improve data-gathering and data-processing so that reliable statistics and other data will be readily available for the preparation of plans and the supervision of their execution. To that end:

(i) The offices which collect, tabulate and publish information should be given greater autonomy and provided with additional staff and technical resources;

(ii) Basic programmes of urgently needed information should be prepared for priority action in order to ensure a steady flow of up-to-date data;

(iii) Machinery should be devised and put into operation for providing information on progress achieved in implementing plans.

(b) *External technical and financial co-operation*[10]

(*a*) Technical co-operation from international and other external sources in national planning activities should be encouraged. The need for such co-operation is greater than ever at the present stage, especially in the following areas:

(i) The study and dissemination of the methods and techniques referred to above;

(ii) The training of technical personnel in performing their present functions as well as those likely to become more important in the near future (annual plans, evaluation and supervision, etc.);

(iii) The exchange of experience between planning agencies in the various countries of the region.

(*b*) The provision of technical information and specific projections concerning the following questions should be systematically co-ordinated:

(i) The economic growth of the various Latin American countries;

(ii) World market prospects, by groups of products and by specific products;

(iii) Estimates of the developing countries' external financing resources and needs.

(*c*) External financing has exerted a profound influence on national planning activities. It is therefore essential to continue the progress already achieved in the following ways:

(i) By financing programmes of concerted action in many different fields, and, in particular, by replacing the old system of project financing by a new system which will ensure the over-all financing of development plans and supplementary and compensatory financing needs on suitable terms.

(ii) By extending amortization periods and lowering interest rates on foreign loans;

(iii) By allocating resources more flexibly, so that they are not made contingent upon the import content of investment and can cover local costs;

(iv) By more flexible use of external financing with a view to eliminating the conditions attached to certain loans;

(v) By financing support for national and international planning agencies.

[10] The following conclusions contain no reference to foreign trade despite its importance in the execution of Latin America's development plans, in order to avoid raising issues of world economic policy.

PLANNING AND PLAN IMPLEMENTATION IN LATIN AMERICA*

1. At its first session, the Committee agreed that it should place major emphasis in its future work on the problem of plan implementation.[1] Recent experience amply demonstrates that, while many developing countries have drawn up plans, few have been successful in implementing them. In view of the variety of the problems of implementation and of the need to consider these problems in concrete terms, the Committee considered that it would be desirable to discuss them within the context of specific developing regions.[2] Thanks to the generous co-operation of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning, it proved possible for the Committee at its second session to review experience and problems of plan implementation in Latin America. The Committee wishes to express its gratitude to the Commission and the Institute for the opportunity it has thus been afforded.

A. Some general remarks

2. Development planning is an instrument for the formulation and implementation of coherent development policies, expressed in both qualitative and quantitative terms. Consequently, a failure of planning is a failure in the design and execution of effective policies. Planning viewed as a social technique is not a substitute for development policy. This truism, however, seems to be widely forgotten. There is a tendency to assume that planning could supersede or even replace the framing of sound policies for economic and social development. Nothing could be further from the truth, and any notion that difficult policy decisions can be evaded by recourse to development planning should be promptly dismissed.

3. Development planning should be thought of solely as a set of accounting techniques. The arithmetic of plans—the quantification of objectives and of resource requirements—has too often been equated with the whole of planning. Though this is an important and necessary element, planning must deal with the larger social and institutional conditions for development. There is little disagreement today that adequate growth in developing countries demands vigorous action to bring about far-reaching changes in the social, economic and institutional structure. Such action, which in large part can only be qualitatively expressed, is often the primary condition for the achievement of development objectives. It is not meaningful to talk of the implementation of development plans if necessary policies for social change, such as land reform and income redistribution, or the necessary measures for social discipline, including fiscal and financial restraints, are avoided. In other words, the political will to develop and the ability to exercise substantial control over strategic activities in the economy are accordingly the inescapable conditions for the effective implementation of development plans. This ability can be particularly strengthened by appropriate development of the public sector, by

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* The following pages are taken from the report on the second session of the Development Planning Committee (E/4362) held at ECLA headquarters (Santiago, Chile, 10 to 20 April 1967). The members of the Committee consisted of: Roque Carranza, Economic consultant, Argentina; A. N. Efimov, Director, The Economic Research Institute of the Gosplan, Union of Soviet Socialist Republics; Max Millikan, Director, Center for International Studies, Massachusetts Institute of Technology, United States of America; Saburo Okita, Executive Director, Economic Research Centre, Japan; Józef Pajestka, Director, Institute of Planning, Poland; M. L. Qureshi, Chief Economist, Planning Commission, Pakistan; W. B. Reddaway, Director, Department of Applied Economics, Cambridge University, United Kingdom; Raúl Sáez, Executive Vice-President, Chilean Development Corporation, Chile; Germánico Salgado, Director, Department of Economic Affairs, Organization of American States; Jakov Sirotković, Professor, Economics Faculty, University of Zagreb, Yugoslavia; Jan Tinbergen, Professor, Netherlands Institute of Economics, Netherlands; Zdenek Vergner, Director, Research Institute of National Economic Planning, Czechoslovakia. The paragraph numbering differs from the original.

[1] See *Official Records of the Economic and Social Council, Forty-first Session, Supplement No. 14* (E/4207/Rev.1), para. 7.

[2] *Ibid.*, para. 18.

the assumption of a leading role by the State in investment and credit policy, and by the organized supervision of the activities of the private sector, including foreign enterprises.

4. Medium-term plans (for example, five-year plans) rightly play a leading role as a tool of planning in developing countries. These have to be designed within the context of a long-term strategy for development; and this, together with the fact that the planning of some specific activities demands a longer time-horizon, may make the formulation of long-term plans desirable. On the other hand, annual plans should properly be component parts of the planning system, serving to provide the needed flexibility in planning and the link between medium-term and short-term policies. It is the absence of an appropriate system of annual planning and of the co-ordination of budgeting policies with the plan which has impeded efficient plan implementation in many developing countries.

5. The national planning system has to be so established that it exercises economic influence and assures the realization of national objectives. Experience shows that this can be achieved by establishing national planning as a function of the highest executive authorities. In this way, it may become the real planning of national policies which can be effectively implemented. Both the correct designing of objectives and policy measures, and the implementation of plans depend unequivocally on the active participation of the policy-makers in the planning process.

6. At every stage of plan formulation and implementation, decisions have to be made about the policies to be pursued and the measures to be enacted, and these can be taken only by those in government with executive power and responsibility. In this sense, effective plan implementation begins at the early stages of plan preparation. Since the whole purpose of plan formulation is to reach decisions on economic and social policies to be pursued, plans have to be formulated by a process of successive approximations. Successively more specific drafts prepared by the planners have to be discussed with, and amended by, the policy-makers, the technical studies and policy decisions being brought together at each step. Through this process, general objectives are finally translated into concrete and consistent programmes of action.

7. Plan formulation is not an autonomous phase in planning. In a functioning planning system, the distinction between plan formulation and plan implementation is more formal than real. Planning takes place at all levels from the initial preparation of a general framework down to the planning for construction of a specific project; and it takes place in all phases of implementation as medium-term plans are broken down into progressively shorter programmes of action. Thus, the planning process has to be assimilated into the decision-making process of government as it affects development.

8. Planning is thus a function which has to be carried out by the government administration as a whole; it involves a triangular relationship between the political leaders, the planning agency and the various ministries or other public agencies. Strong support at the highest political level for the central planning agency is essential in countries attempting to introduce an effective planning mechanism. At the same time, a major function of the central planning agency in these countries is to promote the reorientation of governmental administrations around the work of development so that the discipline of the plan is adopted in decision-making. In addition to formal organizational arrangements, such as interministerial committees, various other steps can be taken to this end. The interchange of personnel between the planning agency and the ministries, and training programmes in planning for general administrators and technical specialists, have proved useful in many countries.

9. Appropriate means should also be found to enlist the co-operation of non-governmental public or private organizations and institutions in plan formulation and implementation. Such co-operation and consultation, organized in a manner suitable to the social and institutional conditions of each country, are specially important in strategic sectors of economic activity. Co-operation with the private sector, including agriculture, should promote its performance in accordance with the plan through the working of the market mechanism as well as through direct planning. It is extremely important that the Government take the necessary steps in such fields as fiscal policy, tax reforms, credit policy, price policy and agrarian reform so that the market mechanism may function better; through this mechanism, specific actions can then be taken to expand or contract certain kinds of output in conformity with the plan.

10. A development plan is an instrument of action; it is not merely a diagnostic study or an expression of hope. Plans cannot be implemented unless they define clearly the policies, activities and projects to be carried out; and these have to be adequate for the achievement

of the planned objectives and targets. Nor can plans be executed if the physical and financial resources required for their programmes exceed available supplies; the mobilization of resources has therefore to be a principal concern of development policies. A plan as a programme of action should, moreover, specify so far as possible the time phasing for initiation and completion of the various activities and projects to be undertaken, taking into account the many interdependencies which exist between related outputs and inputs.

11. Annual or other short-term plans greatly assist the implementation of medium-term plans. They not only permit the more detailed specification of programmes of action but can also serve to ensure that necessary adjustments in short-term measures are made within the confines of medium-term objectives and policies. Greater attention should generally be paid to short-term planning and national budgeting as continuing activities linking current policies with medium-term objectives. This link can also be strengthened through the multi-annual planning of components of the fiscal budget. Experience also shows that the annual elaboration of multi-annual plans (e.g. two-year plans) has been found useful in some countries. Preparation of annual plans may, however, sometimes lead to the necessity of revising the objectives of the medium-term plan on which the annual plan should be based, for reasons such as unpredicted changes in both internal and external conditions or the inconsistency and incompleteness of the original plan itself. In that case, the medium-term plan should be carefully scrutinized in the light of the latest information available and the necessary improvement should be introduced in connexion with the preparation of the annual plan. There is a further aspect of annual planning which merits attention. Given the conditions prevailing in most developing countries, in order to assess whether a tolerable equilibrium will be maintained over the next year, it is necessary to estimate not only the likely demand-supply balance at the aggregative level but also the likely balance in markets for critical commodities and productive resources, such as foreign exchange, food, power and transport. No general prescription of the kinds and number of specific balances which would be relevant can be offered; they will vary from country to country but they are generally a necessary tool for assessing the consistency of short-term policies.

12. The reporting and supervision of progress are necessary components of plan implementation. This is not done for the historical record but as a tool for controlling implementation. Procedures for reporting and evaluation have to be built into the plan itself, since progress in implementation cannot be assessed unless standards of performance have been previously specified. At the level of projects, it should be possible to establish, at least for major projects, a properly phased construction schedule together with a system of reporting which will permit timely, corrective action to be taken, whenever necessary. Further, suitable indicators should be devised to detect incipient shortages or other divergencies between expectations and reality; and to be operationally uesful, these should be available as promptly as possible. The indicators might also include information on costs and productivity.

13. Shortage of technical personnel in the developing countries is one of the serious obstacles to the implementation of their development plans. In this connexion, the various programmes of technical assistance play a useful role in that they partly make up for this deficiency. However, the developing countries would be able to make better use of the technical assistance facilities available to them if they had, as a part of their medium-term development plans, comprehensive programmes of technical assistance required for the implementation of their development plans. Such programmes would help in the determination of priorities and would provide a useful basis for their requests for technical assistance.

14. The successful implementation of plans in developing countries is also conditional upon a favourable external environment. Thus, the will to promote development needs to be shared by both the developing and the developed countries. The volume of external resources and technical assistance made available by the developed countries through favourable trade and aid policies conditions progress in the implementation of plans. The contribution of the international community to the growth of the developing countries during the present Decade has been inadequate. It is therefore necessary that the developed countries commit themselves more strongly. Perhaps no new institutions are needed, but an evolution of the activities and operations of existing international institutions is called for. Thus, it is conceivable that a general pledging meeting might be held, as a logical extension of the pledging meetings already usual for the United Nations Development Programme (UNDP), the World Food Programme and aid consortia. Other arrange-

ments involving, for example, the World Bank group of organizations are also conceivable, implying the possibility of member States deciding to make contributions that such an institution deemed necessary. The Committee is of the opinion that, while such innovations should form part of the programme of the second Development Decade, action to initiate changes is urgently needed now in view of the unsatisfactory progress so far attained.

B. Planning and plan implementation in Latin America

1. *Background*

15. The planning activities undertaken by the Latin American countries have been dictated by a variety of factors: the growing number of obstacles hampering economic growth which call for more effective and consistent action; a better grasp of regional development problems and of the need to establish priorities among the objectives sought and to select the most appropriate methods of achieving those objectives; and new programmes and procedures for external assistance, made contingent upon internal efforts to mobilize resources and introduce structural reforms under broad economic and social development programmes.

16. By the end of the 1950s, it was becoming increasingly clear that most of the Latin American economies did not possess the dynamism necessary to maintain moderately satisfactory rates of growth, eliminate serious trade and external financing deficits, control internal inflationary pressures, provide sufficient productive employment opportunities for a rapidly expanding labour force, improve the living conditions of the population, and fulfil rising expectations created by awareness of the vast possibilities generated by technological progress. Accordingly, the pivot of economic policy had to be economic and social development on all fronts, with due regard to the internal and external limiting factors.

17. Technical studies, which analysed Latin America's development problems, recommended criteria for the definition of a development strategy and suggested methods of preparing projections, helped to shape a comprehensive approach. Although the projections were intended as a basis for analysis rather than planning, their increasing use as a means of anticipating specific problems and discussing alternative policies gradually prepared the ground and furnished methodological instruments for the formulation of plans.

18. At the Punta del Este Conference in 1961,[3] the Governments of the American republics recognized that planning should become the basic instrument for mobilizing national resources for development purposes, for expediting the requisite structural reforms, for increasing efficiency and productivity and for soliciting more international financial co-operation. It was to constitute the essential means of tailoring efforts and external aid with a view to achieving a satisfactory development pattern and accelerating economic growth. At the same Conference, the participating Governments emphasized the value of economic integration, which is of vital importance for planning.

19. Since the needs were so vast and varied, spectacular results could hardly be expected over the short term. At the national level, "planning for change" aroused opposition on the part of groups or sectors which feared that it would endanger their immediate interests. Moreover, in Latin America the institutional framework was not adequate to ensure that instrumental economic policies (exchange, monetary, fiscal, agrarian, etc.) were properly geared to development policy requirements, and this must be borne in mind when analysing the efficiency of planning. Although planning can help bring about such an adaptation, where the political setting precludes this, the basic flaws in plan implementation should not be sought only in planning but mainly at the economic policy-making and management levels and in the degree of efficiency with which this process is carried out. Again, even where those adverse circumstances do not exist, the effective use of such policies implies far-reaching institutional reform which is difficult to achieve in a short time. So far as the external sector is concerned, some factors which determine the over-all economic situation in Latin America and which therefore condition planning have shown unfavourable trends. This is particularly true of the instability of exports and the capacity to import of several Latin American countries, including nearly all the biggest nations except Mexico.[4] External financial co-operation procedures also failed to make use of development plans in a way which would have enabled them to identify over-all national requirements in respect of external resources and to adopt appropriate financing procedures.

[3] Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level, held at Punta del Este, Uruguay, from 5 to 17 August 1961.

[4] For further details, see paragraphs 57-60 below.

20. Despite those difficulties, a useful store of experience has been built up, but it is too early to evaluate it properly. Until a short time ago, there had been only a few preliminary experiments in planning and certain sectoral programmes had been tried out. The basic data were not adequate for planning requirements and there were no methodological instruments whose efficiency had already been demonstrated in conditions such as those prevailing in the Latin American economies. Nor was there a flexible administrative structure, receptive to new functions and methods which deviated from the time-honoured routine.

21. Nevertheless, in this short interval the technical bases for planning have been laid and the training of planning personnel is going forward. Countries have established central planning offices, which have become focal points of innovation, and have drawn up their first general plans; more rational criteria are being applied in the allocation of resources, especially in the public sector; and, what is most important, planning has become a rather widely accepted principle.

22. Planning agencies have developed in different ways, depending on the extent to which they have been assimilated into the traditional government structure. Generally speaking, the tendency has been to make such agencies directly responsible to the Office of the President of the Republic. In some cases, there are intermediate advisory bodies which ensure the liaison between the planning offices and the President and his Cabinet, and in which the most important issues are analysed and discussed.

23. Table 1 presents a list of the planning agencies and indicates their composition. It includes both policy-making and purely technical planning organs. As a rule, the planning agencies assist the top-level policy-makers in an advisory capacity. In addition, they often have other functions, such as the promotion of specific activities, participation in external financing negotiations and co-ordination of external technical assistance.

24. Most of the planning offices have drawn up over-all medium- and/or long-term development plans, often covering periods from four to ten years; within the space of a few years, almost all Latin American countries had such plans. They usually consist of a diagnosis, the enumeration of specific economic and social objectives, global and sectoral targets, a very general definition of the reforms required and the areas in which economic policy should be applied, a few suggestions for the exploration and use of certain natural resources, more detailed public investment targets, and a rough estimate of external financing requirements. Subsequently, shorter-term plans were formulated, generally for two-year periods. These plans were frequently unrelated to the general plans, and failed to incorporate sufficient operational elements. Table 2 enumerates the plans drawn up in the various Latin American countries.

25. In any case, long-term plans have played a useful part as an instrument for starting to define over-all development policy and, in conjunction with related medium-term plans, they have helped the public sector to reach more rational decisions. However, the planning systems are still incomplete and the operational elements are usually missing, and this is another reason for the unsatisfactory implementation of planned developed policy. In the following paragraphs the various factors, both inside and outside the planning process, which have affected plan implementation are considered, and specific recommendations are made concerning priorities for the work still to be done in Latin America in order to make plans more viable and improve the operation of the planning system.

2. *The political setting for the planning process*

26. Many of the difficulties of preparing and implementing development plans derive from the opposition they encounter, as instruments of change, from ruling groups in several of the Latin American countries. Antagonism is displayed by those who think that an energetic development policy is or may be inimical to their interests, and indifference is often shown by other groups which fail to realize, or underestimate, the bearing that development policy and its instrument—planning—may have upon the fulfilment of their own aspirations. Another factor that has helped to shape the attitude of the ruling classes to planning is their disillusionment at not seeing the substantive change in methods of external co-operation which planning was expected to bring in its train. In some of the ruling groups in Latin America, the idea has prevailed that, since planning has been declared part and parcel of an external co-operation programme in the inter-American context, it is a device that enables countries to ward off or compensate for the effects of the chronic instability of the external variables influencing the development process, especially foreign trade, and to obtain the supplementary resources they require to implement their development policy. In point of fact, external co-

operation in trade has made very little headway, and, where financing is concerned, although public loans have increased in volume, similar progress has not been made in respect of procedures which would have a more stimulating effect on the preparation of plans: programme financing to bridge with foreign resources the gap of the entire development programme. This experience has led some of the ruling groups in Latin America to look on planning as a discipline which hampers their freedom of action without bringing worthwhile advantages at the international level. As a result of these reactions, the planning process in Latin America has often been cut off from the top-level decision-making centres and has met with responses ranging from aloofness to passive tolerance. Moreover, the bureaucracy itself has frequently regarded planning as alien to its own interests, which are, as a rule, identified with the traditional administrative procedures.

27. The marginal position of planning in the institutional structure and the instability from which it has suffered, have been the result of this negative attitude, and have necessarily produced their impact on the efficiency of planning activities. It has not yet been possible to institutionalize the planning process, and the main element of cohesion and the role of the planning office have had to depend upon the personal influence and prestige of the chief planning officer. This factor has a serious impact on the continuity of planning work.

28. When groups opposed to development policy have the upper hand, only greater political maturity will enable planning to be built into the institutional structure. But in so far as their opposition is grounded on mistaken assumptions or indifference prevails rather than antagonism, these attitudes may be partly attributable to the limitations of planning itself at the present stage. The weakness of the existing links with the decision-making centres has been aggravated by a number of lacunae in the planning process:

(*a*) At the time when decisions on plan objectives were largely dependent upon the alternatives submitted by the planners to the executive, it often happened that insufficient stress was laid on the importance of having a variety of social objectives (such as employment, balanced regional development, education, health, etc.), which were at least as valid as the need to expedite national development;

(*b*) Government requests for advisory assistance in connexion with urgent problems have not always been met promptly enough by planning offices;

(*c*) Generally speaking, no satisfactory arrangements have been made for liaison between those who formulate plans and those who are responsible for their implementation, including private enterpreneurs;

(*d*) Lastly, the fact that plans generally have not fulfilled the function of keeping government officials and the general public properly informed about the scope of the development effort has constituted yet another obstacle to social participation. Although many of these shortcomings are due to inexperience, the small number of planning experts available and the speed with which they have had to do their difficult work, remedial action is not being taken as quickly as might be desired.

29. A factor of a different kind, but again related to the overriding purposes for development action, has been the lack of other motivations such as might have been provided for the countries of the region by a vigorous drive towards economic integration. The experience of Central America bears witness to the impact on the planning process that may be produced by a multinational approach to the development problem. In this case, national development has been stimulated by the economic integration process, whose influence has strengthened planning because of the need to define policies in specific sectors, for example, manufacturing. In the rest of Latin America, the indeterminate character of integration trends has prevented national plans from defining those policies, a deficiency which in turn will make integration itself even more difficult in future.

3. *The weaknesses of planning itself*

30. While obvious advances have been made, the planning process in Latin America has encountered various obstacles that have loomed particularly large at the stage of plan implementation. Setting aside the defective institutional organization for the management of economic policies, and focusing attention only on planning proper, these difficulties are, in the main, due to shortcomings in the over-all conduct of planning activities and to lacunae in the design of the planning systems rather than to specific flaws in the various types of plan. To identify the main deficiencies in plan implementation, therefore, it is necessary to analyse the weak points of the planning system as a whole, among which the defects inherent in the plans themselves are only part of the trouble.

31. Shortcomings in plan implementation may depend upon the nature of the public administration in which the planning function is incorporated, on the actual substance or content of the plans themselves, on the procedures and methods applied in their formulation, and on the extent to which a consistent planning scheme has been completed, in line with the characteristics of the country concerned.

(a) *Deficiencies of the public administration*

32. The political circumstances already discussed are partly responsible for the difficulty of incorporating planning in the administrative structure, although these difficulties are also due to the inertia of the structures themselves and the sluggishness with which many Governments approach the work of modernizing them. Even planning itself has neglected this essential aspect of change, and plans that have explicitly outlined a policy of administrative reform are few and far between. Such steps as have been taken to reorganize the administration have very seldom made allowance for the specific requisites of organization for planned development policy.

33. The isolated position of planning is also due to the superimposition of modern institutions on machinery that is, as a rule, unsuitable for the implementation of development policy. To begin with, the earliest planning agencies were assigned advisory functions based on prototypes that did not take into account each country's special organizational features, or its requirements so far as action was concerned. The status of the central planning office and its relation to the Executive were not defined clearly enough. Consequently its status depended upon the outcome of a conflict between the various pressure groups in the public administration, and sometimes the initial planning nuclei suffered a loss of face. This downgrading was rendered more acute by the youth and administrative inexperience of the first groups of planning experts. There is no stronger testimony to the results of this lack of precision in defining the functions and scope of planning than the great difficulty some countries have found in co-ordinating economic policies of such vital importance for development as tax policy and monetary and exchange policies.

34. Accordingly, it is high time to consider, in the light of each country's circumstances, what place should be given to planning in the administrative structure. In some instances, this may entail a redefinition of functions and they should be redefined without bias. For example, in some special cases planning offices could be given a status such that they could exert direct influence on the decision-making process in the important sectors.

35. Another aim at this stage should be the completion of the planning machinery. In that connexion, the priority hitherto accorded to the establishment of policy-making machinery should be reconsidered, on the basis of a selective approach, with a view to laying more emphasis on the evaluation machinery. Effective evaluation and control constitute a valuable means of dovetailing planning into the administrative structure and influencing its operation.

(b) *Lacunae in the content of plans*

36. Planning in Latin America has not produced plans which satisfactorily fulfil their purposes as regards shaping and promoting development policy. For that purpose, as indicated before, every plan should formulate a strategy, i.e., indicate the most suitable pattern for the development of the economy and specify the means needed to ensure that development. In addition—and this function is important in Latin America because it is the first condition for social participation—plans should also inform those responsible for implementation of the precise nature of their responsibility and the part it plays in the general context of the plan, and inform the general public of the national effort which the plan demands. These functions are fulfilled, within the planning system, by a series of plans relating to different levels of policy and decision-making. The importance attached to these functions in each of the plans and the degree of detail involved depend on the circumstances in each country, but it is essential that the functions should be carried out by the planning system as a whole.

37. Frequently, Latin American plans either are not based on any specific development strategy or, in some cases, the strategy was formulated without due regard for such essential problems as employment. These limitations in defining development policy are not only of a serious substantive nature, but also made it difficult to analyse the meaning of the proposed targets, to motivate the general public and establish a proper basis for its full participation in the planning process. In many cases the result is that the planning offices are isolated from the decision-making centres and from society in general; this, in turn, makes it even more difficult to devise proper policies. In general, medium or long-term plans are one way of defining the viability of a development strategy. If a strategy does not exist or has not been made explicit,

planning loses its substantive force, and the whole emphasis shifts to the methodological aspects, to the detriment of actual plan implementation. The weakness of development strategy was particularly apparent in the fact that medium and long-term plans do not usually take into account such important aspects of employment, manpower training, and income redistribution targets and policies.

38. Moreover, plans have frequently failed to specify as clearly as they should the action instruments for both policy and investment projects. In the matter of policies, to mention the most significant omissions, insufficient attention was paid to the operation of the price system and the instruments affecting prices in the proposed scheme of action. In the conditions prevailing in Latin America, structural change, irrespective of the institutional action taken and other machinery, cannot be brought about without price and income policies as effective means of influencing the decisions of private enterprise, which, generally speaking, is a major participant in the product and investment of the countries of the region. Moreover, the financing of plans has not been given proper attention. This weakness in the treatment of policies and in the amount of detail in formulating projects must, however, be considered in relation to all the plans included in the planning system and not only to the general plan, where there is often every justification for not going into detail. In this connexion, the frequent reference to the lack of fully elaborated projects and specific detail policy outlines for achieving the targets of medium-term plans indicates, not an omission from those plans, but the absence of annual operational plans.

39. Due attention has not always been paid to the information function of every development plan, which is one of the requirements for participation. This function should meet two needs: those responsible for implementation should find in the plan the necessary elements for identifying their responsibilities, and the public at large, with the diversity of interests it represents, must be able to understand from the plan the objectives and guidelines of the development efforts in which it is to participate, and to what extent the plan takes into account community and private interests. In Latin American countries, for example, where there is a need for sweeping changes, this role of planning should be considered in the preparation and presentation of plans. Wherever the public has not been awakened to an awareness of development needs, it is perfectly justifiable that, as has usually happened in Latin America, the diagnosis of economic problems should be widely publicized. Similarly, there is a need for a pragmatic strategy, both economic and political, and this has not usually been worked out. Moreover, many plans use technical terminology which makes the language unintelligible for purposes of simple direct communication.

(c) *Defects in methods and procedures for the formulation of plans*

40. Another group of problems is related to plan formulation procedures and methods. In particular, the two basic problems arising in plan formulation are the inflexibility which makes it difficult to adapt the plan to the particular characteristics and conditions of each country and limited participation by the private sector, and even by the public sector, in the planning process.

41. Although the planning methods used in Latin America have become more flexible, they are still not flexible enough in many ways. The urgent need for action, the limited statistical and technical data and the lack of trained planners make it imperative to select planning procedures and machinery whose limitations will not substantially affect the quality of economic policy on the most important development issues.

42. The choice of the planners in this respect might be guided by a number of criteria, including the degree of interdependence among the various economic activities and the complexity of economic and social objectives which the plan is intended to fulfil. In this respect, the Latin American countries show substantial differences; they range from economies in which agriculture is the principal economic activity and which depend heavily on their exports, to relatively industrialized nations, some of which face the delicate task of integrating stabilization policies with their development programmes. Obviously, therefore, there are a great many methodologies to choose from, and that choice may be decisive for the viability, effectiveness and timeliness of the plan.

43. In every case, however, there is a second choice as regards the emphasis that should be placed on the various sectors or problems in the preparation of plans. Even in simple economies there are usually groups of very interdependent activities, and, since they suffer from a crucial shortage of resources, in the planning process the greatest caution should be exercised in estimating the sources and allocation of those resources. Those planning activities or processes indicate priorities in planning with regard to

the precision with which the relevant strategy should be formulated and the extent to which the action should be reasonably coherent.

44. In Latin American plans, as indicated above, those priorities have frequently not been respected as rigorously as they should have been and development strategy has therefore not been properly defined. The clear definition of policies for those activities or processes is an essential prerequisite for a planned development policy, in which that definition should be used as a guide in establishing priorities for the improvement of information and the creation of control machinery. The use of indicators is therefore a highly useful means of evaluation. The same sense of priority should also help to identify the aspects of the plan in which it is imperative to describe the action instruments in greater detail. Detailing those instruments means besides describing them clearly stipulating sequences, that is, interdependence in time between the various programmes, policies and projects, and their respective components. With few exceptions, these relationships have not been defined in Latin American planning and it is to be hoped that the selective use of up-to-date systems of management analysis will remedy this deficiency in future.

45. The importance of these decisions for planning efficiency is even more evident when the link with the Executive depends on timely action. In those cases, the establishment of planning priorities is essential if a prompt and satisfactory answer is to be given. Sometimes, when there is a serious shortage of information, planning offices prefer to wait until the difficulty is overcome, instead of trying to exert influence by formulating preliminary plans, accepting as a fact the existing gaps in information. This may result in a vicious circle in which the lack of sufficient political support might consolidate the initial passive attitude of the planning offices, and their inertia in turn might accentuate the lack of political support.

46. The other weakness lies in the absence of machinery for the participation of the private sector and even of the public administration agencies themselves. As regards the private sector, opposition on the part of some groups would seem to be inevitable as long as the decisions incorporated in the plans involve changes that will affect individual situations or interests; but this is no justification for lack of contact with the private sector and ignorance of its intentions, since in any event there is a wide measure of potential support of which little or no advantage is taken, owing to deficiencies in the planning process itself. Where the public sector is concerned, its failure to participate is due not only to defects inherent in the system, but frequently also to the existence of powerful autonomous agencies which are all the more unwilling to join in the planning process because it does not receive enough political backing.

47. The under-participation of both the private and the public sector is particularly detrimental to planning, with the result that reluctance to participate becomes greater still. All these circumstances seriously handicap plan implementation, for many public and private agencies do not feel that the content of the plan reflects their wishes and aims. Moreover, the lack of communication engenders ignorance of the real situation and behaviour patterns of the private sector, which makes it difficult to design the economic policy measures contemplated in the plan.

(d) *Incompleteness of planning systems*

(i) *Lack of operational elements*

48. One aspect of the problem which deserves special consideration is that relating to the non-existence of certain basic instruments which are indispensable for completing the planning system, in particular annual operational plans. Hitherto, the plans formulated in Latin America have only partly covered the planning process; in other words, the planning effort has not been completed either from the standpoint of the plans drawn up, or from that of the establishment and operation of efficient machinery for periodical revision of the plans themselves and supervision and evaluation of their implementation.

49. Many of the over-all plans that have been prepared incorporate projections based on the assumption of an improvement—sometimes of considerable significance—in former trends, and on the anticipation of possible difficulties, but they often fail to specify the measures that may lead to the desired results. Thus, these over-all plans leave a wide gap between macro-economic considerations and general lines of policy on the one hand, and, on the other, the establishment of implementation instruments in the shape of specific monetary, exchange, and fiscal measures, and operational plans. At the other extreme, some of the crash programmes that have been put into effect are simply a collection of piecemeal undertakings and specific projects, which in many cases have not been evaluated in the light of longer-term prospects.

50. The want of an effective "bridge" between the two dimensions of the planning effort has been equally prejudicial to both the resulting types of plans: to some because their practical viability is very slight, and to others because they do not aim at removing the basic obstacles to development. This situation seems to derive both from lacunae in the definition of development policy and from the failure to design and apply efficient instruments for the formulation of annual operational plans.

51. The above-mentioned defects can be described in terms of the following specific problems:

(*a*) There is a lack of annual operation (or other similar) plans which provide the policy-makers with a framework for making the following year's decisions with due regard to the aims of medium and long-term plans, the changing combination of circumstances which may make it advisable to alter over-all targets, and the operational capacity of the administration, which also changes with the actual implementation of the plan;

(*b*) If there is no system of annual plans, a weak and rather formal relationship exists between the plans and the government budget, since the degree of precision of the budgets and the monetary nature of the budgetary allocations do not correspond to the content of the medium-term plans. The programme and performance budgeting systems adopted in most countries of the region, while representing considerable formal progress, are not reflected in the planning process;

(*c*) In the absence of annual plans, in only a few cases are there partial forms of short-term planning that ensure the execution of projects of vital importance for plan implementation;

(*d*) Where attempts have been made to formulate operational annual plans, no specialized technical groups have been trained or specifically assigned to that work, which is necessarily complex and intensive; the technical groups which formulate medium-term plans have had to do the work sporadically; and

(*e*) The lack of annual operational plans and of integration of these plans with national budgets explain why there is no system in the schedules and procedures for periodic revision, organization and appropriate control of longer-term plans, since the usefulness of annual plans depends on their timely presentation and discussion, and this lack is, in its turn, a key factor in controlling the implementation of medium-term plans.

(ii) *Shortcomings in statistical and technical information*

52. In considering the instruments available for use in planning systems, one thing which stands out is the lack of adequate information-collecting and research machinery which is adapted to planning requirements. In the developing countries this machinery is necessarily unable to provide everything which would be desirable, but some improvements in the planning process would be possible if the limited resources available were deployed more scientifically in order to supply the crucial types of information needed for planning. In many Latin American countries it is particularly important to improve the basic information concerning the natural resources which might be developed.

53. In view of the foregoing considerations, the machinery both for providing statistical information and for research on techniques and natural resources usually has its own particular aims, which only in a few isolated cases, and seldom completely, coincide with the most urgent requirements of the planning process.

54. Striking deficiencies are observable in the quantity, quality and timeliness of fundamental planning data; in particular, one common feature of the relations between planning and statistical offices is the sporadic demand for data, which the latter compile at the time the plan is being prepared, but this has not been done systematically and still less has it been extended to the organization of a steady and timely flow of information that would facilitate the periodic review and evaluation of plans. Other shortcomings are attributable to the fact that indicators (danger signals, etc.) that would make it possible to follow short-term economic trends are not prepared systematically or on a continuing basis, and to the delay usually encountered in the collection, tabulation and analysis of data.

55. As regards research on natural resources, Latin America can be described largely as an unexplored continent, so that, notwithstanding the recent major advances, very much still remains to be done. In this respect, the fulfilment of plans depends on chance, because not enough is known about the natural resources that may be available in the course of implementation.

56. A similar problem in plan implementation is the lack of a clear definition of and research on the most suitable production techniques for developing countries. This question is closely bound up with strategy and, in particular, relates to the productivity and employment levels

to be attained. This problem also affects the actual production targets of the plan, as in the case of the gaps in knowledge regarding suitable techniques for tropical agriculture, and this could be fruitful field for the work of universities and other research institutions.

4. *External obstacles to plan implementation*

57. The uncertainties associated with foreign trade and the insufficiency of the net contribution of external financing are the main elements in the Latin American external sector which, in so far as they have limited the prospects of implementing development plans, have hampered the planning process.

58. Although the pattern of a large number of Latin American exports has been relatively favourable in the last few years, other commodities, such as tropical products, have continued to slump in foreign markets, and there are no signs of a change in the near future. Even in the case of coffee, which has maintained relatively stable prices in the last few years, there is reason to fear that the situation will become considerably worse. It seems likely, moreover, that several of the products which are now among Latin America's major exports and which have enjoyed more favourable market conditions in recent years will also show a downward trend; this would happen to meat, for example, if the European Economic Community put its discriminatory régime into practice.

59. Net inflows of foreign capital have not, moreover, improved sufficiently to support a determined economic development effort. In the last few years, as a result of the burden of servicing the external debt, which in many Latin American countries has reached an extremely high level, the sizable increases in gross external official financing have not been sufficient to expand to any great extent the net inflow of foreign capital into the region as a whole. Consequently, net inflows were lower than anticipated in the plans and in many cases insufficient to sustain the level of activity proposed. Furthermore, public financing procedures have not been developed in the direction that might have proved most favourable for planning: the use of programme loans intended to cover the total financing deficits of development plans. Balance-of-payments loans to meet emergencies have been granted more frequently than in the past and sectoral programme loans normally granted through national financial intermediaries have increased, but no headway has been made with the institution of financing systems which, by virtue of commitments established sufficiently well in advance, would help to place planned development policy on a firmer foundation and ensure its smoother development. Lastly, concern is aroused by the rising costs of external financing and more frequent use of tied loans. These factors are ultimately reflected in a decrease in the net inflow of foreign capital and a proportionate reduction of its contribution to the implementation of development plans at a time when the process might be starting to gain in speed and efficacy.

60. The combined effect of all the foregoing factors has been such that the capacity to import has remained low or has even declined in several Latin American countries, thus reducing their prospects of carrying out a planned development policy. Even where it is essential, in order to overcome those limitations successfully, for countries to encourage production for export and devise internal mechanisms for offsetting some of the effects of price instability and managing their borrowing policy properly, there is no doubt that the situation calls for an effort from those providing external co-operation. From this point of view, it is of vital importance that the international community should take action in order to make commodity markets reasonably stable and facilitate the sale of manufactures produced in the developing countries. As long as the commodity markets remain vulnerable, the timely granting of compensatory or supplementary credits would help to prevent interruptions in plan implementation.

61. With regard to the external official financing of development, the more frequent use of programme loans would be very helpful. This would give a decisive impetus to the consolidation of the planning process. The quality of the plans, the efficiency of the whole national planning system would have to be improved, and that would be precisely one of its greatest indirect advantages. In Latin America, moreover, under the Charter of Punta del Este, bases have been established for a multilateral system of evaluating plans and periodically reviewing their implementation. If the full potential of this system were turned to account, it could be used to facilitate programme financing.

62. The success of planned development policy in Latin America, while entailing sustained and increasing national effort, is dependent upon the effectiveness of external co-operation in certain critical respects, of which only the most important, relating to trade and financing, have been touched upon so far. Experience in the recent past, in Latin America as

in other regions, has shown that the increasing interdependence of individual countries makes it very difficult for developing countries to make much headway unless and until all the people of the world, especially the richer among them, join in a concerted effort to facilitate the developing countries' access to markets and supplement their financial resources. In the specific case of Latin America, it is of crucial importance that the region should be able to expand its exports of manufactures in addition to ensuring an adequate supply of its traditional products for export at competitive prices. This implies an energetic drive for structural reform and higher productivity and these developing economies are very unlikely to be able to achieve this unless more liberal and intensive external co-operation is forthcoming in the future.

63. As a result of the many obstacles indicated in the present report and the lack of experience that inevitably hampered initial attempts, planning has not yet been able to exert a decisive influence on the formulation of development policy. Although the effectiveness of planning is limited by factors outside the planning system itself, in particular political developments at the national level, the time has come to consider to what extent the experience acquired will make it possible to adapt its scope and methods in order to increase its effectiveness.

5. *Recommendations*

64. In order to accelerate the current trends towards improving Latin America's planning processes and bringing them to maturity, the Committee considers it important to point out that, although plan implementation depends partly on the content of plans and on the system and procedures for formulating them, the main reasons for their inadequate implementation include the indecisive nature and unsatisfactory application of economic development policies. Whether or not planning is used as an instrument of government, what is important is the climate or framework for development created by a proper stable and mature handling of the various policy instruments and the over-all efficiency of the economic system. Otherwise, not only will planning be ineffective but also the development process itself will suffer. In this respect, the following recommendations on planning and plan implementation assume that due attention will be paid to the frequently mentioned need to undertake economic and institutional reforms in the Latin American countries and to adapt economic policy instruments and the management which applies those instruments to the dynamic action required to attain the targets which the Latin American countries and the region as a whole have set themselves.

(a) *Recommendations in relation to the over-all framework for planning*

65. The Committee considers it essential to strengthen the links between the planning agencies, on the one hand, and the political authorities and the private sector, on the other. This may involve, *inter alia*, a thorough review of the type of liaison that exists between planning offices and the top levels of government, and the institutionalization of liaison arrangements so that their impersonal and more efficient continuity operation may be ensured.

66. The planning agencies should bring their activities, including the formulation of plans, into line with the following requisites:

(i) They should be in a position to submit basic development strategy options for consideration by the decision-making centres, with explicit reference not only to the expansion of production but also to the social objectives that are of the greatest importance for the individual country concerned (for example, employment);

(ii) Requests for guidance on economic policy problems in relation to development objectives should be promptly met;

(iii) The private sector should be given adequate opportunities to participate in all stages of the planning process, in accordance with each country's organizational levels and procedures.

(b) *Recommendations in relation to the public administration*

67. The Committee considers it imperative to strengthen the links between planning offices and the public administration in general, and to adapt the latter to planned action requirements. This may involve, *inter alia*:

(i) Precise definition, first of the status of the planning office, and second of its specific role in relation to certain aspects of economic policy (public investment, credit, fiscal and exchange policies, external borrowing, etc.). An unremitting effort to secure active co-operation between the executive offices and the policy-makers at all levels, institutionalized in some cases through interdepartmental committees, might make for closer co-operation in the planning process on the part of the public sector;

(ii) Administrative reform, accompanying the formulation of development plans and devised in the light of development policy requirements, and at the same time providing for an over-all improvement in the status of public officials, especially at the intermediate levels of policy-making and decision-making, by means of the appropriate definition of ranks and categories.

(c) *Recommendations in relation to the content of plans*

68. The Committee stresses the need for the various countries to define development strategies which will indicate the necessary steps or stages of action to implement them in relation to genuine national objectives, as well as the relevant guiding principles of policies. These national strategies should serve to link the plans essentially with the completion of stages or phases of the strategies themselves. The national strategies should be progressively co-ordinated within a regional context.

69. Planning could be strengthened and the integration process expedited if the efforts that have to be made in defining national development strategies were to be extended to the Latin American region as a whole. The general or ill-defined character of integration policy should not preclude research on alternative development strategies for Latin America as a whole, in which integration and development are tackled simultaneously. The fact that no development options have been presented with specific reference to the integration process impedes the adoption of policy decisions and hinders the possible co-ordination of national plans even among adjacent countries. Furthermore, the formulation of alternative regional development strategies would provide bases for the discussion of Latin American integration, so that the negotiation of instruments would be geared to substantive and specific objectives.

70. As regards specific problems connected with the content of plans, the Committee suggests that attention should be given to the following points:

(i) The relation of planning at the national level to the formulation of objectives and strategy for Latin America's economic integration;

(ii) The relation of planning to the problems of assimilating advanced techniques, the employment and training of manpower, income distribution, and improving the living conditions of the population;

(iii) The need to devote more attention to fiscal policy, not only for the purposes of providing the necessary resources and adapting tax systems to development requirements, but also with the aim of formulating, should the need arise, compensatory policies in order to prevent production for export and investment in export activities from being discouraged by short-term fluctuations in external prices.

71. In particular, the Committee considers it extremely important to analyse the problems arising in plan formulation and implementation when anti-inflationary measures are being adopted at the same time. The existence of inflation and the application of anti-inflationary policies not only create highly complex problems in planning, but make planning even more necessary for the purposes of shaping and co-ordinating development and stabilization policies. In such circumstances, it is important to have an efficient system of operational annual plans and short-term action programmes. Within the framework of operational annual plans, it is possible to fix annual targets which will be compatible with the stabilization policy, and to make a detailed analysis of monetary, fiscal and other programmes which will be consistent with the objectives for the following year. The Committee recognizes, however, that this is a vital subject which should be discussed and analysed more closely and in greater depth.

(d) *Recommendations in relation to planning methods*

72. In view of the technical limitations of planning in Latin America and the need to act promptly and speedily, the Committee recommends the use of a flexible criterion in selecting plan implementation procedures and planning methods. Plans and planning machinery should be adapted to the particular conditions of each country; they should be designed to overcome the really important problems, without imposing a complex task beyond the capacity of the public administration. This recommendation should not be understood to mean that, at this stage, it is inadvisable to use the best techniques available if they are relevant to the characteristics of each economy; nor does it imply that efforts should no longer be made to overcome those technical limitations, and thus be able to

use more rigorous methods in future. The recommendation merely calls for a pragmatic economic approach to planning, especially as regards the use of the inadequate resources available in information and in planning and supervisory personnel, without prejudice to constant improvement in the quality and precision of planning.

73. Without prejudice to the previous recommendation, technical instruments for the effective conduct of the various planning activities should be made the subject of more thorough study and research. In this connexion, such topics as the following seem to deserve particular attention:

(i) With regard to planning techniques, the identification of branches of production on the critical path, in which imbalances between supply and demand may seriously affect relative prices, or lack of care in time-phasing may prejudice the implementation of the plan as a whole; consideration should be given to the possible utility, for the purpose of implementing plans and their segments at the sectoral, regional and project levels in the developing countries, of such techniques as critical path and network analysis;

(ii) Price and income policies, and their use as instruments for the reallocation of resources;

(iii) Methods and techniques for more effective production of the demand for and the supply of human resources and for planned expansion of this resource;

(iv) Methods of analysing the implications for national plans of measures for promoting the integration of the Latin American countries;

(v) Better ways of estimating the consequences of alternative policy measures and plan strategies for the distribution of income both among different groups in the population and among regions;

(vi) Improved techniques for analysing the consequences of alternative allocations of resources as between economic targets and social ones;

(vii) Improved procedures for diagnosing the critical obstacles to increase agricultural productivity and for devising policy measures to overcome them.

(e) *Recommendations on the need to complete planning systems*

74. The need to complete the planning systems that have been developed so far entails additional action on several fronts, of which the following two are worthy of special mention:

(i) More effective complementarity is required between general orientation plans and the machinery for short-term action, preferably in the form of annual operational plans embodying the decisions necessary for mobilizing and allocating resources and involving detailed economic policy programmes;

(ii) There is a need to supplement the functions of preparing and initiating plans by that of periodically evaluating their execution, taking prompt remedial action where necessary, and setting up the necessary machinery for the purpose.

75. It is imperative to improve the methods of data collection so as to ensure the ready availability, quality and timeliness of the statistics and other data required for formulating plans and supervising their implementation. It will therefore be necessary, among other things, to:

(i) Prepare basic programmes for the more important items of information so that they are given priority and a continuous flow of up-to-date information is maintained;

(ii) Upgrade the organs responsible for data compilation, tabulation and publication, and provide them with more staff and technical resources;

(iii) Pay special attention to the provision of statistical data for the preparation of short-term plans and the co-ordination of monetary and fiscal programmes with development targets;

(iv) Indicate priorities and critical points for research on natural resources;

(v) Determine which technologies are suited to the stage of development of each individual country.

(f) *Recommendations on external technical and financial co-operation*

76. International technical co-operation in national planning efforts must be maintained and intensified. Far from diminishing, present needs are growing, particularly as regards the following points:

(i) Research on and dissemination of methods and techniques in connexion with the aspects referred to in the previous paragraphs;

(ii) Training of technical planning personnel, both in their present functions and in those which they will have to undertake in the near future (annual plans, evaluation, supervision of implementation, problems of strategy formulation, etc.);

(iii) Interchange of experience between the national planning agencies of the different countries, both within and outside Latin America;

(iv) Studies on the co-ordination of national plans on the basis of development strategy options for the region as a whole;

(v) Stronger technical assistance support and more effective utilization by Governments of the technical assistance for planning provided through international agencies and the institutions maintained by them; in that respect, Governments and agencies should be guided in the formulation and implementation of technical assistance programmes by the Committee's recommendations on planning and plan implementation. Also important is co-ordination between the international agencies providing technical assistance for planning and international financial agencies, in addition to the internal co-ordination between the various agencies working in this field in the different regions of the world.

77. The supply of technical information and specific projections on aspects such as the following need to be systematically co-ordinated as a matter of priority:

(i) The economic growth of the different countries;

(ii) Prospects in international markets as a whole, by products and by groups of products;

(iii) Forecasts on the availability of external financing and the needs of developing countries.

78. In respect of external financing, it is important that substantial progress should be made in the following directions:

(i) More frequent use of programme financing procedures, and consolidation of systems which might help to ensure that they are adopted as widely as possible in the near future; special mention may be made of the multilateral and independent evaluation of development plans, the conclusion of agreements on certain minimum standards of quality for the plans in question and the selection of criteria for evaluating progress in plan implementation;

(ii) The granting of adequate compensatory or supplementary credits;

(iii) Improvement of the average terms of external official financing with respect both to amortization periods and interest rates and to the restrictions on the use of funds lent for purchase abroad.

DISCUSSION AND RESOLUTION ON DEVELOPMENT PLANNING AT THE TWELFTH SESSION OF THE COMMISSION*

The question of development planning in Latin America was given special attention at the twelfth session of the Economic Commission for Latin America (Caracas, 2 to 13 May 1967). A Committee was set up to examine it, and its report was adopted at a plenary meeting. The recommendation put forward by the Committee was also adopted by ECLA as resolution 263 (XII) of 11 May 1967. The resolution and a summary of the Committee's preceedings are given below.

I

Discussion

1. The Commission based its discussion of development planning on the secretariat document entitled "Planning in Latin America" (E/CN.12/772). It also took into account the provisional text of the section on Latin America *in the report of the second session of the* Committee for Development Planning.

2. Both in the background documents and during the discussions, the view was expressed that the time was ripe for an analysis of planning problems. Planning in Latin America had gone through its first stage, so to speak, and very significant advances had been achieved. However, in several instances progress had not been maintained, and there had even been some definite setbacks, which, unless counteracted, would foster or strengthen a growing scepticism about planning.

3. Only a short time has elapsed since systematic planning was first started in Latin America. Hence it is easier to evaluate the progress represented by the establishment of specific planning instruments, the training of specialized personnel, the adoption of more rational criteria for the allocation of resources, the progressive elucidation of development problems and the measures required to solve them, and many other direct and indirect contributions attributable to planning.

4. It was pointed out in the discussion that while great strides had been made, serious difficulties and obstacles were impeding the improvement of planning systems and plan implementation. In several cases, once the momentum acquired by preparing the first over-all plans had spent itself, the tempo slackened when it came to expressing them in terms of economic policy programmes and operational plans. At the same time, the definitions of long-term development strategy have continued to overlook basic aspects of development policy, and machinery for the review, updating and evaluation of the plans formulated has not been established.

5. Some of the problems are due to internal causes, ranging from factors of a very general nature, such as the continuity or the extent of political backing for planning, to others related to the defective functioning of the planning machinery. In addition, there are difficulties of external origin, mainly related to the instability, unsatisfactory terms and insufficient growth of external trade and financing.

6. The discussions of the Commission gave rise to a comprehensive exchange of experience among the participants, which demonstrated the considerable progress made in some countries in some respects and the various obstacles encountered. Broadly speaking, the conclusion was drawn from this exchange of experiences that defects in plan implementation are the result either of deficiencies in the planning process as a whole, or of limitations inherent in the institutional and economic environment in which that process develops. These limitations, in combination with the stage of maturity reached in the conduct of planning activities, help to account for the differences in the amount of

* See the report of the twelfth session (E/4359), pp. 66-71 and 82-84.

progress made by the countries of the region. Clearly, therefore, the improvement of planning systems cannot in itself ensure speedy success.

7. The statements made in the Commission indicated that in some countries progress was easier because the planning effort was carried forward under conditions in which a specific development strategy could be applied because it was supported by determination on the part of Governments to take action. In one case, planning began at a time when the country's development had to be reoriented in accordance with a growth model based on import substitutions; abundant resources were available for that purpose, and the enterprise was favoured by a change in government. In another, planning was stimulated by a decision to integrate their economies on the part of a group of countries where integration opened up significant new import substitution opportunities at the regional level. In a third instance, planning served as an indispensable instrument for implementing the decision to reorganize the economy along socialist lines. A different situation prevailed in other countries, where the planning effort was launched at a time when the growth potential of import substitution was beginning to weaken, and new development strategies, not yet sufficiently clearly defined, were required. Of course there are also intermediate cases in which circumstances have been propitious for the partial progress described by a number of delegations in respect of regional programming within individual countries, the devising and application of short-term operational measures and the strengthening of certain public investment or financing programmes.

8. Clearly, then, one of the main objectives of planning must be precisely to help define a viable development strategy. In the course of the discussion, it was repeatedly pointed out that, in the absence of clear-cut development policies, it was much more difficult to give a pragmatic content to the planning effort, and formal or methodological considerations were apt to predominate; that the planning agencies had fewer chances of rapidly acquiring the necessary prestige, and incentives for close contact with the government authorities were also fewer; that it was harder to find leaders and skilled personnel to promote and sustain the planning movement; and that there was little likelihood of achieving a consensus on basic development objectives, and therefore of compatibility between the primary concerns of the national authorities and those of the basic sectors of the community to the content of the plans. This set of problems becomes all the more complicated if, as is generally the case, there are also external trade and public financing problems which make it more difficult to reconcile long-term objectives with the urgent demands of the moment.

9. From the national experiences described in the Commission it can be inferred that since planning is a new process, it will not mature or be consolidated quickly enough unless there is continuity in planning activities and stability in the composition of the technical teams responsible for planning. In some cases setbacks or lack of progress are linked to changes of government which affect planning machinery, although, of course, in other cases such changes might have favourable effects. Hence, it is important that plans should reflect initiative, ability and a technically objective approach, should be linked from the outset to the problems which directly concern the policy makers, and should effectively meet each country's priority needs.

10. Some of the country experiences described also stressed the influence which planning could exert on the administration depending on its flexibility and efficiency. In some cases, it has been possible to give the planning organs greater weight in the administrative structure and gain acceptance for technical and economic criteria. If, on the contrary, as has been the case in other countries of the region, planning has to coexist with an antiquated but time-honoured public administration, there is a stronger tendency for it to work in isolation, unless substantive programmes of administrative reorganization are undertaken at the same time.

11. These difficulties were identified by the Commission on the almost unanimous assumption that effective means of overcoming them could be found within the framework of the market economy system. But one delegation expressed the opinion that planning could not be successful in the political and economic framework existing in most of the Latin American countries, since fully effective plan implementation would call for radical changes producing a situation in which the State could adopt direct decisions on the allocation of basic resources.

12. With due regard for the problems connected with the general content in which planning takes place, the Commission also discussed more specific aspects of the question. For example, it was stated that long-term plans and immediate action programmes should be con-

current and complementary. Both to facilitate the rapid consolidation of planning machinery and as part of the permanent function of planning, it is essential that broad general principles should be converted into short-term approaches and policies, including policies designed to reconcile development objectives with the control of inflationary pressures and other imbalances.

13. The experience of some countries has also produced some interesting results in the strengthening and placement of technical cadres. Unless planning bodies acquire prestige and status in the administration, there will continue to be frequent shifts of top-level officials. On the other hand, planning offices which have greater prestige cannot only retain their best qualified staff, but can transfer some of the technicians they train to other administrative bodies, thus strengthening the links between the latter and the central planning machinery.

14. Another subject discussed by the Commission was that of relations between the planning machinery and the entrepreneurial, labour, rural and other social sectors. Their participation is important, even if there are disputes on planning policies, since lack of communications deprive the planning bodies of very valuable information concerning opinions, possible reactions to alternative economic policy measures or constructive suggestions. Their participation, moreover, is one of the important means of gaining support for and strengthening the action of planning, and contributes materially to the achievement of plan objectives.

15. Throughout the discussion, the Commission recognized that all these questions have methodological aspects which must be studied in depth and that planning systems should be completed. In this connexion, special emphasis should be placed on the consideration of annual plans, the improvement of procedures for data collection and research and of methods for dealing with such problems as the control of inflation, income distribution and employment policy. It was generally agreed that national development plans should deal explicitly with the various problems relating to human resources.

16. In discussing procedures for short-term programming, consideration was given to the progress made in several countries in such matters as the preparation of short-term models, economic indicators, investment-financing, balance-sheets, and follow-up of the execution of basic high-priority projects. Attention was drawn to the need for closer co-ordination between planning and monetary and fiscal policy.

17. The Commission recognized the need to formulate and implement annual plans as an instrument for combining and integrating the elements arising from long-term policy, the effects of market trends and improvements in the operational capacity of the national administration. There was an exchange of views on the problem of specialized personnel to perform those duties. The opinions expressed on this subject were, on the whole, in favour of the idea of allowing groups of officials to specialize, provided that their work remained closely related to that of the staff dealing with the longer-term aspects of planning.

18. Throughout the discussion, repeated stress was placed on the co-ordination of national development plans with Latin American economic integration. Unless deliberate efforts are made towards that end, rigidities may be accentuated by integration, it may be difficult to accelerate the pace of integration and to recondition certain activities, or production methods may be developed which are inefficient from the standpoint of regional integration. Moreover, a purely restrictive approach, i.e., one directed towards ensuring that the content of national plans does not endanger regional integration, is not satisfactory either. The aim should be rather for national planning to make a positive contribution to the achievement of integration targets.

19. It was also agreed that the co-ordination of plans and progress in national planning were interrelated, since the harmonization of national plans for the purpose of achieving integration targets would increase the need to improve those plans, so that each country could form a clearer idea of the opportunities offered by integration and weigh its effects on the domestic economy. Each country would then have objective technical criteria on which to base action to ensure its participation in the integration process.

20. Some delegations emphasized that agreements should be concluded as soon as possible to foster the exchange of experience as a first step towards the gradual co-ordination of some features of national programmes and the more rapid implementation of complementarity arrangements, joint programmes in basic industries and sub-regional agreements and towards expediting the balanced development of infrastructure and the utilization of technological and scientific advances, in response to the desire for integration expressed in the Declaration of the Presidents of America. One delegation pointed out, however, that the co-

ordination of national plans could take place only within the framework of absolutely uniform objectives and intentions. Other delegations expressed the view that those questions should be dealt with in accordance with the procedure of existing integration systems and the decisions made at the Meeting of American Chiefs of State at Punta del Este.

21. That view is based on the premise that the application of the decisions on Latin American economic integration made at the Meeting of American Chiefs of State must to a great extent be a planned process and that it will be all the more effective as greater progress is made in national planning.

22. The Commission devoted some attention to the external obstacles to plan implementation described in the background documents. In that connexion, the view was expressed that the adoption of new procedures for external financing directly related to the preparation and implementation of development plans had proved to be a powerful stimulus to Latin American planning, and similarly, that subsequent trends in external assistance and some tardiness in plan evaluation had had adverse effects on those efforts.

23. The Commission agreed that in view of the progress achieved, balanced against current difficulties and the new demands made on planning at the present stage of Latin American development, it should emphasize the need to intensify efforts to improve what had already been done and to continue the technical help being provided by a number of institutions. These considerations were summarized in resolution 263 (XII) on planning in Latin America. With regard to that resolution, one delegation requested that note should be taken of its observations concerning regional integration and the decisions taken at the recent Punta del Este meeting, as recorded in the summary records (E/CN.12/AC.59/SR.1-5).

II

Resolution 263 (XII) on planning and development

The Economic Commission for Latin America,

Considering that through the planning efforts of the Latin American countries significant headway has been made as regards the direction and effectiveness of economic policy, the identification of the obstacles hampering development and the establishment of priorities for, and the co-ordination of, public sector activities,

Recognizing that the problems arising at the present phase of Latin American development call for a number of substantive improvements in the strategic features of plans and for new approaches to be worked out in greater detail in such aspects as regional economic integration, the pattern of external relationship, employment and income distribution policy, and the relations between those aspects and industrialization policy,

Bearing in mind the need to accelerate the process of improving planning systems, with special reference to the implementation phase and the extent to which plan objectives are attained,

Recognizing that planning systems have not yet been fully organized and that it is essential to improve their efficiency and balance by introducing new features to complete their sphere of action, particularly in the matter of links between long-term objectives and the need for immediate action,

Taking into account that planning is hampered by factors of different types including those of an administrative and technical nature, and by obstacles created by the conditions governing foreign trade and external financing,

1. *Takes note* with satisfaction of the study on planning in Latin America (E/CN.12/772), prepared by the secretariat, and of the section relating to Latin America in the provisional report of the second session of the Committee for Development Planning;

2. *Recommends* that the Latin American Governments should intensify their current efforts to improve and extend the scope of planning systems in accordance with a development strategy appropriate to the economic and social circumstances of each country and of Latin America, and should, in particular:

(*a*) So far as the countries signatories of the Declaration of the Presidents of America at the Punta del Este meeting[1] and the countries acceding to it are concerned, strive, when preparing their national plans, to co-ordinate them in order to attain objectives in line with the decisions concerning Latin American economic integration made at that meeting;

(*b*) Endeavour to include specific aims and programmes for export promotion, employment and income distribution policies, and structural

[1] Meeting of American Chiefs of State, held at Punta del Este, Uruguay, from 12 to 14 April 1967 (see OAS official documents, OAS/Ser.K/XIV/1.1).

changes, in such a way as to make them compatible with over-all targets for economic growth and the promotion of agriculture and industry, while devoting special attention to the effective programming of human resources;

(*c*) Endeavour, with regard to the allocation of resources, prices and general financial monetary and economic policy, to forge more effective links between long-term planning and short-term measures;

(*d*) Encourage the reform of administration and information systems in order to enable them to meet the requirements of planning, and programme supervision and evaluation, and the improvement of the methods used in plan formulation;

(*e*) Establish action procedures to ensure the support and participation on a rising scale of entrepreneurs, urban and rural workers, and other social groups in the various phases of planning and take steps to institute appropriate procedures for spreading the idea of planning and of plan implementation among the broad masses of the population;

3. *Requests* the secretariat and the Latin American Institute for Economic and Social Planning to prepare technical studies, designed to facilitate fulfilment of the objectives referred to in operative paragraph 2, to endeavour to intensify, in co-operation with the International Labour Organisation and other international specialized agencies, their technical contribution to human resources programming, and to promote the exchange of experience among the planning offices of member States;

4. *Reaffirms* the conviction of the Latin American countries that there is a need for the system for the programme financing of development plans to be expanded and for the terms of international credit to be adapted to the special circumstances of Latin America by, *inter alia*, extending repayment periods and grace periods, reducing rates of interests and removing restrictions which tie the use of funds to certain sources or countries.

INCOME DISTRIBUTION IN LATIN AMERICA*

INTRODUCTION

Studies on income distribution deal with three main factors: first, the characteristics of features of distribution patterns and the forces which influence or create them; secondly, the possible influence of different income distribution structures on the force and nature of economic development; and, thirdly, questions related to redistribution policy, i.e., the means and purposes of altering a given distribution pattern.

Although these three aspects certainly do not cover the whole of this vast problem, each of them presents a great many facets which cannot easily be analysed concurrently or exhaustively. Consequently, only the main issues have been dealt with first generally and then with an increasing degree of precision. This has been the line followed in the programme of research on income distribution, and two tasks were selected for the initial stage.

The first was to compile the data available in a fair number of Latin American countries, while the second was to explore systematically the main forces and trends of recent development which have helped to determine the structure of income distribution in the region.

The data on income distribution in Latin America given early in this article, bring to light significant differences with respect to the situation in the more developed regions. Generally speaking, the structure of distribution is more inequitable in Latin America. Among the various countries of the region, there are differences in the degree of unequal distribution which seem to bear no clear-cut relation to their respective levels of development.

This raises a number of questions. One is to identify the main factors which may have helped to shape the present structure of distribution. Another concerns the changes which those factors may have undergone in the course of time or during definite periods, either in the direction of greater or lesser equality, or changes in the social groups and their representation at different levels of the income pyramid.

These two questions are closely interrelated and as far as possible will have to be dealt with together. In any case, the first step will be to identify related groups of factors; it will be followed by an evaluation of their recent evolution.

On a purely abstract plane, the circumstances determining distribution patterns are defined academically in economic theory. Reduced to the simplest terms, the income of wage-earners, self-employed, *rentiers*, etc. is determined by the productivity of their own contribution and its effect on supply and demand.

At best, however, this approximate definition merely reflects the *ex post facto* position of income distribution, whereas the basic question is to discover the underlying or contributory causes of those hypothetical *de facto* situations. It is necessary, therefore, to look beyond market forces to ascertain and systematize the principal factors that shape and fix different income distribution patterns. The approximation itself not only allows for a more comprehensive view of the problem but also—and perhaps primarily—offers an opportunity for socio-economic policy to change those determinants so as to create different distribution patterns—irrespective of their nature or content.

In the process of identifying the principal factors involved, some assumptions will be made regarding their effect which will provide a basis for distinguishing between those with an "equalizing effect" and those which produce the opposite result, i.e., help to maintain or accentuate more or less repressive income distri-

* Document E/CN.12/770/Add.1, submitted to the twelfth session of the Economic Commission for Latin America, summarizes some of the conclusions to be drawn from the studies on Argentina, Brazil and Mexico that make up document E/CN.12/770, and presents certain data on other countries. On the basis of those studies and data, there follow preliminary general comments and hypotheses as part of the extensive survey of income distribution undertaken by the ECLA secretariat. See also "Income distribution in Argentina", *Economic Bulletin for Latin America*, volume XI, No. 1 (1966), pp. 106-131.

bution patterns. Both types of factors operate concurrently in every situation and period. Only this conflicting interplay and balance of forces and trends can explain the relative similarity of distribution patterns in economies at very different stages of development whose per capita income sometimes varies widely, as well as the fairly constant distribution patterns in the course of development of individual economies over periods which are long enough to have shown marked structural changes.

Although no attempt is made to deal methodically with the other aspect of the problem—the effect of the income distribution structure on the vigour and nature of development—the final passages of this article contain some conclusions which may serve as a point of departure for subsequent research.

I. QUANTITATIVE DATA

1. Some general indicators of income distribution patterns

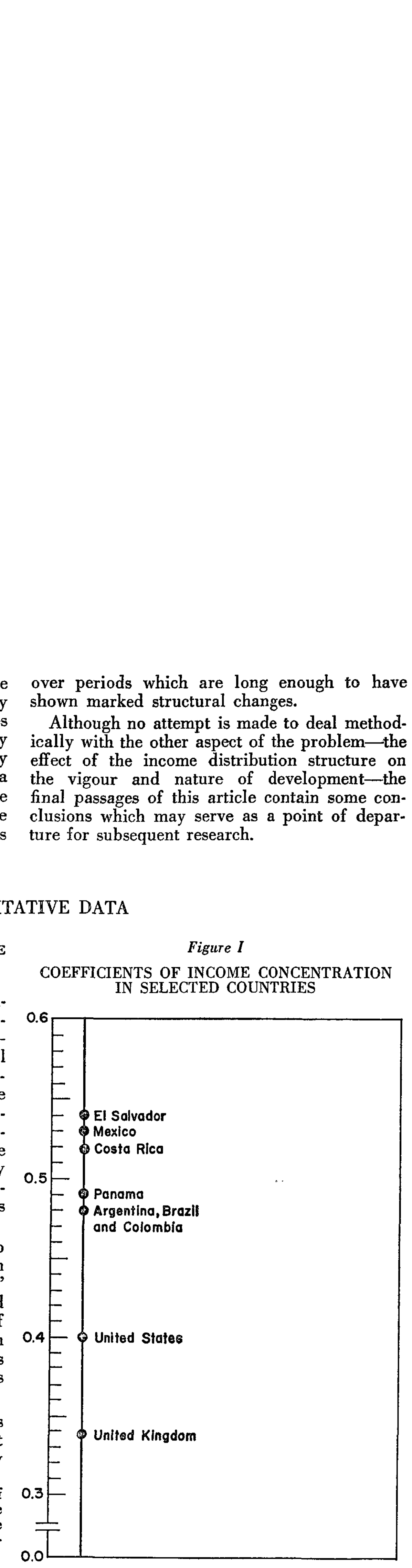
Figure I presents a comparison between income concentration coefficients[1] based on available data for seven Latin American countries—Argentina, Brazil, Colombia, Costa Rica, El Salvador, Mexico and Panama—and the corresponding figures for the United States and the United Kingdom. Despite the perfectly legitimate reservations regarding the nature and accuracy of the statistical data on which the comparison is based, the results are sufficiently eloquent to support the conclusion that, in general, income distribution in Latin America shows a relatively high degree of concentration.

However, this comparison is useful solely to illustrate in very general terms the gap between actual distribution and "equity of distribution" in each case. It must therefore be supplemented by other indications regarding specific forms of distribution, which will be most valuable both in assessing the problem in more precise terms and in analysing the Latin American economies concerned.

Distribution in Argentina, for example, shows a very considerable concentration of income at the top of the scale, a certain homogeneity in the middle-income groups, and fairly high incomes compared with other Latin American countries in the lowest income groups. The top 5 per cent of all families alone received 29.4 per cent of total personal income in 1961, and had an average income nearly six times the national average and nearly seventeen times the average of the poorest fifth of all families, which received 7 per cent of total personal in-

Figure I

COEFFICIENTS OF INCOME CONCENTRATION IN SELECTED COUNTRIES



[1] The concentration coefficient used is a measure of the relationship between the area enclosed by the Lorenz curve and the equal distribution line and the area of the triangle in which it is situated. The following formula was applied:

$$r = 1 - \sum_{i=1}^{n} \frac{f_i\,(g_i - 1 + g_i)}{10{,}000}$$

where

r = concentration coefficient;
n = number of income groups;
f_i = population in each income bracket as a percentage of total population;
g_i = cumulative income percentages.

come. In the "middle" brackets incomes rise relatively slowly; levels at the top of this group are not quite double those at the bottom, going from about 45 per cent to about 85 per cent of the national average. In the top groups, on the other hand, incomes rise rapidly.

The situation in Brazil, which has similar over-all concentration coefficient, is different. Data for 1960 show that 80 per cent of the population receives less than the average national income, and that within this broad category distribution is fairly even, which is a sign that the middle-income groups are very small. The average income ratios are barely 1 to 3 between the lowest 20 per cent and the segments of the population in the eighth distribution decile, and 1 to 2 between the fourth and eighth deciles. The 20 per cent at the top of the scale receives a very high proportion of total income, which is very unevenly distributed, with average income ratios of 1 to 41 between the top and bottom sub-groups.

In Mexico, during the years 1963 and 1964, 50 per cent of the families at the bottom of the scale received 15.4 per cent of total income, and 20 per cent of these only 3.6 per cent. The middle-income group, i.e., the next 30 per cent of families absorbed 26.1 per cent of aggregate income and an appreciable proportion of them received more than the national average. A third category consisting of 15 per cent of all families received 29.5 per cent of total income, while practically the same proportion went to the top 5 per cent of the population. Of this segment, 1 per cent received 12 per cent of total income.

In figure II some of these characteristics are compared with those of other Latin American countries, the United States and the United Kingdom. The figure shows the proportion of total income received by specific groups arranged in order of their place in the scale of distribution by income levels. It should be noted that although in every case there is a sizable gap between the position of the Latin American countries and that of the two extra-regional economies, each individual country of the region occupies a different place in the scale depending on the guiding principle applied, thus demonstrating certain idiosyncrasies of the distribution modules concerned. Similarly, it would be hard to find a sufficiently close relationship between distribution and stage of development, whether measured in terms of absolute levels of per capita income or the structure of the economy.

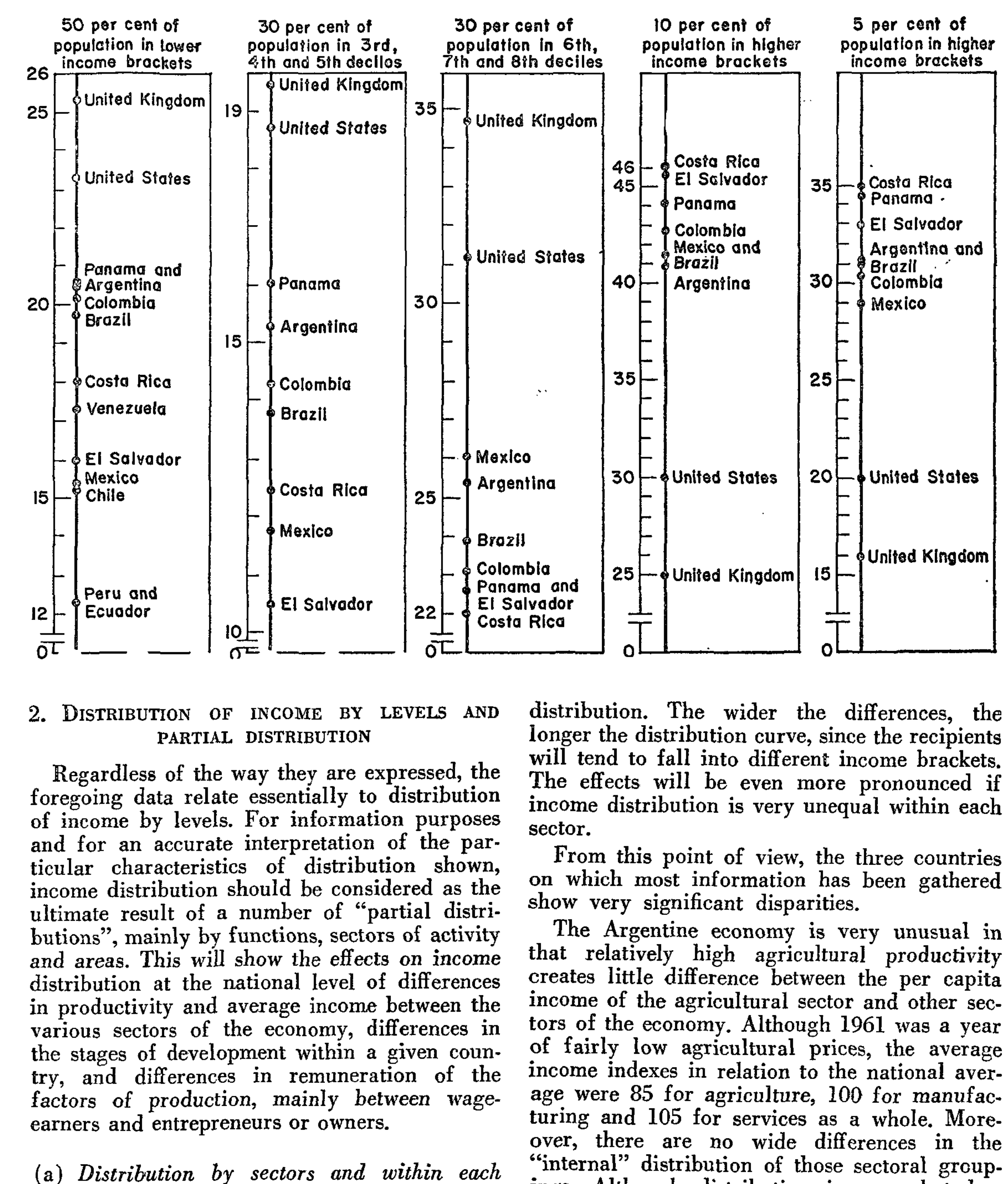
From this point of view, Argentina's favourable position might be ascribed not so much to its relatively advanced stage of development as to other basic determinants. It has a vast supply of natural resources, especially land, and a low population density, while the ratio of arable to total land is higher than in most countries of the region. Unemployment has seldom been a serious problem in its economic development—on the contrary, there has been a heavy flow of immigrants—and its population growth rate is lower than in any other country of the region except Uruguay. These and other factors explain why the lower income groups receive relatively high incomes. On the other hand, the concentration of income in the top decile is essentially a reflection of the concentration of property ownership, although this should not be narrowly interpreted as meaning the owning of property as such, but rather to include access to sources of credit, market positions, and other factors of this kind.

The foregoing considerations do not exclude the possibility that some features of distribution may depend directly on absolute income levels. For example, in economies with a low average income and a high proportion of the labour force engaged in agriculture, a smaller percentage of the population is likely to have incomes below the national average, while the proportion with income equal to specific multiples of that average may well vary considerably (see figure III).

The percentage of population falling within different ranges of average income also helps to highlight certain characteristics of distribution. Some comparisons of this kind are shown in figure IV, where Colombia occupies a relatively favourable position, probably because the low-income groups consist mainly of small agricultural landowners earning fairly substantial incomes from coffee. On the other hand, El Salvador, Costa Rica, Mexico and Panama in nearly every case show sharper disparities in relation to average income between the various groups. A more detailed analysis, however, would bring to light significant differences between these four countries. In Mexico, in particular, the differences are due not so much to a high concentration in the top segments as to a marked disparity between the top and bottom halves of the population, although the distribution within each is more even than in the remaining countries.

Figure II

PERCENTAGE OF TOTAL INCOME ACCRUING TO SPECIFIC GROUPS OF RECIPIENTS



2. Distribution of income by levels and partial distribution

Regardless of the way they are expressed, the foregoing data relate essentially to distribution of income by levels. For information purposes and for an accurate interpretation of the particular characteristics of distribution shown, income distribution should be considered as the ultimate result of a number of "partial distributions", mainly by functions, sectors of activity and areas. This will show the effects on income distribution at the national level of differences in productivity and average income between the various sectors of the economy, differences in the stages of development within a given country, and differences in remuneration of the factors of production, mainly between wage-earners and entrepreneurs or owners.

(a) *Distribution by sectors and within each sector*

Naturally, differences in the productivity and average income of the various sectors of economic activity directly influence total income distribution. The wider the differences, the longer the distribution curve, since the recipients will tend to fall into different income brackets. The effects will be even more pronounced if income distribution is very unequal within each sector.

From this point of view, the three countries on which most information has been gathered show very significant disparities.

The Argentine economy is very unusual in that relatively high agricultural productivity creates little difference between the per capita income of the agricultural sector and other sectors of the economy. Although 1961 was a year of fairly low agricultural prices, the average income indexes in relation to the national average were 85 for agriculture, 100 for manufacturing and 105 for services as a whole. Moreover, there are no wide differences in the "internal" distribution of those sectoral groupings. Although distribution is somewhat less equitable in agriculture, the differences are small compared with those deriving from other factors, in particular from income distribution according to classification of functions.

Figure III

PERCENTAGE OF POPULATION WHOSE INCOME COMES WITHIN SPECIFIC AVERAGE INCOME BRACKETS

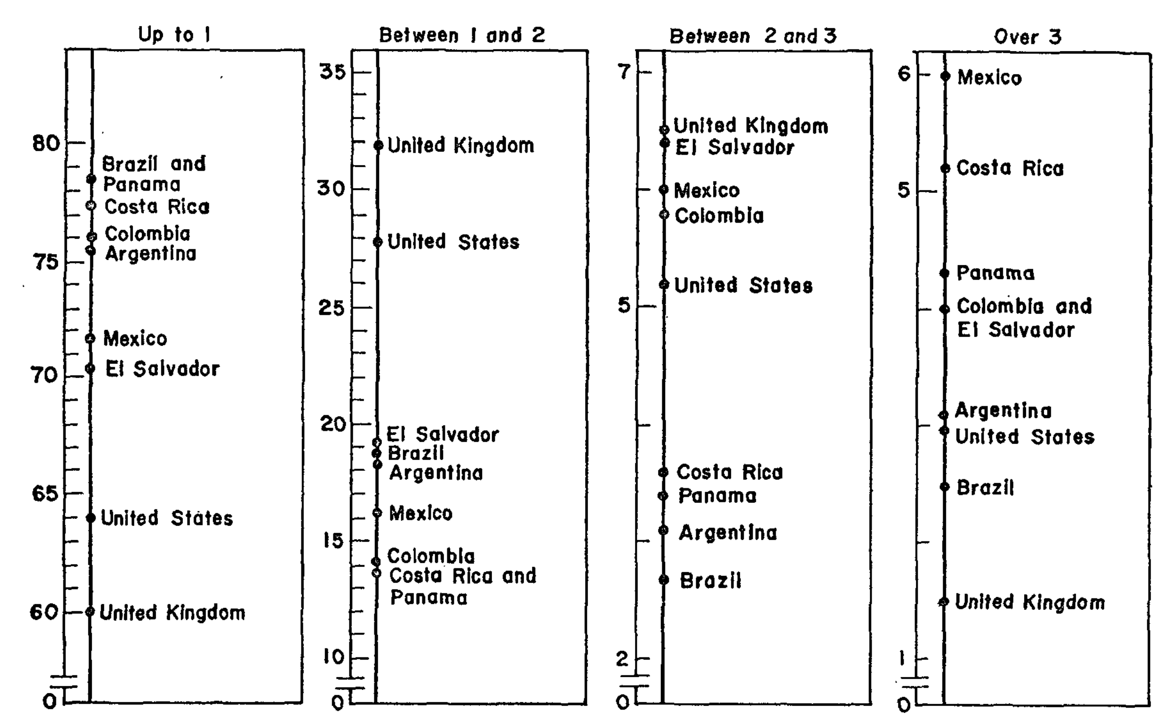
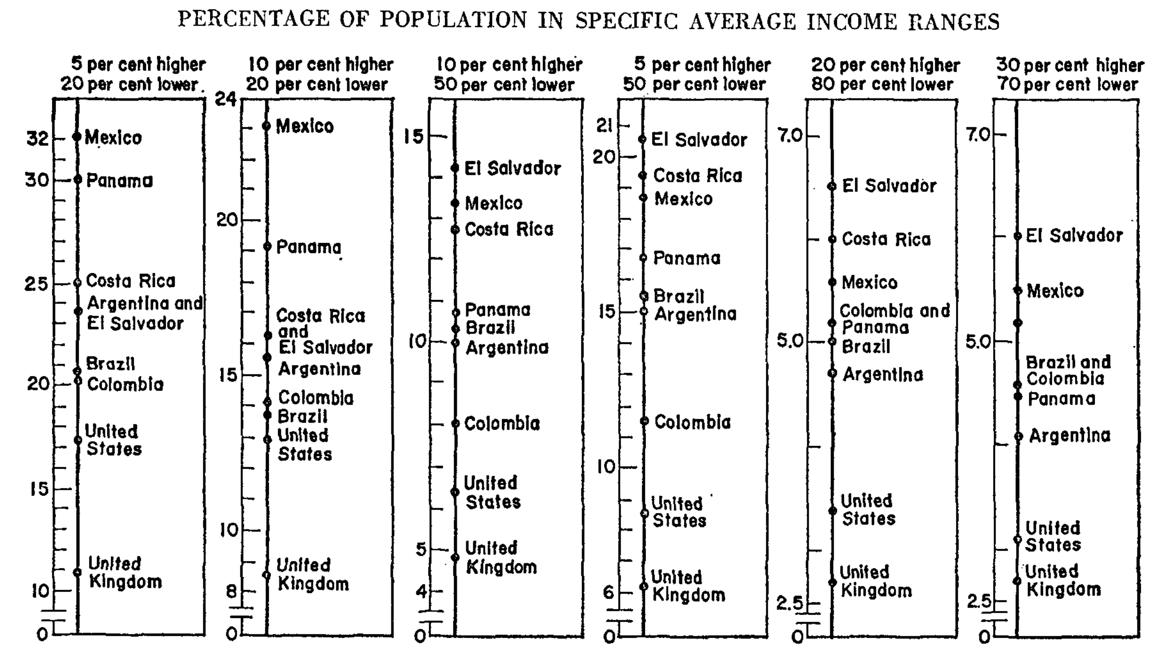


Figure IV

PERCENTAGE OF POPULATION IN SPECIFIC AVERAGE INCOME RANGES



Brazil's case is quite different. The product per person engaged in agriculture is a little over half the national average and less than one-third of the per capita manufacturing product, at the same time as a much larger proportion of the population depends on agriculture for a livelihood. Thus, half the population comprising the poorest families includes 70 per cent of those engaged in agriculture and extractive industries. The middle-income brackets encompass 40 per cent and include two-thirds of the population employed in secondary activities, mainly wage-earners. The tertiary sector is more heterogeneous in composition: it includes a sizable proportion of the low-income group (50 per cent of the lowest income group account for 34 per cent of total employment in services) it plays an important role in the middle-income segment and weighs decisively in the top 10 per cent of the population.

The effect of sectoral disparities in income and productivity is even greater in Mexico. The agricultural per capita product is equal to less than one-third of the national average and less than one-fifth of that of non-agricultural sectors. Over 42 per cent of the total number of workers' families and only 5.6 per cent of employee's families are engaged in agriculture, with the latter's average income twice or three times higher than that of the former. This sector absorbs 63.5 per cent of the own-account workers, who constitute the lowest income group outside the workers. The relatively high proportion of owner-entrepreneurs engaged in agriculture does not have the same significance as in other sectors because it includes a large number of smallholders. Thus, while the average agricultural income of workers' families amounts to 60 per cent of the national average for workers, the income of the smallholders amounts to less than one-third of the average for the owner-entrepreneur group.

(b) *Regional and urban-rural distribution*

The effects of regional disparities on income distribution at the national level are similar to the sectoral effects, and the position of the three countries analysed also differs considerably in this respect.

In Argentina, regional and urban-rural differences in average per capita income are far less pronounced than in the majority of the Latin American countries, and they have even less influence on national income distribution because of the higher agricultural productivity, advanced level of urbanization and degree of concentration of the population in the high-income brackets. Although three-quarters of the low-income farmers are in the north and most of the high-income crop and stock farmers are in the pampa area, the former are not so numerous as to weigh significantly in the distribution of income by levels.

In this respect, the characteristics of Brazil's economy are quite the reverse. The indexes of per capita income in relation to the national average are 51 in the north-east, 60 in the north and central-west areas, 96 in the east and 144 in the south. Available data for 1960 show that 78.5 per cent of the population in the north-east received less than the national average, compared with only 28 per cent in the south. The bottom 50 per cent of the population includes 80.5 per cent of the population in the north-east and only 30 per cent of that living in the south area. The middle 40 per cent, on the other hand, includes 17.5 per cent of the north-east population, the proportions for the central-west, east and south being 39, 50.2 and 59 per cent, respectively. Lastly, only 2.8 per cent of the population in the north-east belongs to the top 10 per cent income group, as against 7.8 per cent in the east and 11 per cent in the south.

It is interesting to note the conflicting conclusions reached on income distribution. For example, the proportion of persons with incomes equaling or exceeding the regional average is 28 per cent in the north-east, 57 per cent in the north and central-west areas, 16.2 per cent in the east, and 21 per cent in the south. Other indications, which also fail to yield clear-cut conclusions, were obtained from surveys of family income and expenditure conducted in several Brazilian cities in 1962-63. If the indicator used is the percentage of income that would have to be re-distributed for an equitable distribution, the proportion would be 31 per cent in the State capitals and 27 per cent in the cities of the interior, with no correlation with the average level of income. In the south it ranged from 31 per cent (Curitiba) to 34 per cent (São Paulo) for the capital cities, and from only 23 to 32 per cent in the hinterland; in the east, from 32 per cent (Rio de Janeiro) to 34.4 per cent (Belo Horizonte); and in the north-east, from 31.3 per cent (Recife) to 35 per cent (Fortaleza). If the indicator used is the number of families with incomes equal to the city's average income, the results vary just as widely: 33-35 per cent in the north-east, 28 per cent in the north (Belem), and, in the south area, 23-42 per cent in the capital cities and 21-45 per cent in the cities of the interior.

Nevertheless, the lowest income areas of the north and north-east present the sharpest contrast between the groups at either end of the scale, the difference is less marked in the middle of the curve compared with the figures for São Paulo and Rio de Janeiro and there is a closer relationship between the average income of the top income group and the average in those cities. However, no significant relationship can be established between the inequality coefficients and the various income levels.

Income distribution in Mexico also reflects appreciable disparities in average income levels between one region and another and between the urban and rural sectors. Three of the six regions in which the country was divided for purposes of income studies absorb 68 per cent of total personal income. Taking as a frame of reference average per capita income in the Federal District, the indexes are 35 for the south Pacific and central regions, 54 for the north and Gulf of Mexico region and 93 for the north Pacific area. Approaching the question from another point of view, average rural family income is 43 per cent of average urban income; the bottom 50 per cent of the population comprises 68.5 per cent of rural families and only 35.5 per cent of urban families, compared with 0.2 and 1.7 per cent, respectively, in the top 1 per cent. On this basis at least it might be concluded that income is less unequally distributed in the country than in the urban areas: the proportion of families which have attained the average income is 31.5 per cent in the country and 27.7 per cent in the cities, which is probably so explained not only because the average rural income is low, but because productivity strata are less dispersed in the less diversified rural economy.

(c) *Distribution by functions*

Despite the significant impact of the regional and sectoral factors described briefly above, the most important factor influencing the distribution patterns of most countries is the employment status of recipients in the sector or region.

This is particularly true in Argentina, precisely because regional and sectoral disparities are less marked and inequality is mainly due to differences in the incomes of wage-earners and entrepreneurs. Wage-earning families predominate at the lower end of the scale and few ever reach the top 1 per cent. Moreover, not many people are forced into independent employment merely because they have failed to find remunerative jobs with the result that there are few commercial and service entrepreneurs in the low-income sectors; on the whole the small farmers are virtually the only independents in these sectors, and they are relatively fewer than in most other countries. On the other hand, the independent entrepreneurs assume increasing importance as income rises: over two-thirds of the families in the 10 per cent at the top of the scale obtain their income from individual enterprises, and 85 per cent of the heads of families in the top 1 per cent are independent entrepreneurs. The *rentier* group in general carries little weight, since the highest incomes are seldom obtained from property that is not directly involved in the production process.

In Brazil, the 50 per cent of the population at the bottom of the income scale—which account for 19.8 per cent of total income—includes practically all rural wage-earners, small artisans, the marginal population in the big cities and a sizable proportion of retired persons or pensioners. Only 27 per cent of the wage-earners employed in the secondary sector belong to this group, but they are mainly in the fourth and fifth deciles of distribution by levels. The first 10 per cent of the lower income group comprises 28 per cent of the agricultural population, 19.2 per cent of those in services and 40 per cent of the women in the economically active population. A second socio-economic category—namely the next 30 per cent of the population, which receives 23.9 per cent of total income—includes an appreciable proportion of semi-skilled labour: 53.5 per cent of these employed in industry and construction, 38.8 per cent of the active population in the tertiary sector and 36.2 per cent of the total number of retired persons. Although entrepreneurs and own-account workers predominate in the upper income brackets, they are also relatively numerous in the two categories mentioned above, mainly small-scale farming and the supply of independent unskilled service workers.

This situation, which is quite different from that prevailing in Argentina is even more pronounced in the case of Mexico. The 50 per cent lower-income group includes 62 per cent of all workers' families, 53 per cent of self-employed workers engaged in agriculture, construction, small business and personal services, 13 per cent of all employees, and 35 per cent of owner-entrepreneurs engaged mainly in agriculture and services (small farmer-owners and families running small retail shops). A second category comprising 30 per cent of all middle-income families includes 31 per cent of the workers employed mainly in mining, manufacturing, the petroleum industry and electricity, who receive 42 per cent of total wages; 25 per cent of the independent workers; 41 per cent of the employees engaged mainly in agriculture and services, who receive only 20 per cent of total salaries; and 27 per cent of all owner-entrepreneurs, who receive 15 per cent of total income from property. The higher income brackets include mainly owner-entrepreneurs; they also include a sizable proportion of self-employed workers and employees, and only 6.9 per cent of workers, although the latter receive 20 per cent of total wages.

The income distribution curves by function in the three countries are therefore quite different, but in all three cases this factor is clearly important in the over-all distribution of income by levels. There is also some information available regarding the features of "internal" distribution for wage-earners and entrepreneurs. In general, distribution seems to be far less unequal among wage-earners. In Argentina, for example, 10 per cent of the wage-earning families with the highest incomes received 27 per cent of total salaries and wages for that group in 1961, while the same proportion of entrepreneurs received 48 per cent of total income in their category.

Nevertheless, the disparity in wage-earners' incomes is also relatively pronounced. Although this is largely due to the much lower rural wages paid, available data for Brazil indicate that the disparity does not diminish with the rise in the average wage, as suggested by the comparison between income of the wage-earning sector in the east and the north-east. In Brazil, there are sharp differences in the relative income levels of industrial wage-earners and entrepreneurs between one region and another, since the share of paid labour in the value added of manufacturing was about 20 per cent in the east and south compared with 14.5 to 18 per cent in other parts of the country. In Mexico, while income distribution is also more inequitable in the non-wage-earning sector than among wage-earners, in both cases this inequality has gradually become more pronounced, among wage-earners because of the widening gap between rural and urban wage-earners, between skilled and unskilled labour, and between workers employed in the traditional and the modern industries or plants, and among entrepreneurs, because of the equally widening gap between small and large-scale farmers, between artisans or small-scale manufacturers and large manufacturing enterprises, and between self-employed urban workers and large establishments concerned with the provision of similar services, including small business.

3. Distribution of monetary and real income

Before analysing the significance of the data in a broader context they should be complemented by other indicators which show how specific factors change the distribution of monetary income and ultimately lead to a somewhat different distribution of the good things of life among the different population sectors.

In this respect, a distinction should first be made between the distribution of personal and family income, according to whether a person or a family is regarded as the income recipient. Even in the case of Argentina where the absolute incomes of the poorer groups are relatively high and more equally distributed, the family serves as a kind of protection for the low-income group, where it is commoner for more than one member of a family group to be working than among higher income recipients. Only 1 per cent of the total number of families in Argentina have incomes of less than 500 dollars, while 13 per cent of all individual incomes are below that figure. On the other hand, most of the latter recipients are not heads of families, or if they are, another member of the family receives a supplementary income.

The situation is the same or probably even more common in Mexico. Whereas in the agricultural sector the per capita product is only one-third of the national average, the product per family is approximately two-thirds. This difference is only partly explained by the fact that the data were obtained from different statistical sources; it basically shows that average family income from agriculture includes secondary income received by other members of the family on a larger scale than in other activities. Put another way, agricultural employment absorbs 53 per cent of the total active population and only 43 per cent in terms of families, which is also an indication of the number of rural family dependants who are part of the labour force.

Argentina offers another series of considerations which are also useful in assessing the differences between real and monetary income distribution. At least until 1961 tax policy had no great influence, since the only progressive levy—personal income tax—represented only 10 per cent of total tax revenue. The tax system showed no signs of becoming more progressive and tax evasion tended to increase. Public expenditure was a more decisive factor in that it resulted in greater benefits to the low-income sectors, particularly in the way of education and health. Subsidies—which were substantial—benefited all economic and social groups approximately in proportion to monetary incomes. Incidentally, Brazil's tax policy has an indirect effect because it reduces some of the disparities in regional income, the tax burden being relatively heavier in the high-income areas. In the less developed areas, however, indirect taxes are heavier and in general curb the redistributive effects of tax policy.

The domestic price structure is another factor which, particularly in Argentina, has favoured the low-income groups; however its redistributive effects have tapered off in the last few years. In 1962, relative food prices—which absorb over half of total expenditure of the low-income groups—were lower than in any other Latin American country except Brazil, as were the prices of other important items consumed by the low-income groups, except for drugs and medicines. On the other hand, consumer goods in most demand by the high-income groups were relatively expensive, and this difference is even more pronounced for investment goods. Surveys of prices in relation to the average for Latin America—taking into account the composition of consumption for the various population sectors—show that the relative price index for the whole range of goods covered in their consumption pattern was 90 for the 35 per cent belonging to the low-income group and 105 for two population groups representing less than 10 per cent of the total group at the top of the scale. It follows that the price structure (still in comparison with the whole of Latin America) has the effect of reducing the share of total income of the top 10 per cent of the population by 3 per cent and of increasing that of the lower groups by 2 per cent. The gap would be wider if investment goods were also considered, but even without them the price structure has a greater redistributive effect than tax policy.

To sum up, the combined effect of tax policy and relative prices in Argentina involves a 5 per cent reduction in the top decile's share in monetary income, thus benefiting the poorer 50 per cent of the population.

Although the subject will be discussed again later in another context, any discussion of real income should also recognize the differences between the margins of saving in the different sectors, which might imply different relationships between income and consumption levels. Surveys on Argentina show that the bottom 50 per cent of the population received 27.9 per cent of total income and accounted for 34.4 per cent of consumption expenditure. The figures for a middle-income group comprising 40 per cent of the population were practically the same for income and consumption, and in the most affluent group income exceeded expenditure (27.8 and 20.5 per cent, respectively, for the 8.6 per cent of the population at the top of the scale). In other words, according to the distribution of consumption—which in fact includes some of the concepts mentioned previously—the share of the top 10 per cent may be estimated to be 7 per cent smaller, with the lower income half of the population benefiting accordingly.

It should be noted that these appraisals are purely illustrative and some concepts are only meaningful if compared with other situations, as in the particular case of relative price structure. Moreover, these factors, which partly offset the unequal distribution of monetary income, probably have a greater effect in Argentina than in any other Latin American country, and even in that country there are indirect signs that their effects have not become more pronounced and may even have diminished.

4. Changes in income distribution and economic trends

From the economic and probably even more from the social standpoint, the changes in distribution patterns over a long enough period are at least as important as the pattern in any particular year. Before suggesting any hypothesis an attempt will therefore be made to describe what little information is available and link it to structural changes in the economies in question and the economic policies most closely related to this problem.

In Argentina, there was a considerable and progressive improvement in income distribution in the period before 1953. Of the three years for which most detailed information is available, inequality of distribution was least pronounced in 1953, whereas it was much more so in 1959, 1961 occupying an intermediate position. The proportion of income received by those in the high-income brackets (10 per cent of the population) was 37 per cent in 1953 and 42 per cent in 1959, and this increase was almost exclusively in favour of the top 5 per cent. In 1961, when agricultural prices were relatively low, the share of the high-income sectors declined, but not to the low level of 1953.

In Mexico, in the much longer period between 1940 and 1964, as a result of more or less drastic changes, the share of high-income families in total income declined, quite considerably in the case of the top 1 per cent, but the relative share of families in the lower income groups also declined, and there are even indications that the decline was absolute as well as relative for the 20 per cent of families in the lowest groups. The reduction in the relative share of the two groups at the end of the scale benefited the middle categories, and a growing proportion of families received incomes at least as high as the the average for the country. This implies a certain improvement in over-all distribution, but an improvement at the expense of the least privileged sectors as well as from a reduction in share of the highest income groups.

In Brazil, as will be seen below, there were opposing shifts in income distribution. It is difficult to arrive at a precise evaluation of the results of these changes but there seems to be no definite trend towards a more equitable distribution.

These facts, together with the conclusions reached from a comparison of the distribution patterns of the different Latin American countries, point to the persistence of inequality of income distribution despite changes in the economic structures and policy measures which should lead in principle to a progressive improvement in distribution.

(a) *Important changes in economic structure*

Generally speaking, changes in economic structure have a twofold effect on income distribution: in the first place, any reduction in the relative share of agriculture in the over-all product tends to reduce the proportion of the active population engaged in the least productive activity, most whom are in the lower income groups; secondly, there is a change in the relative weight of the "internal" distribution of sectoral income in the over-all pattern, a factor which can also be associated with progressive shifts resulting from a reduction in the importance of the agricultural sector. This process has been going on, in varying degrees, in all the Latin American countries. Consequently, an attempt must be made to explain the absence of progress towards more equitable distribution by identifying other structural factors with opposing effects, or seeking the underlying causes in institutional or other factors.

In Argentina, there has been a more or less continuous reduction in the relative importance of agriculture: its share of the total product, which amounted to 23 per cent at the end of the Second World War, dropped to 20 per cent in 1953 and to 16 per cent in 1961. It is possible, however, that the effect on income distribution was not very great, since—as has been pointed out—the differences in productivity between the agricultural and the other sectors are not very significant. However, it should also be borne in mind that the internal distribution of income in the agricultural sector is more uneven than in the other sectors. With particular reference to the changes which occurred between 1953 and 1959, one very significant factor adversely affecting income distribution was the considerable shift in relative prices in favour of agriculture and at the expense of manufacturing; in contrast, the reverse occurred in the period 1959-1961, which explains why the share of the agricultural sector in total personal income fell from 21.4 to only 14.5 per cent.

It is very instructive to consider the changes in economic structure in Brazil from the point of view of regional income distribution, since the disparity between the economic growth of the various regions has had a regressive effect and has cancelled out other more positive influences. Despite deliberate attempts to promote growth in the more backward regions, the gap between the different stages of development of the regional productive systems seems to have widened.

In the economy of the country as a whole, the share of the secondary sector in the over-all product rose from 16.7 per cent in 1940 to 24.1 per cent in 1950 and to 32.3 per cent in 1960, and its share of total employment rose from 12.9 to 16.9 and 17.4 per cent in the same years. Over the whole period, the relative importance of the primary sector fell from 37.1 to 28.5 per cent in terms of the product, and from 66.7 to 54.1 per cent in terms of employment. The share of the tertiary sector in the product also diminished, from 46.2 to 36.9 per cent, but its share in employment increased from 20.4 to 28.5 per cent. The distribution of employment—which reflects the weakening of employment capacity in the dynamic secondary sectors and the slower technological development of the services sector—is extremely important, particularly as regards its consequences on the pattern of income distribution. The declining importance of agriculture has undoubtedly led to a relative reduction in the size of the low-income sectors and has thus helped to improve distribution; as has the more rapid expansion of the secondary sector, particularly manufacturing, although with certain reservations which will be made below. In contrast, the faster growth of employment in the services sector in relation to the growth of the product means that productivity is declining and that the "marginal urban" groups are getting larger and larger, resulting in a deterioration in the position of certain population groups, and in the income distribution structure.

Industrial development undoubtedly helped to increase the share of the middle-income groups, although it also boosted income in the higher groups. The dynamic industries played a greater role in this expansion than the slow-growth industries, and this had a direct effect on industry's employment capacity, as is demonstrated by the fact that its share in total employment rose from 7.7 per cent in 1940 to 9.4 per cent in 1950 and dropped to 9.1 per cent in 1960. This weakened the bargaining power of the workers, particularly in the fifties, to the extent that their share of the industrial product fell from 22 per cent in 1950 to 20 per cent in 1960 in the slow-growth industries and from 26.9 to 19.6 per cent in the dynamic industries.

Between 1940 and 1959, although the average real wage was maintained, their share in the industrial product fell from 23.2 to 18.8 per cent, and in the shorter period 1955-1962 productivity increased at an average annual rate of 6.1 per cent, whereas the average increase in real wages was only 1.9 per cent. A contributory factor is the high proportion of small enterprises paying low wages and the high concentration of the industrial product in a relatively small number of large enterprises, in which the share of the owner-entrepreneurs is much greater (in São Paulo in 1959, 4.7 per cent of the enterprises generated 84.5 per cent of the total income of this socio-economic group).

As has been pointed out, these over-all trends varied considerably from region to region, and this in turn has affected the pattern of distribution. Between 1950 and 1960, the over-all product grew at an annual rate of 5.8 per cent, whereas the regional rates were as follows: 6.4 per cent for the south, 7.8 for the central-west, 5 for the east, 5.1 for the north-east and 5.6 for the north. Consequently, there was an increase in the relative share of the south (from 48.2 to 50.5 per cent) and the central-west, no change in that of the north and a decline in that of the east and north-east, although the effects were offset in the north-east by smaller population growth. But even more significant is the fact that during the fifties there was an increase in the relative importance of the agricultural sector in the north and north-east (from 24.5 to 30 per cent and from 41.5 to 46.4 per cent of the respective regional products) and a decline in the share of industry (from 26.7 to 23 per cent and from 13.3 to 10.9 per cent, respectively). On the other hand, there was a growing concentration of industry in the east and south, where 91.3 per cent of the total industrial product was generated in 1960 as against 88.8 per cent in 1950. The agricultural product also increased in the north and north-east because new farmland was opened up and employment rose more than proportionally; the increase was not due to improvements in productivity which would have brought their average income levels closer to those of the other regions.

It follows that in lowest income areas and the areas with the largest low-income groups at the national distribution level were most seriously weakened. On the other hand, the decline in average productivity in the services sector affected the high-income areas most, and the effect on over-all distribution was reflected in an even more unequal internal distribution of income within those regions.

Important structural changes also took place in the Mexican economy, in the context of an over-all growth rate which was sufficiently rapid between 1940 and 1964 to more than double the per capita income level. At the same time, the urban population increased until it represented more than half of the total population, from being only a third at the beginning of the period; the proportion of the product generated in the agricultural sector fell from almost 23 to 17.5 per cent, and the share of employment from 64.7 to 52.3 per cent; and manufacturing increased its contribution to the total product from 17.7 to 24.9 per cent and its labour absorption from 8.9 to 14.6 per cent.

For a proper appreciation of the effect of these changes on the pattern of income distribution, other concomitant factors must be taken into consideration. For example, the continuation and extension of land reform further modified the nature of the agricultural population, transforming larger groups of wage-earners into small proprietors or *ejidatarios,* whose improvement in income was probably accompanied by a relative deterioration in the position of the landless *campesinos.* In addition, better use of internal resources and favourable external demand conditions encouraged a rapid expansion of agricultural exports from farms with high levels of capital investment and efficiency, whereas the rest of the sector lagged behind in technological progress with the result that there was a widening gap between modern agriculture, with the main emphasis on export crops, and traditional agriculture producing for internal consumption. In manufacturing, the capital-intensive industries displayed most dynamism, whereas the industries with low productivity and income per person employed continued to absorb the greater part of the labour force. As in Brazil, manufacturing also helped to accentuate the disparities between income levels in the different regions. Persistent unemployment and under-employment at the national level in all probability exerted pressure on wage levels, as is suggested by the fact that the proportion of national income made up of industrial salaries and wages dropped from 6.9 to 6.4 per cent between 1940 and 1950, whereas the share of owner-enterpreneurs increased from 9.1 to 11.5 per cent, which would have led to a greater inequality in the distribution of industrial income. On the other hand, the absolute increase in industrial employment favoured the expansion of an intermediate socio-economic category made up of skilled workers and technicians whose income levels place them in relatively high income groups in terms of the national income distribution structure. Finally, a large part of the increase in the urban labour force was absorbed by various services with declining levels of productivity, which weakened the relative position of the large population groups, while development requirements raised the value of professional services and favoured a relative improvement in the position of the professional groups. Part of the business expansion tended to be concentrated in large-scale enterprises, to the detriment of small businesses and small own-account tradesmen.

(b) *Some effects of the economic policy*

Over and above the contradictory effects of the changes in economic structure—which might be described as progressive from the standpoint of the distribution of income among the different sectors and regressive from the standpoint of distribution within each sector—are the direct effects of a number of economic policy measures.

The effects of such measures are probably most apparent in Argentina, precisely because they have less bearing on distribution patterns, owing to the particular features of the Argentine economy and its structural factors. Moreover they have been extremely sporadic, reducing inequality of distribution in certain periods and accentuating it in others by neutralizing the positive influence of other factors. It should also be borne in mind that the existence of inflationary pressures has made it difficult for economic policy to be neutral from the standpoint of income distribution, since the relative positions of the different socio-economic groups were constantly shifting and could only be maintained over the long term by making other continuing adjustments.

Before 1953, measures were taken to improve wage levels and in the late forties the share of salaries and wages rose considerably. At the same time the prices of agricultural products were kept low, thus restricting profits on their sale, and exchange and price controls were imposed to prevent the wage increases from being nullified. Subsequently, pressure exerted by particular groups led to other measures which had contrary effects and once more accentuated the inequality of distribution, but they were mainly directed towards other problems and their influence on income distribution was more in the nature of a side-effect. In the fifties and early sixties, economic policy measures focused on combating external disequilibrium and inflationary pressures: exports were encouraged and higher prices established for the agricultural sector, and conventional methods were used to eliminate the fiscal deficit and hold down wages and salaries.

In Brazil, from the late forties up to 1960 many of the economic policy measures were mainly aimed at providing incentives for channelling greater resources into "strategic" sectors for development. This entailed various kinds of stimuli and concessions for private investment: access to internal and external credit was widened, frequently with low interest rates and relatively long repayment periods, which in inflationary conditions amounted to an indirect subsidy and strengthened the position of the owner-entrepreneurs; preferential exchange rates were accorded to importers of certain essential goods and to foreign investors for remittances of profits and amortizations of direct investment; subsidized foreign exchange was made available to specific industries for importing inputs and parts; and other kinds of subsidies were granted to enterprises. This reduction in the cost of investment while prices were fixed freely in a protected domestic market helped to raise capital productivity and to strengthen the position of entrepreneurs in the distribution of income. As in Argentina, the tax system seems to have done little to redistribute income, because of the predominance of indirect taxation, generally non-discriminatory, which can often be passed on to the final consumer. The proportion of indirect taxation in total tax revenue rose from 66.6 per cent in 1950 to 72.8 per cent in 1960. In the same year, 23.7 per cent of the revenue from direct taxation, was derived from taxes on labour, and the proportion would be more than 60 per cent if social security contributions are included. These and other features of the tax system, together with the greater margin for tax evasion in less visible categories of income than wages and salaries, account for the rapid progressiveness of the taxes on those income brackets which in 1962 ranged from 250,000 to 1.2 million cruzeiros and the weakening of the rate in the higher brackets. In the same year, surveys conducted in different cities revealed the regressive effects of income tax and social security contributions: in the state capitals, the middle groups (250,000 to 800,000 cruzeiros) suffered a reduction in available income, while the position of the higher income groups was strengthened, and the same applies to the cities in the interior.

In the matter of wage policy, the need to reconcile wage and salary adjustments with the objective of containing inflationary pressures resulted, at least in certain periods, in wages excluded from the benefits of increases in real income. On the other hand, legislation on minimum wages was designed to protect the lower wage-earning groups, although it was probably not enforced widely enough. In 1960 even the highest wages in the bottom 50 per cent of the population were below the amounts fixed in the current legislation governing minimum urban wages, and the average wage in the bottom 10 per cent was only a quarter of the national average and 40 per cent of the lowest legal minimum wage established for the north-east.

In Mexico, public action partly strengthened and partly nullified the effects of particular structural changes tending to improve equality of distribution. Public investment in agricultural infrastructure (irrigation works, access roads) favoured the most modern farms; industrial development legislation favoured higher profits and the maintenance of relatively high rates of expansion among the new complex of modern enterprises; and the direct action of the Government to provide specific services for the establishment and expansion of public enterprises helped a growing number of professional and technical personnel to rise on the income scale. On the other hand, there was a progressive improvement in distribution as a result of the minimum-wage laws, the expansion of the social security schemes, the increase in educational and public health services and government housing programmes and changes in the tax system and public income policy.

In recent years, specific income distribution objectives have become an integral part of economic policy. The priority previously accorded to directly productive public investment was modified with a view to overcoming the relative lag in social services; wage policy was reframed with a view to improving income distribution; and tax reforms considerably increased the burden of taxation borne by the higher income groups. These objectives were reflected in the short-term operational plan (*Plan de Acción Inmediata*) adopted to determine the allocation of public and private resources in the period 1962-64. The proportion of total public investment assigned to social services, which had been over 13 per cent in the forties and almost 19 per cent in the period 1959-61, rose to 23.4 per cent in 1962-64. At the same time, greater efforts were made to increase the contribution of income from property to the financing of public expenditure, for which purpose taxes on accumulated income, an income from interest on fixed-income and equity stocks and securities and on capital gains from transfers were levied for the first time. The results are apparent from the growing share of income tax in regular Federal income: 18.9 per cent in 1960, 40.7 per cent in 1963 and 44.6 per cent in 1964; moreover, property taxes represented as much as 30.1 per cent in 1963, whereas taxes on wages and salaries accounted for only about 14 per cent.

Finally, legislation on wage adjustments provided for increases exceeding the rise in the cost-of-living index, which enabled specific wage-earning groups to more than make up their losses in real income in previous periods. This is particularly important in view of the fact that in 1960 the average income of families in the bottom 20 per cent income bracket was well below what they would have received as permanent wage-earners paid the minimum wage prescribed by law.

II. SOME EXPLANATORY HYPOTHESES

It is clear from the data collected that a comparison of the different Latin American countries does not demonstrate a close relationship between the degree of inequality in income distribution and the degree of development in the country concerned, either in terms of per capita income levels or in terms of specific structural features of the economy. It is equally clear that no definite tendency towards an improvement in distribution patterns can be discerned in the economic development of several countries, even where the rate of development is relatively fast and where economic policy has a distinct formative influence.

More detailed knowledge and analysis of particular situations is required to explain these facts fully, but it was thought advisable that at least some preliminary hypotheses should be put forward concerning the factors which might account for this apparently paradoxical situation.

1. The heterogeneity of the Latin American economies

One of the determining factors is probably the "structural heterogeneity" of the Latin American economies and society, which has been a permanent feature of the region's development and is becoming even more marked, that is, the coexistence of regional and national systems and patterns that reflect very different stages of growth. This situation is too generalized and complex to be described as dualism, a widely-studied phenomenon which is particularly characteristic of the structure of an "enclave" economy with a "*modernized exporting nucleus*" and a hinterland that is partly or wholly isolated from the dynamic centre.

The Latin American systems are rather more complex. Three major sectors or areas can be distinguished in nearly every country (and hence the region as a whole): the "modern", the "intermediate" and the "primitive". These are basically differentiated by the level of productivity, and, even more fundamentally, by the factors that determine those levels, i.e., their assimilation of technological improvements and the pattern of social relationships. This interpretation of the situation, unlike the theory of dualism, regards each economic area as having a "multi-sectoral" component. In other words, the "modern" sector includes segments of industry, services and primary activities and centres geared to the external market, and rudimentary technological strata subsist in each of the three areas.

Since the many questions posed by this approach cannot be analysed in greater depth in this paper, it merely seeks to evaluate the principal relationships between the structural heterogeneity of the economies and the pattern of income distribution.

In this connexion, special attention should be given to the weight carried by the so-called "primitive" sector. Although it is not clear from the information available whether the functional or social distribution of income is more inequitable in this sector than in the others, it may be assumed in principle that the profile of personal income distribution will become more regressive in proportion to the size of the labour force employed in activities where the level of productivity is very low and the social conditions are usually less favourable than in other sectors and therefore tend to keep wages down.

Indeed, it may be argued that a reduction or elimination of the primitive sector, accompanied by a large-scale shift of the active population towards the modern sector and an appreciable increase in its participation in the economy would set in motion a series of changes *leading to a more equitable* distribution of personal income. In other words, even on the basis of a conventional interpretation of the sectoral structure, the first assumption to be made is that income distribution will be more inequitable the larger the primitive sector and the population it represents. Conversely, the larger the other sectors, the more equally will income be distributed.

This hypothesis is very preliminary, however, and must be hedged about with reservations. In fact, it is precisely in this respect that allowance must be made for the "sectoral heterogeneity", i.e., the fact that each grouping comprises a variety of components or sub-sectors.

In the primary or primitive sector, and more especially in agriculture, conditions differ considerably according to the relative size and distribution of the labour force as between *subsistence or traditional agriculture* and marketable agriculture, which is capable of producing sizable surpluses for the domestic and/or external market. The relative weight of the different areas naturally affects the structure of distribution, both because of the changes produced by the more rapid development of the "marketing" sector and because of the influence exerted in each case by the nexus of social relationships.

In marketable agriculture, the main factor is the type of farming or method of production that is most representative. Some branches, of course, such as fishing or grain production, normally require very little labour, but in other branches, such as coffee-growing, the labour factor is far more important. All other things being equal, these disparities in themselves have an appreciable influence in determining the *wage-earners' share of the income generated* in the different activities. In traditional agriculture, it may be presumed that even if the absolute wage level is fairly high the proportion accruing to the wage-earners will tend to be smaller than in marketable agriculture. Moreover, the producers' income is probably more highly concentrated in the first than in the second instance.

These remarks are also applicable to other areas of the primary sector, and to mining in particular. In some Latin American countries there is a striking dualism, in that the bulk of production and income is concentrated in large plants that are usually foreign-owned and employ only a fraction of the available labour force although absolute wage levels may be high in comparison with the national average. Side by side with these plants there are a host of small and medium-scale enterprises which may provide employment for sizable labour contingents, particularly in certain areas. A structure of this kind also has a strong effect on the system of income distribution. Viewed from the "functional" standpoint, it seems probable that labour's share of the total income generated will be fairly small, as most of that income is generated by the major enterprises.

Another aspect that should be considered and is not always given due attention is the division of foreign-owned assets between the country of operation and the home country. Apart from the fact that less income is available in such cases for distribution among the national factors, the balance left in the country of operation is mainly spent on wages and taxes and the revenue from the latter is largely appropriated for the payment of government employees. The picture would be very different if medium or small-scale enterprises, possibly under public ownership, were to predominate. In this case, although absolute levels would no doubt be lower, wages would carry greater weight, while entrepreneurs' or owners' income would also gain in significance and less income would be transferred through taxes to the public sector.

Thus, the general hypothesis concerning the importance of the primary sector in income distribution patterns can and should be adapted to the many specific features of the problem in each country and period. Moreover, implicit in this hypothesis is the corollary that the diversification of the production structure and, with it, the increase in the significance of the other sectors, will create a more equitable system of income distribution.

In examining this premise, the first question to be considered is the role of industry. The industrialized economies clearly have a less inequitable pattern of distribution than countries at an earlier stage of development, such as those in Latin America. But here too it is vital to take certain limitations and factors into account. For instance, comparable situations with respect to the significance of the industrial sector may modify income distribution in many different ways depending on the sector's entrepreneurial structure and the level and type of technological progress.

As regards the entrepreneurial structure, it may be assumed that where a large proportion of manufacturing production has been concentrated in large-scale plants which for various reasons such as an external bottleneck, a small domestic market, etc. are enjoying a complete or quasi market monopoly, the pattern of distribution will tend to be more uneven than it would be under other conditions. In the first instance, which is by no means exceptional in Latin America, the entrepreneur-owner will be in an advantageous position for securing additional income in payment for the factor that he contributes.

The question of technology is equally important for a proper appreciation of the impact of the expansion of manufacturing on the pattern of income distribution. The theory that it is beneficial to reduce the primary sector rests on the assumption that workers who leave the land will find employment in industrial activities that have a higher level of productivity and a more equitable pattern of distribution than is to be found in traditional agriculture. However, the fact that industry is more or less forced to use techniques imported from the major industrial centres may radically alter the nature of the process, since the use of equipment and methods largely designed to save on manpower may severely restrict any increase in job opportunities. The "levelling" influences at work are thus liable to be offset by the adverse elements operating in the relationships described above.

Many other factors naturally play their part. It must be remembered, for instance, that the results of the diversification of production and, more specifically, of industrial development, will very largely depend on the momentum and continuity of industrial growth and on the volume of manpower available. Two possibilities can be foreseen. Either, there would be a moderate expansion of the manufacturing sector and a relatively sizable population shift from the country to the towns or growth would be fairly rapid, and, either because there were no great manpower reserves or, for one reason or another, labour remained in the primary sector, there would be no labour surplus in manufacturing industry and allied activities. The first hypothesis clearly offers better possibilities for an improvement in the structure of income distribution. It should also be remembered that the manufacturing sector abounds in medium- and small-scale units with unsatisfactory levels of productivity and hence very low wage rates. Although, as far as social distribution is concerned, there is no reason to believe that the situation is more inequitable than in the big enterprises, personal income distribution is undoubtedly affected by the low absolute level of wages.

The analysis can be extended by considering the significance of the services sector, the other main area of employment for the active population, and, under the terms of the first hypothesis, for the labour contingents who leave or are displaced from primary activities. It is recognized that, in Latin American countries, the tertiary sector absorbs a fairly sizable proportion of the labour force if income levels are taken into account. In some of them, in fact, that proportion is larger than in certain developed countries.[2] This structural feature may be taken, in principle, to indicate that conditions are propitious for a more equitable distribution of income, as has been the case in the developed countries. However, it has been amply demonstrated that its causes and effects have their own special characteristics in the developing nations and they are sometimes the reverse of those obtaining in the industrialized economies. To begin with, it is obvious that the main reason for the expansion of services has not been the spread of technology in other sectors—particularly in primary activities—with its inevitable effect on income levels and the structure of demand. Although technology has undoubtedly played some part, the main reason for this particular trend of development in the less advanced economies has been the inability or "refusal" of the primary and secondary sectors to absorb surplus labour. The expansion of the services sector must therefore be regarded as a pathological symptom rather than as a "necessary" stage in the process of development.

This point will be made clearer by a breakdown of the services sector, which will show that it is made up of a complex of parts and areas possibly differing from one another even more than is customary in the other activities where the same tendency is evident. It may be argued that the growth of the tertiary sector and its labour force is "functionally" justified to a certain extent, because it provides the necessary counterpoise to the development of the other areas, and gives greater complexity and scope to the production system, marketing and financing and the basic infrastructure. To probe more deeply into this question, the effects of industrial diversification must be examined. At a fairly early stage of manufacturing development, the relation between the "producers of goods" and the suppliers of allied services will be very different from what it is at a more advanced stage when the intermediate and dynamic industries are carrying greater weight. In the latter instance, the share of the suppliers of related, commercial, technical, financial and other services usually increases.

Nevertheless, it often happens in Latin America that the expansion of the services sector is not due, primarily or even to any great extent, to these "functional" requirements. Instead, it is contingent on the growth of a host of personal and other services which represent a poor and uncertain source of income.

In the circumstances, the top-heavy employment in tertiary activities is apt to distort the patterns of distribution. Although it may be assumed that these same conditions led to a more equitable distribution of income in the developed countries, in the under-developed countries the existence and relatively more rapid growth of services with very low or minimal productivity may well have exactly the opposite effect. The end result will, of course, depend on a number of other factors, such as the importance and dynamism of the services described as "functional" and the volume and qualifications of workers in that labour market.

2. Inter-sectoral and intra-sectoral changes

The foregoing remarks shed some light on the implications of changes in the relative importance of sectors of economic activity from the standpoint of the distribution of total income.

As has been shown, Latin America's economic development in the past few decades has been characterized, in almost every country, by a decrease in the percentage of the product generated by the primary sector and in the proportion of the labour force it absorbs. Furthermore, not only do transfers of manpower from primary activities *to other sectors* take place,

[2] See *The process of industrial development in Latin America* (United Nations publication, Sales No: 66.II.G.4), pp. 3 and 4.

but manpower shifts *within the primary sector* itself.

This second point is of particular significance in the case of agriculture, where it might be stated in terms of the hypothesis that there has been a proportional increase in "cash crops" and in the active population employed in growing them, with the correlative decline in "subsistence" farming. However, this trend should not be over-estimated; nor should other salient features on the situation be overlooked.

One of these is the size and the "impermeability to change" of the subsistence farming areas in several countries, notably those in which economic and social barriers are reinforced by others of an ethno-cultural nature, as is the case wherever there is large indigenous population. To this must be added yet another aggravating circumstance. The labour force engaged in subsistence farming has had no share in the income increments by which other sectors have benefited in varying degrees. On the contrary, there are indications that in some instances its levels of living have actually deteriorated in absolute terms.

Other branches of primary activity, such as mining, present a different picture. Here the position is reversed: the introduction of modern techniques, even where production has been substantially expanded, has not been accompanied by occupational changes, but rather, in some cases, by a drop in employment. Thus, in mining as in other primary activities, the absorption of manpower by other sectors is the only possible solution,

The development of the industrial sector also displays certain characteristics which have an obvious bearing on the question under discussion. In the first place, countries which were relatively late-starters in industrialization, although still concentrating on "traditional" or "light" manufactures, commonly apply imported techniques with a much stronger labour-saving bias than was usual at the corresponding stages in the economies that led the way. Secondly, the same tendency becomes apparent in these more advanced countries as they progress towards higher levels of industrial development, and spreads to their "traditional" industries. Both phenomena imply, in the last analysis, that in the industrial sector as a whole the prevailing distribution trend is towards a greater degree of concentration of income.

These postulates are borne out by a number of factual data. First, in many countries there is a divergence—sometimes very marked—between the growth rate of the industrial product and the rate of increase of employment in manufacturing. Although the situation is chiefly in evidence in the economies where import substitution has been carried farthest, it also seems to be "prematurely" reproduced in others whose substitution process is still in its initial stages, to the extent that they have introduced up-to-date techniques for purposes of establishing or promoting "traditional" lines of manufactures.

Secondly, there are signs that the share of the labour force in the income generated by manufacturing industry has diminished, in some cases to such an extent that real wages have decreased throughout the industrial sector, or in large part of it.

In other respects to which reference has already been made, recent trends do not look particularly encouraging. With few exceptions, and those mainly to be found among the smaller countries and/or those which are only on the threshold of industrial development, manufacturing industry is failing to increase its rate of expansion. At the same time, the aggravation of the "urban marginality" problem and the high rates of population growth seem to be creating something not unlike the classic "reserve army" of wage-earners. A further significant fact, pointed out in a recent study, is that much of the additional labour force employed in the manufacturing sector has been drawn from the ranks of artisans and small-scale industry. Moreover, between 1925 and 1960, the proportion of total non-agricultural employment represented by employment in the manufacturing sector decreased in the region as a whole and in almost all the individual countries.[3]

Spatial **or** ***regional*** **income distribution** is another important factor. Viewed from this angle, industrial growth can clearly be seen to have had a remarkably concentrative effect. True, the same tendency was apparent in the development process of the "older" industrialized economies; but it was undoubtedly less strong, and the manufacturing centres did not spring up so quickly as to bring about radical changes in the spatial pattern of income distribution within incredibly short periods of time.

Recent trends in the services sector—apart from what has already been said on the subject—are all too well-known, and have become a major cause of concern. The most important phenomenon seems to be the growing magnitude of the urban marginality problem, which reflects

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[3] *Ibid.*

the plight of those groups of the population that are unable to find a niche in the basic activities and services, and have to resign themselves to employment of the most precarious and ill-paid sort, if not to total or partial unemployment.

There can be no doubt that this state of affairs appreciably affects income distribution patterns, especially where personal income is concerned. Nevertheless, due account must be taken of other changes whose influence operates in a contrary and more favourable direction.

One such change peculiar to Latin America is the substantial and often growing importance of employment in the public sector, where all the income generated, net of investment appropriations, is used for the remuneration of the labour factor. Needless to say, there are many reservations to be made, regarding the productivity of this income for example, or the existence of "disguised unemployment" in the public sector. But it is beyond all question that this development does have an impact on the distribution pattern which will vary in accordance with the share of State activity in the over-all product.

The other positive factor relates to the growth of services which were described above as "functionally" essential. Obviously, the diversification of production, the accelerated rate of urbanization, the expansion of educational services, the emergence of new technical and professional responsibilities, etc., have gradually opened up employment opportunities in the tertiary sector which were scarce or non-existent in the traditional economy. However true it may be that in some cases the social area of such changes is not very extensive in either absolute or relative terms, their influence on the distribution pattern is plain.

3. Other factors which perpetuate inequitable distribution

In analysing the characteristics of the structure of production from other points of view, it is worth noting that the catalogue of goods and services made available to the population is contingent upon the pattern of demand, or closely linked to it, and is therefore conditioned by income distribution. The relations between these factors are so complex that the converse might also be argued, i.e., that the structure of production or of supply is, from some standpoints, a significant determinant of the distribution pattern.

In so far as this is the case, the very structure of production—and, to a still greater extent, any rigidities it may show—becomes a factor tending to perpetuate the present characteristics of income distribution. A particularly illustrative case is the provision of educational facilities, which, at a given point of time, largely dependes upon the composition of demand for such services. This applies both to private and public education, in so far as the latter must be in some degree adjusted to the existing demand. At the same time, these circumstances will influence future income distribution, since their effect is to improve, in absolute and relative terms, the position of those who always have had and always will have readier access to educational services and to place others at a greater disadvantage than before.

Another case in point is the slow rate of expansion of production of food for the home market and "traditional" manufactures, i.e., the items of most importance for the welfare of the bulk of the population. It would be difficult to account for this trend in terms of the low income-elasticity of demand for such goods in relation to those large proportions of the population that have had little or no share in the increase in average income. On the other hand, it can be explained plausibly enough by reference to the changes in the pattern of demand in those population sectors that have absorbed most of the benefits of expansion. In other words, it ultimately proves to be symptomatic of a more regressive trend in income distribution.

The picture is not so clear as regards production and availability of particular services, especially in view of the expansion of national expenditure on urban infrastructure and health and housing. Where such expenditure has become substantial, it has not only represented an addition to real income, to some extent "invisible" or difficult to classify under specific heads, but has also opened up possibilities of easing some of the pressures that determine the income distribution pattern.

Nevertheless, whatever the scale and potential influence of these trends, in these respects, too, changes for the better have been subject to decided spatial concentration; in other words, they have operated mainly in favour of the urban centres. Thus, their impact has depended upon the relative sizes of the urban and rural marginal population; it has, of course, been more beneficial where the urban population is the bigger problem, and *vice versa*.

Another point to remember—and here again the provision of educational facilities comes to the fore—is that the improvement in the supply of basic services has benefited principally the upper income strata, as is indicated, for example, by the fact that secondary and higher education expand more rapidly than the primary and technical levels.

Underlying these multiple interrelationships, there is a "causation spiral", which has been more specifically or more graphically called the "vicious circle of poverty". The very poor account for only a tiny fraction of real demand (and therefore of available goods and services). Consequently, the production system tends to satisfy primarily those who, on the contrary, can and do strongly influence demand. The result is that the poor remain as poor as ever, or sink into still greater penury.

Clearly, a situation of this kind, to the extent that other factors are too weak to counteract it, will make for the perpetuation of existing structures of production and of demand and income, and, what is more, for the consolidation of the conditions that generate inequity.

The other related factor is the relative price of the goods and services available to the population, and its effect on "real" income distribution.

It is hard to generalize concerning changes in relative prices which affect certain nominal incomes and their incidence on real consumption. Although in some countries visible changes take place in specific periods, no conclusions can be drawn from them as to general and clearly-defined long-term trends. However, it may be useful to discuss a few salient aspects of the problem.

Interest has been aroused by a slight but perceptible trend in certain countries—reinforced by economic policy in some cases—towards an improvement in the relative prices of agricultural commodities. While its implications as regards "real" income distribution are clear, especially in the urban population sectors, this tendency should be viewed in a broader perspective. For example, almost everywhere technological progress and its benefits have been concentrated in the urban areas, particularly where industrial complexes and allied activities are situated. Accordingly, just as in the analysis of relations between the centre and the periphery at the international level, this new trend in relative prices may be regarded as paving the way for the primary sector to share in the benefits of productivity in its own "centre".

Irrespective of the dynamic impetus that might not be effectually given to the development of primary activities, the point at issue here is what has been or may be the social distribution of the advantages of relative price changes. Obviously, this will depend not only upon factors linked to the structure of the primary sector, but also upon other conditions, such as the degree of concentration of ownership of property, social relationships, level of labour organization, etc.

Another interesting and obviously significant aspect of the problem, which has been less fully probed, is the question of the relative prices of those goods and services which are mainly of concern to the higher income groups.

There are a number of contradictory elements and trends in this situation. In those economies which are farthest advanced in respect of industrial development based on import substitution and are burdened by serious external bottleneck, the substitution process has involved more or less substantial increases in the prices of many manufactured goods; and this rising trend has been sharpened in some cases by the taxes levied on higher-cost articles (such as automobiles). In more open economies the position has been or still is different, either because their external transactions have followed a more favourable course, or for other reasons. Here, apart from customs duties and taxes—which are usually moderate—a large proportion of conspicuous spending (defined by reference to average income levels in the country concerned) goes to buy foreign products which are cheap in comparison with the potential costs of manufacturing them locally and in relation to the income levels of the upper strata.

If this were the only approach adopted, it might well suggest that relative price movements have made for greater equity (or a less inequitable "real" income distribution) in the first type of situation than in the second. But there is another fact which must not be overlooked. It is largely the owner-entrepreneurial sectors, which should suffer most from price changes, which instead have enjoyed the biggest increases in their income, precisely because they have profited most by the process. Briefly, what they may have lost through the rise in the price of goods which absorb a high proportion of their expenditure would seem to have been offset in some measure by their participation in the import substitution effort and the consequent increase in their earnings.

4. Some features of the social and institutional structure

Productive activities, and the related phenomena cursorily reviewed in the preceding section, are generated and affected by various social relationships and by a particular institutional framework which often has a special effect on income distribution. In other words, in every community there are certain relationships between groups and individuals which condition or influence their opportunities of sharing in the distribution of available goods and services. In some circumstances, these relationships promote more equitable income distribution, whereas in others they operate conversely.

In this context, the attention has primarily been given to the ownership of productive assets—land, installed capacity, financial resources, etc.—and the conclusion has been reached that their owners are entitled to claim part of the income generated as a return on the "capital factor". Nor does the significance of this factor end here, since it often exerts as much or more influence through its indirect effects on social status, the system of opportunities, the exercise of power, etc.

In addition, relationships of another and to some extent more personal type can be identified, relating to "predominance" or "subordination" within the social system. For example, the "seignorial" or what is often described as "semi-feudal" relationships that prevail in some productive activities, particularly in the more backward agricultural sectors, may be contrasted with those of a more "capitalistic" type to be found elsewhere, and even with those in the public sector and in State enterprises. How far the resulting conditions are favourable or unfavourable for the income distribution pattern will depend upon the nature of those relationships.

Moreover, the extent to which the various groups organize to protect or promote their own interests may be a factor in creating the characteristic "spirals" in which the discernible causes can also be regarded as effects. For example, a large labour force in the underprivileged agricultural sector weakens the solidarity and, therefore, the bargaining power of those involved, and this effect in turn becomes another cause of their depressed socio-economic status.

Setting aside the controversial problem of how far the concentration of agricultural property and the proportion of subsistence farms have been reduced or increased, there can be no doubt that the ownership of agricultural land has been gradually losing some of its relative weight within the complex of factors, while other types of capital, such as those deriving from industrial, financial and commercial activities, have assumed greater importance.

Latin America as a whole has passed through various stages in the production and ownership of these other kinds of capital. In an initial phase, coinciding with the first steps in the diversification process, the ownership of assets was dispersed to some extent, at least by comparison with conditions in the "traditional society". But as time went by there was a trend towards its concentration in the new or more dynamic activities, as was previously noted with reference to the secondary and services sectors. The data available in this connexion, although fragmentary, are highly suggestive, indicating, moreover, that the development pattern of the "central" economies has been reproduced in a different context and with different timing. Thus, monopolistic or oligopolistic situations emerge prematurely, in contrast with the wider distribution of property and, by derivation, the "atomistic" competition that is assumed to have prevailed at similar stages of development in the market or private-enterprise economies.

It is easy to grasp how these factors condition income distribution, and their twofold and contradictory influence. On the one hand, they presumably lead to the "deconcentration" of the ownership of traditional assets (such as probably has taken place in respect of land), while on the other, they tend to create an "agglutination" of other assets—industrial, financial, commercial—produced by the modernization of operations, the assimilation of technology from abroad, the nature and level of the import substitution process, and similar factors. Obviously, the relative significance of these opposing forces, and their final impact on distribution patterns, will depend upon each individual country's special situation and stage of development.

The picture seems clearer where there have been changes in the organization of social groups. Partly as a result of those changes, and partly under the impetus of external factors, definite progress has been made in respect of both economic and political relationships.

Although trade union organizations often do not incorporate the bulk of the wage-earning population and are confined mainly to the labour force employed in the modernized sectors of the production system and in the traditional public services, considerable changes have taken place almost everywhere in both absolute and relative terms. As a result, the bargaining power of the wage-earners has been strengthened. A particularly important and novel trend is the extension of trade union movements to some of the rural areas that have so long been defenceless in this respect.

The same thing seems to be happening, in differing degrees, at the political level, where the most important development has probably been the gradual incorporation of the marginal urban sectors. Although they do not yet form stable political organizations on their own account, in some countries these marginal population groups have come to represent too significant a factor in the power system to be disregarded by government policy, especially income redistribution policy.

Lastly, at the institutional level, it is of interest to trace the course of State action to achieve income redistribution objectives.

There is a first phase in which the accent is placed on labour legislation and social security services. In a second phase, these initial objectives are still kept in view, but in several countries various types of transfers and subsidies assume considerable importance. They are generally made to offset differences in productivity favouring the export sector, which were maintained largely through discriminatory exchange rates. And in a third and more recent phase, concern for "social investment"—in education, urban infrastructure, etc.—is combined with efforts to finance the increasingly costly projects of the public sector by less regressive tax systems. A final phase, sometimes overlapping with the previous one, is characterized by growing emphasis on the so-called "structural reforms", among which agrarian reform is paramount.

While those trends can be traced in broad outline, it is much more difficult to assess their effects on income distribution patterns, although some are becoming more or less apparent in certain individual cases. In this context, it must be borne in mind that State measures are a sort of "cross-current", designed to have a corrective effect on the "original" distribution of income, as determined mainly by the structure of production and of the society. Thus, only energetic, comprehensive, and, above all, sustained action can bring about perceptible and lasting changes in the original or primary distribution pattern. And policies of this calibre are rare in Latin America.

Equally important is the fact that State action has been somewhat ambivalent in its implications for income redistribution. Although it has pursued the objectives indicated above, it has none the less tended to "centralize" its efforts from the social standpoint, and, to improve the position of the higher and middle income groups, in both absolute and relative terms.

As regards the first tendency, it is generally recognized that until recently, and as a general rule, governments have been primarily concerned with the better-organized minorities among the wage-earning sectors, to be found in the "modernized" and/or urban area. Usually, therefore, their action has hardly touched the rural masses and the "peripheral" urban population.

With regard to the second tendency of governments, it is equally clear that large groups in the middle income brackets and the entrepreneurial and property-owning strata have benefited enormously, principally as a side-effect of government policies to promote industrialization and urban development, since they have absorbed a substantial share of the additional income generated by these processes.

5. Effects of income distribution on development

As has been pointed out, the question of the influence of different income distribution structures on the nature and dynamism of economic development is outside the much more limited scope of these notes. However, the data given in the preceding section suggest a few conclusions which might be summarized here, although they are fragmentary and highly tentative.

In over-all terms, Argentina appears to be in a much better position than most of the other Latin American countries. Its relatively high minimum income levels mean that virtually the whole of the population is a source of real monetary demand; moreover, as income rises slowly in the middle of the distribution curve, the composition of demand tends to be fairly homogeneous, and therefore more favourable to a type of industrial development that takes advantage of economies of scale. In principle, too, the concentration of income in the upper brackets seems likely to afford possibilities of maintaining high levels of saving, especially as most of that income goes to entrepreneurs, so that the link between saving and investment is more direct than when a considerable proportion accrues to *rentier* groups. However, in a relatively urban and organized economy like that of Argentina, perpetuation of that structure of distribution may create serious imbalance, particularly in a period of economic stagnation when the various socio-economic sectors exert stronger pressure to increase their share in national income.

From another point of view, a salient feature of the Argentine economy is that it is based on large numbers of relatively small-scale producers. In 1961, in 28.6 per cent of all families the head of the household was self-employed, and the activities of this group accounted for two-thirds of the total domestic product. Such an economic structure goes hand-in-hand with high unit margins of profit and small volume of sales per enterprise. This may not be a serious hindrance to growth in the early stages of economic development, when the significance of economies of scale is not very great, but once a certain point is reached, high unit costs may obstruct the continuance of the process.

This feature of the Argentine economy may render the more conventional measures of redistribution policy ineffectual. For example, attempts to reduce inequity by means of direct taxation may be frustrated by the greater difficulty of verifying declarations of income in circumstances like Argentina's, which are very different from those of countries where tax evasion is not regarded as a serious problem, and the tax laws are designed to benefit the small entrepreneur for economic and social reasons.

In some respects, the position in Brazil is quite the reverse. Income levels are much lower in absolute terms, and comparatively similar for practically 80 per cent of the population, which means that the middle-income strata are small. Obviously, this limits the size of the domestic market for certain industrial products, since expenditure on food alone absorbs from 53 to 69 per cent of total expenditure in the lower income groups. Moreover, surveys carried out in various towns show that the item headed "household articles" (which includes electrical appliances, radio sets, refrigerators and ice-boxes, furniture, musical instruments and miscellaneous utensils) accounts for less than 11 per cent of total expenditure in the two lowest income categories in the capital cities (41 per cent of urban households) and little more than 6 per cent in hinterland towns in the State of São Paulo, while in the Nordeste, only 11.1 and 3.1 per cent of urban homes possess radio sets and refrigerators, respectively. The proportions in the southern region of Brazil are 53.8 and 16.4 per cent.

These data suggest the need for fairly careful study of the effects of a change in income distribution on the pace and pattern of development, and emphasize the importance of the subject as a social factor or as a criterion of equality. Thus, the gradual exhaustion of import substitution possibilities and the weakening of incentives to industrial growth might appear in a very different light, apart from their close connexion with the problems of technological improvement, lack of employment opportunities and more efficient use of the available factors of production.

On the other hand, there is the much more controversial question of the relationship between concentration of income and the savings coefficients required to ensure more rapid rates of capital formation. The data available for Latin America—whether at the level of macro-economic studies, special research or consumer income and expenditure surveys—seem to afford no statistical evidence of a definite correlation between the two variables.

Evaluation of the survey data collected in Mexico leads to the conclusion that at the lower income levels there is a tendency to over-estimate expenditure. The figures given are often much higher than the income declared, with the result that considerable personal dissaving is shown. Conversely, in the upper strata expenditure is substantially under-estimated, and the rates of saving suggested by the declarations are therefore very high, even though that what is involved in many instances is not personal saving proper, but saving based on family enterprises or on the productive activity of self-employed workers.

The same thing probably happens in other countries. In Brazil, the surveys reveal striking disparities in the proportions of total income represented by current expenditure: between 83 and 88 per cent in towns where income levels are higher, and 94 and 96 per cent where lower levels of income prevail. But the relationship is not as clearly-defined when a comparison is drawn between the behaviour patterns of similar income strata in different cities, or of different categories of recipients in one and the same town. In short, savings-and-income comparisons do not indicate any direct correlation either between towns or between socio-economic groups. The average share of saving varies from 3.9 to 12.6 per cent in the State capitals (with no definite correlations in respect of the corresponding average income levels), while its minimum and maximum proportions are higher in towns in the interior. Within individual towns, although as a rule the level of saving is higher in the upper income strata, there are significant anomalies. In Recife, for example, the group with incomes ranging from 350,000 to 800,000 cruzeiros saves more, both in absolute and in relative terms, than the higher income groups; and in Belo Horizonte dissaving is shown by households in the 800,000-1,200,000 cruzeiros category, while saving is characteristic in the lower income brackets.

THE ECONOMIC POLICY OF BOLIVIA IN 1952-64

The year 1952 marked the beginning of a very interesting period from the standpoint of analysing economic policy. This study deals with policy aims, the means chosen to achieve them, the background data underlying that choice and the results observed at the end of the period.

Owing to the variety and complexity of developments and the unreliable nature of information, the evolution of economic policy is described only in very broad terms. Neither is it necessary to repeat the fund of information contained in various studies, which constitute the basic bibliography on Bolivia's recent development and support the arguments set forth in the present study.[1]

During this period, Bolivia's economic policy envisaged substantive changes in the structure of production and operated in a setting of equally significant changes in the country's socio-political and institutional structure. Thus Bolivia's experience differs considerably from that of Brazil and Chile.[2] Bolivian enterprise, at least in so far as its intentions and some of the changes are concerned, compares only with that of Mexico and Cuba.

[1] In addition to official statistics, the following documents have been used in preparing this study: *Report of the United Nations Mission of Technical Assistance to Bolivia* (United Nations publication, Sales No.: 51.II.B.5); *Análisis y proyecciones del desarrollo económico, Vol. IV. El desarrollo económico de Bolivia* (United Nations publication, Sales No.: 58.II.G.2); "Plan de desarrollo económico y social 1962-1971", prepared by the National Planning Board and published in the periodical *Planeamiento*, Nos. 3-5 (La Paz, September 1961); "Plan bienal de desarrollo económico y social 1963-1964", prepared by the National Planning and Co-ordination Department and published in *Planeamiento*, Nos. 6-8 (La Paz, January-September 1963); and Ford, Bacon & Davis, Inc., *Informe sobre la situación de la minería boliviana* (1956).

[2] *Economic Survey of Latin America, 1964* (United Nations publication, Sales No.: 66.II.G.1).

A. MAIN FEATURES AND STAGES OF BOLIVIA'S DEVELOPMENT

According to the study undertaken the United Nations in 1958 on Bolivia's economic development, "this country has many features in common with other countries of the region. However, its geographical location, physical environment, population and social structure, history and economy have their own peculiar characteristics. It might even be affirmed that many of the problems affecting the economic and political development of other countries of the region appear to have been far more critical in Bolivia".[3]

To take only two salient examples, the "outward-directed" growth model that prevailed for nearly all the Latin American countries presented singular features in Bolivia. These diminished the dynamic effects and changes, despite all their drawbacks, which occurred in other economies of the region. Secondly, the opposing forces and fluctuations in this form of growth prevented transition to a production system based on an "inward-directed" growth model which could offer other stimuli in addition to external demand for its raw materials.

The developments which began in 1952 stemmed from these two factors.

[3] *El desarrollo económico de Bolivia*, op. cit.

1. The outward-directed growth model

In Bolivia, as in Brazil and Peru, exports of primary products have assumed considerable importance since the colonial era. But the standard outward-directed model did not take shape until colonial impediments were removed, free trade was decreed and conditions were established to ensure that the export of primary products would have the required internal repercussions. Within the political and economic framework of the colonial system, the metropolitan country's objective was not so much to trade with its dependencies as to secure any surplus produced, mainly precious materials. Once they had broken the pattern of complete subordinations, the Latin American countries became integrated in the world trade system as exporters of raw materials and foods and importers of a wide range of manufactures. These new links between the Latin American economies and the major industrialized centres, especially the United Kingdom in the past century and up to the First World War, provided incentives for a more intensive utilization of their own material and human resources.

In Bolivia the primary-export model came into being relatively late, after the start of tin mining at the turn of the century. This does not mean that there were no exports before that, but it was a long time before the first main export flow began. This situation—which applies to other countries too, particularly Venezuela—contrasts with that of neighbouring countries like Peru, where rubber production was followed by the production of nitrate and guano in the years 1830-40, petroleum from 1869 onwards, and sugar and cotton late in the nineteenth and early in the twentieth centuries.

Bolivia's export flow is smaller than that of other countries. In 1928-29, for example, exports averaged less than 80 million dollars, compared with about 220 million in Peru. Even allowing for the difference in population, the absolute level of exports is still a key factor inasmuch as, after consumer imports are deducted, a fairly substantial balance remains for imports likely to contribute directly to development.

Moreover, the principal export item is developed under extremely difficult conditions. Present tin production costs in Bolivia are high compared with other producer regions, mainly because the deposits are usually found in underground veins to which access is difficult and the product is contained in a mixture of oxides and sulphides for which a more complex treatment is necessary.

Lastly, the position of tin on the world market is somewhat weak. World consumption grew rapidly, though with sharp fluctuations, until shortly before the depression, but failed to regain its former levels—except temporarily in 1939-40—because technical progress during the Second World War and the post-war years reduced world demand. United States consumption, for example, has declined in absolute figures over the last few decades and far more so in per capita terms.

The special features of the export system are its concentration and specialization. In the five years 1925-29, ores represented over 93 per cent of the value of exports and tin nearly three-quarters of the total. Moreover, nearly the whole of this output was for the export market. These are or have been relatively common features of primary-export economies—except, in some degree, producers of staple foods like Argentina and Uruguay—but they are particularly marked in Bolivia.

Three major Bolivian groups (Patiño, Aramayo and Hochschild) controlled large-scale tin mining, whereas in other Latin American countries mining was being progressively transferred to foreign investment, which did not happen in the case of agricultural exports except for most of the tropical plantations.

In principle, the result should have been a more favourable distribution of export earnings and more autonomy in adopting basic decisions, including those relating to the preservation and expansion of mining assets. This did not happen in practice, however, because the large corporations were converted into international concerns. As early as 1924 the Patiño company was registered as Patiño Mines Enterprises Co., Inc., in Delaware, United States. In 1930 this firm gained control of the Harvey smelter in the United Kingdom and of other enterprises operating in the same field. It also extended its investments to other production centres in the Belgian Congo, Malaya, Burma, Thailand and Nigeria.

There are no data for calculating the proportion of the value of exports that went out of the country over the long term. The only estimates are contained in the United Nations study[4] and cover the years from 1947 to 1952, when the mines were nationalized. These figures indicate that remittance of profits and interest fluctuated sharply during the period, ranging from 15 per cent in 1952 and 12.6 per cent in 1948 to 1.6 per cent in 1949. The balances are clearly associated with the ups and downs of the external tin market. Although the estimates do not permit definite conclusions to be drawn, they should be considered with due regard for the considerable weight of the value of exports in total income: a little over 30 per cent around 1950. According to the above-mentioned study, "the comparison shows that, in Bolivia and Venezuela alike, exports represented a much higher proportion of income than in other Latin American countries. But while in Venezuela the main reason was the high value of its exports—nearly 300 dollars per head, in

[4] *Ibid.*, chapter III.

Bolivia it was the extremely low income levels in activities other than the export sector".[5]

What is more, only a small proportion of the profits of large-scale tin mining were ploughed back into the industry; hence, in addition to the natural difficulties and unfavourable external market conditions, the state of the plant itself became increasingly unsatisfactory. In this respect, the United Nations study states that "little money has been invested in the last twenty-five years, no new exploration has been undertaken and much of the plant has been allowed to remain idle, in contrast with the fairly substantial investments made in Africa during the war and later in South-East Asia".[6]

Lastly, a noteworthy feature of the Bolivian primary-export model is the small degree to which tin mining is integrated with the national economic system, and the minimal extent to which this industry's dynamic force has spread to other activities. Tin mining might be considered as a special export enclave, even if the enterprises were Bolivian and under State control. The expansion of mining activities was not accompanied by any appreciable change in the situation and traditional relationships of agriculture. Moreover, as it absorbed only a fraction of the labour force (about 3 per cent), it had no great influence in creating demand for domestic goods and inputs, since most of these had to be imported.

2. The social and institutional milieu

The characteristics of the primary-export model are patently reflected in Bolivia's past social and institutional structure. The concentration of the dynamic flow, its relative isolation, and the scant movement of the remaining sectors and of areas unrelated to the main export item gave the mining owner-groups exceptional weight and power. On a social rather than an economic plane, this predominance is shared by the large land-owners, under whose tutelage—often of an absolute and feudal nature—are most of the rural working population, of indigenous extraction. The landowners' control over this population group enables them to participate in the balance of power on a more or less equal footing with exporters.

This state of affairs, which was quite unexceptional in the past regional milieu but was particularly marked in Bolivia, gave the country a clearly bi-polar social structure, with a small minority at the apex, generally white or mestizo, and the broad rural masses at the base, with a minimal representation and participation in community life.

However, because of the significance this was to have in subsequent development, it should be taken into account that, partly as an inherited effect of the colonial pattern of development and partly as a result of the indirect effects of outward-directed expansion, a number of urban centres were established (La Paz, Cochabamba, Santa Cruz, Potosí and Oruro) with some diversification of the social structure, in which local, and therefore national, importance was given to the middle-class groups: government officials, employees, entrepreneurs, businessmen, intellectuals, skilled operatives, etc. In addition, the important nucleus of miners, who had to endure very hard and unstable working conditions, was to become the principal centre of opposition to the traditional organization. Although extractive industries absorbed only a small proportion of the labour force, the nature of the work had led to a stronger trade union organization than in other activities, added to which the sector's economic importance strengthened its bargaining position.

These characteristics were naturally reflected in the structure and pattern of Bolivia's institutional machinery in general and that of the Government in particular. Except for the slight counterweight of pressures generated by the weak middle- and lower-income urban and mining groups, decisions were essentially adopted by exporters and landowners. This is eloquently borne out by the fiscal sector's share in the value of tin exports. From 1900 to 1910, sales taxes ranged from 2 to 4 per cent of their value, rising slightly to 6 per cent in the following decade. Owing to the precarious nature of the main and potential source of revenue, the public finances have shown an almost constant deficit since the beginning of the century.

3. The progressively critical position of the traditional system

In Bolivia, as in nearly all Latin American countries, the world depression was a severe threat to the outward-directed growth system. As in other economies, the impact came after the boom years 1925-29 which, paradoxically enough, had appeared to consolidate it and open up new expansion possibilities.

The effects of the depression were severe but not exceptionally so, and in the mid-nineteen

[5] *Ibid.*, p. 26.
[6] *Ibid.*, p. 32.

thirties export values, while still far short of the extraordinarily high levels reached in 1927-29, had recovered notably and continued to rise during the Second World War. But Bolivia's economic and socio-political system suffered a second upheaval with the Chaco War (1932-35), whose requirements and disrupting effects dissipated any possible sign of consolidation of the precarious export base and set off a chain of rapid and substantive changes in the traditional system.

Although it is not the intention to review all those phenomena, there are two facts of particular interest. Firstly, in the years preceding and following the turn of events in 1952, despite relatively favourable circumstances, the export economy ceased to give sufficient support to the socio-political organization prevailing up to the 1920s. Secondly, with the collapse of the structure and following the search for defensive or promotional measures, the middle-class groups that had been evolving began to play their part or to carry more weight. In spite of the setbacks suffered, this trend was to culminate in the 1952 revolutionary upheaval and the formulation of an economic policy which is broadly analysed below.

It is important to examine the recrudescence of inflationary disequilibrium—an old problem in Boliiva which has since taken on a new significance—because of its relationship with the steady deterioration of the traditional system and its impact on subsequent developments.

The disruption of the economic and social bases under the old Bolivian system mainly affected the State machinery. As noted above, government activities usually showed a deficit, subjected as they were to a dual play of forces: on the one hand, the demand to maintain or raise public expenditure for various purposes, and, on the other, the reluctance and even inability of large-scale tin mining—the only nucleus producing significant surpluses—to yield the resources to satisfy that demand.

The conflict turned more critical with the economic distortions caused by the depression and the Chaco War, while the increasingly important middle-class groups clamoured for more State projects and expenditure.

It is not surprising, therefore, that the trend towards inflationary disequilibrium should have sharpened, despite temporary improvements due to better external conditions and a larger contribution from tin, or to the restriction of public expenditure or investment at the expense of social aspirations.[7] The problem, as will be seen later, is as yet unsolved and in some measure was aggravated by the changes which took place in 1952.

For a proper understanding of Bolivia's position, it is essential to know about its difficulties in adopting measures to counteract the deterioration of its economy. The export sector, with its dynamic force restricted in absolute terms and by circumstances, was subsequently incapable of counterbalancing internal tensions, and the production sector failed to reorganize its resources with a view to establishing other promotion nuclei. In other words, Bolivia, unlike other countries, failed to diversify its activities sufficiently to achieve an inward-directed development. Although there were certainly pressures to that effect stemming from the depression or the external bottleneck, they were not strong enough to bring about even a partial change of course. As late as the mid-fifties, to take an outstanding indicator, the industrial sector was contributing less than 9 per cent to the country's revenue; less than 2 per cent of the active population was employed in registered industry, or slightly over 4 per cent if the labour force engaged in small-scale industry is taken into account. These proportions are much lower than for the region as a whole and even for several Central American countries which are smaller than Bolivia.

Thus the impossibility of channelling development through other avenues which would at least supplement the traditional export activities cannot be ascribed purely to the size of the market. Although this was and still is a paramount factor—as suggested by the absence of a deliberate approach to industrial development in economic policy at that time and later—it was not the only one. A number of others would certainly include the extreme concentration in income distribution and the virtual exclusion of a large part of the population from economic life.

A secondary but significant factor which should not be forgotten—and also occurs, though on a different scale, in Colombia—is the relatively scattered distribution of urban centres. Although it helped to avoid some of the drawbacks inherent in the regional disequilibrium, the system lacked a consumer centre which might attract and provide the necessary range of favourable external economies for the expansion of manufacturing industry.

[7] Rates of inflation, which reached 50 per cent in the years prior to 1939, dropped to about 24 per cent in 1940-43 (*ibid.*, p. 62, table 44).

4. Components of the 1952 economic policy

The economic policy launched in 1952 had three major objectives: nationalization of large-scale tin mining, agrarian reform, and sectoral diversification and spatial integration of the economic system. These objectives did not stem strictly or exclusively from the political movement which came to power at the time; they were really established in response to the serious concern about the Bolivian economy and society which had long prevailed in some centres of national thought, and had not found full expression for want of a favourable climate of ideas.

The identification and pursuit of those objectives by no means imply that they resulted in a clear-cut strategy with respect to the ultimate aims, the means of attaining them, possible difficulties encountered, and their interrelationships and compatibility. Under favourable conditions, those objectives became part of government policy, and their attainment is sought by improvising expedients which are often inconsistent with one another or conflict with some of the targets. It is not difficult to discern a relationship between this prime characteristic and the subsequent runaway inflation, which in some degree was the expression and consequence of those weaknesses.

Bolivia's purpose in nationalizing tin was to acquire ownership and control of the most dynamic and strategic nucleus of the economy, with the transfer to the State of the three major corporations owning those export centres. Agrarian reform was aimed at transforming social and economic conditions in the agricultural sector. Lastly, the sectoral diversification and spatial integration of the economic system were intended to expand the production base and incorporate two large geographic-economic areas: the Altiplano and the Oriente.[8] This was being done by seeking and promoting other activities capable of broadening the base for maintaining and expanding the system, particularly petroleum and agriculture in the Oriente, and finding the best population-resources combination through shifts of active population from the first area to the second.

[8] A central project for the purpose—the Cochabamba-Santa Cruz highway—was formulated during the Second World War, but did not materialize until the middle of the fifties.

In addition to these aims and perhaps even over-reaching them, a redistribution pattern emerged which, in essence, over-estimated the surpluses that might be mobilized to attain the social targets.

In this policy, low priority was given to two objectives which might have been considered of paramount importance, given the nature of Bolivia's problems. One was the modernization of tin mining. It seems to have been the prevailing belief that the transfer of assets to State ownership would suffice to remove all obstacles to the sector's development and make its resources available for other economic and social aims. Furthermore, the possibilities afforded by an expansion and diversification of manufacturing were underestimated. Industrialization, which in nearly all the Latin American countries had become part of the very essence of economic policy, was not given due importance in Bolivia.[9] None the less, the State made substantial investments in that field, although mainly in isolated projects to supplement specific primary activities.

Two periods stand out in the evolution of this economic policy. In the first, which lasted from 1952 to 1956, the main objectives were accomplished or steps were taken to attain them, but it was also a period of growing instability; this was followed by a period (1957-64) of predominating concern over inflationary disequilibrium, and efforts to continue the original basic changes began to flag. With the recovery of monetary stability in the last three years of this period, there was renewed concern for economic development, but not as intense as in the first period and it failed to extend to the major problems tackled previously. This situation and the cumulative political and social tensions led up to the political upheaval in 1964 and brought the period concerned to a close.

[9] Nevertheless, it is useful to remember that the industrial sector developed considerably during this period. In a first stage, ample exchange benefits, the expansion of public expenditure and the activation of internal inflation favoured this activity, as a result not of an actual broadening of the productive base but rather of the exceptional nature of the temporary incentives mentioned above. In a second stage, which began with the stabilization policy, manufacturing suffered a severe setback with the disappearance of those artificial conditions, from which it seemed to recover partially at the beginning of the sixties, entering upon a stage of relative recovery up to 1964.

B. OBJECTIVES OF THE POLICY LAUNCHED IN 1952

1. NATIONALIZATION OF LARGE-SCALE MINING

Nationalization of the large-scale mining industry was one of the first and most important decisions adopted as a result of the 1952 revolution.[10] As noted previously, this sector was and still is of key importance for the whole economic system. Its evolution had been unstable and relatively modest; the small amounts invested in the plants and exploration activities had limited its growth possibilities; national ownership of assets had not had very favourable effects since, as in practice the enterprises had become "internationalized". Nevertheless, tin mining continued to have a decisive influence on Bolivia's political and institutional development.

In addition to these and other factors, it is no less significant that the trade union organizations of large-scale mining constituted one of the pillars of social and political change. From the alliance of these groups with the middle-income and urban wage-earning sectors sprang the new power system which came into being with the revolution.

The participation and influence of mining trade unionism is particularly important because it gave rise to the fundamental pressure in favour of nationalization.

Lastly, the decision to nationalize was influenced by the fact that since large-scale tin mining was the most productive nucleus of the economic system, particularly from the standpoint of foreign exchange earnings, it was imperative that the new Government should control it in order to direct the economy and use any mining surpluses to attain its economic and social goals. This point is emphasized because, as stated previously, the development and modernization of the mining-exporter nucleus was not a policy aim in itself, and this was to have far-reaching repercussions on its future evolution. Nor was the obvious objective of vertically integrating the industry, up to the smelting stage at least, defined at that time.

(a) *Evolution of the process*

Bolivia's tin mines may be said to have been nationalized by stages. On 13 May 1952 the Government set up a commission with instructions to study, over a period of 120 days, the bases, procedures and conditions for expropriating the mines controlled or owned by enterprises of the Patiño, Hochschild and Aramayo groups. Secondly, as a prior step to nationalization, a supreme decree was signed on 2 June 1952 establishing a State monopoly of ore exports.

On 2 October 1952 the Government established the autonomous Bolivian Mining Corporation (Corporación Minera de Bolivia—COMIBOL) with the following terms of reference: "To explore, produce and process ore from the mines allocated to it by the Government"; to market and export mining products . . . "import mining machinery, tools, materials, implements, and articles for the store (*pulpería*) to supply its own needs and those of other domestic mining activities". COMIBOL was also empowered to form semi-public enterprises "to improve production in certain mines under its jurisdiction". COMIBOL's policy, administered by the Government through the Ministry of Mines and Petroleum, would be implemented at the enterprise level by a board of directors consisting of seven persons appointed by the Executive, two of whom were to be selected from three candidates proposed by the Trade Union Federation of Bolivian Miners.

By means of a decree dated 7 October, "each and all of the companies owned, controlled or administered by the Patiño, Hochschild and Aramayo mining groups . . . were subjected to State supervision or direct State administration, according to circumstances as viewed by the intervening body".

After five and a half months, large-scale mining was finally nationalized by Supreme Decree No. 3232 of 31 October 1952. COMIBOL took over production in the seventeen companies belonging to the three mining groups alluded to above. The same decree established "control by workers" ("*control obrero*"), through the "participation of their delegates in the local administration of all nationalized mines".

(b) *Expropriation on the basis of indemnification*

Mines were expropriated on the basis of indemnification payable to the former owners. In view of the dependence of Bolivia's tin on foreign refineries where the interested parties wielded great influence, to say nothing of the weight they carried in international relations, it is not surprising that the levels and terms of payment were fairly stringent from Bolivia's point of view. In fact, it was decided that in-

[10] The large tin mining companies accounted for over 80 per cent of total mining exports in 1952, the rest being products of the medium- and small-scale mining companies.

demnification would be paid automatically in dollars in the form of retentions by the actual buyers, and would fluctuate according to tin quotations. Thus, the agreements concluded between COMIBOL and Patiño Mines, Compagnie Aramayo de Mines en Bolivie and Mauricio Hochschild, S.A.M.I. in July 1953 established that Williams Harvey of Liverpool would withhold the following percentages of the export value on behalf of the three firms mentioned: 5 per cent if tin prices fluctuated between 1.215 and 1.06 dollar cents per fine pound, 2.5 per cent if between 1.06 and 0.90, 1 per cent if between 0.90 and 0.80, and nothing if the price was less than 0.80 dollar cents per fine pound. For wolfram, the quota established was 10 dollars per unit exported.

Prior to this definition, and in accordance with the nationalization decree, the State made a provisional evaluation of the amount of indemnification payable and decided that any sums owed to the State by the enterprises concerned should be deducted therefrom. Between its occupation of the mines and such time as the net balance of the indemnification was paid, the State would credit those firms with interest at an annual rate of 3 per cent on the sums estimated in the provisional evaluation. Furthermore, the Bolivian Government undertook to pay any sums the companies might owe to third parties, against the debit balances outstanding under the head of indemnification. The problem, in essence, was the payment of social benefits to workers and employees on account of the change from one type of enterprise to another, and the amortization of credit to the Export-Import Bank.

(c) *The nationalized mining industry*

COMIBOL came into being and is developing under particular circumstances which should be taken into account in evaluating its behaviour in subsequent years. Some of those general circumstances have already been sufficiently dealt with. Others might be added, such as the exodus of managerial and technical personnel and the giant administrative task of fusing into a single nucleus a variety of enterprises and mines which had thus far operated with widely differing systems and aims.

But the vital question is to place COMIBOL within the framework of forces and relations that were to guide its operation. The Government itself takes first place. As indicated above, the Government was primarily concerned with ensuring and increasing the flow of foreign exchange generated by large-scale tin mining in order to invest the resources in other sectors or use them for imports of consumer and other goods. Secondly, it was anxious to keep the exchange rate down so that import prices would also remain low.

From 1953 to 1955, the foreign exchange yielded by COMIBOL fluctuated at slightly over 40 million dollars, while the relation between net sales of foreign exchange to the Central Bank and the value of exports from its mines rose from approximately 48 per cent (in 1947-49) to 57 per cent.[11] To judge from these figures, COMIBOL may be considered to have complied with the Government's requirements, even if slightly below its expectations.

The second official requirement—liquidation of foreign currency earnings at a low price—was mainly fulfilled, but represented an undue sacrifice for the mining organization, and was a basic factor in triggering the inflationary process. In view of the rise in domestic prices, the establishment of a rigid conversion exchange rate gave rise to a marked disparity between COMIBOL's operating costs and the product of its sales to the Central Bank. From 1953 to 1956, the Central Bank managed to cover, on an average, just over 70 per cent of its total costs, apart from the fact that COMIBOL's availabilities for the purchase of materials and investment purposes were restricted to the maximum. The only possibility was for the Central Bank to extend the necessary credit to enable COMIBOL to cover its costs and have some working capital available.

This system meant that the Government, through the Central Bank, first of all reduced COMIBOL's income and then returned it. However, the inflationary results were obvious: between 1953 and 1954, for instance, about half the expansion of the means of payment was attributable to the credit accorded to the mining corporation. While it is true that it was possible to subsidize imports of essential goods by this means and that those purchases were ultimately subsidized by bank issues rather than COMIBOL, the fact remains that the process caused evident distortions in COMIBOL's operations, apart from the haggling over foreign exchange to cover its own needs.

Just as the new enterprise sustained government pressure from above, it also began to feel pressure from below, i.e., that of miners' trade unions which, moreover, were influentially represented on the COMIBOL board of direc-

[11] The remaining values were accounted for by expenditure abroad, retentions under the head of profits, and, in the period following nationalization, retentions for indemnification.

tors. This sector brought pressure to bear in various spheres—employment, wages, social benefits and advantages deriving from subsidies for imports of consumer goods regardless of the direct part it played in operations through trade union representatives.

But these were not the only forces affecting COMIBOL's activities. There were also external factors deriving mainly from the influence of expropriated interests on marketing, financing and tin refining, as well as indemnification commitments. From 1953 to 1961, COMIBOL's payments under this head amounted to nearly 22 million dollars. Since prices fluctuated between 0.90 and 1.06 dollar cents during that period, the proportion retained by refineries on behalf of the former owners never exceeded 2.5 per cent of the value of exports. However, with the reduction in export values, which was intensified between 1957 and 1961, these payments represented nearly 15 per cent of COMIBOL's foreign exchange earnings in the last year of the period.

Several of the circumstances described above and the overall situation changed considerably after 1956, as a result of the stabilization programme. A market foreign exchange rate was established, and this improved COMIBOL's financial position, making it relatively independent of Central Bank credit. Secondly, the new political set-up alleviated trade union pressure, with the result that the number of workers was reduced. Thirdly, the Government's attitude to the allocation of resources for modernizing the mines gradually altered, and this objective was given higher priority as from 1959.

(d) *Effects on employment*

Given the over-all situation, employment constituted one of the prime concerns in nationalizing the mines, owing to the scarcity of employment opportunities and the pressure of the labour force in seeking work in a sector which offered certain relative advantages. Although no reliable data are available on the number of workers actually employed in the mines before nationalization, part-time workers or casual labour far exceeded the number of workers on the regular payroll. Thus, a major objective of the labour organizations was to incorporate this supernumerary staff.[12] The same thing happened in the so-called marginal mines, where the aim was to keep on the operatives who might have been considered redundant, on a more stable basis.

Table 1 shows the evolution of the labour force engaged in large-scale mining and its distribution inside and outside the mines over the period 1951-64. The total labour force increased by 50 per cent from 1951 to 1956, and the proportion working inside and outside the mines altered appreciably. While the proportion of the former dropped from 55 per cent to 32 per cent during the period concerned, with a decline in absolute terms, the number of registered workers outside the mine more than doubled, rising from 45 to nearly 68 per cent of the total.

There seems an obvious relationship between those changes and the trade union pressure to

[12] Added to this were the workers' efforts to extend social security benefits to a larger number of miners.

Table 1

BOLIVIA: DISTRIBUTION OF THE LABOUR FORCE IN LARGE-SCALE MINING, 1951-64

Year	*Inside the mine*	*Percentage*	*Outside the mine*	*Percentage*	*Total*
End of 1951	13,200	55.0	10,800	45.0	24,000
1952	14,179	48.9	14,794	51.1	28,973
1953	14,410	46.8	16,352	53.2	30,762
1954	14,532	44.3	18,242	55.7	32,774
1955	12,608	36.9	21,569	63.1	34,177
1956	11,438	32.1	24,222	67.9	35,660
1957	11,200	33.7	20,931	66.3	32,131
1958	9,201	31.8	18,681	68.2	27,882
1959	9,171	32.0	18,009	68.0	27,180
1960	9,477	32.8	17,963	67.2	27,440
1961	8,552	30.2	17,872	69.8	26,394
1962	7,725	28.8	17,754	70.2	25,479
1963	9,391	36.8	14,615	63.2	24,006
1964	9,348	37.1	14,412	62.9	23,760

SOURCE: COMIBOL.

take advantage of one of the few existing "employment reserves" and incorporate in COMIBOL all or part of the labour force previously engaged in miscellaneous activities in mining areas on a part-time or sporadic basis.

It is also reasonable to assume that COMIBOL's labour policy during that period was influenced by other factors, such as the backwardness of development activities and the failure to plan and try out new extraction methods, which affected production possibilities and compelled the enterprise to shift the surplus workers engaged in direct mining activities to jobs outside the mines. The situation changed later when the stabilization policy and the progressive lessening of political contact between the organized groups and the Government altered the previous trends. Table 1 shows that in 1957-64 total manpower was practically the same as in 1951 and that, although the proportion of workers inside and outside the mine altered, the latter did not decrease significantly.

(e) *Effects on productivity*

A highly controversial aspect of the nationalization of large-scale mining is its effects on mining productivity. As in other cases, there are insufficient data available for sound or definite conclusions to be reached, but some factors which have not always been given due weight may help to clarify the question.

The relationship between mining output and manpower clearly depends on the changes which take place in the latter. Thus, the large increase in manpower up to 1956 and its subsequent decline, due mainly to social and political factors, would partly explain the changes in productivity, which, therefore, were not due primarily to technical and economic factors.

Various circumstances which have little or nothing to do with the nationalization of mines and the efficiency of the new administration also have some impact on productivity. One is the deterioration in the physical conditions for producing tin as a result of insufficient investment in the past. The firm of consultants, Ford, Bacon and Davis, in its report to the Government, estimated that in 1955 about 16 million dollars were required to modernize the existing plant. Moreover, the tin content of the ore has steadily declined; in the Cataví mine in 1954 it was less than 10 per cent of the 1925 figure[13] (see table 2).

Table 2

BOLIVIA: AVERAGE TIN CONTENT OF ORE IN CATAVI MINE, 1925-64

Year	*Percentage*
1925	6.65
1935	3.76
1940	3.07
1945	2.46
1950	1.28
1953	1.06
1955	0.84
1957	0.86
1960	0.73
1964	0.54

SOURCE: National Planning and Co-ordination Department (Secretaría Nacional de Planificación y Coordinación), "Plan decenal: Sector minería" (mimeographed).

With the decline in the metal content of ore in nearly all the COMIBOL mines, the problem was to extract a larger quantity[14] in order to obtain the same content of tin. This called for changes in production methods (extraction and processing) which failed to materialize, except on a very limited scale in the Cataví mine.

In addition, the inadequacy of supplies sometimes halted work, and social disputes caused by dismissals or a rise in *pulpería* prices became more serious after 1956, while just at that time there were strained relations between the mining unions and the Government.

Although all these factors make it impossible to adopt a simplified approach to the evolution of mining productivity, it is useful to indicate some piecemeal data that are at hand. They relate, firstly, to two of the principal mines: Colquiri and Cataví. Table 3 shows the number of days worked inside the mine, the quantity of ore treated and the output in tons per man/day for 1950, 1955 and 1959.

In the Colquiri mine, an increase is recorded in both the number of days worked and the quantity of ore treated, but the output per worker slowly declined. In Cataví, the number

[13] This decline does not apply only to Bolivia, nor only to tin. It is not surprising that such high-grade ore was produced in the early years, since the primitive methods in use could only be applied in the richest mines. The question is, therefore, to adopt the most suitable techniques to counteract the gradual decline in the tin content of the mines.

[14] To gain some idea of the increase in extraction necessary to obtain the same amount of tin, as the metal content of the ore declines, suffice it to consider production in the Cataví mine. While 42.5 tons of run-of-mine ore were required per ton of fine ore in 1941 when the tin content averaged 3 per cent, about 200 tons were required in 1959 when the tin content averaged 1 per cent, taking into account the fact that recovery had declined from 75 to 50 per cent during the period concerned.

Table 3

BOLIVIA: OUTPUT INSIDE THE MINES AT COLQUIRI AND CATAVI, 1950, 1955 AND 1959

	Colquiri			*Catavi*		
	1950	*1955*	*1959*	*1950*	*1955*	*1959*
Thousands of days worked ..	271.00	361.00	468.00	866.00	1,110.00	1,253.00
Thousands of tons treated ..	323.00	406.00	438.00	1,052.00	1,459.00	1,214.00
Output in tons per worker ..	1.19	1.12	0.94	1.22	1.31	0.97

SOURCE: "Plan decenal: Sector minería", op. cit. These data are partly based on a report by the firm of consultants, Ford, Bacon and Davis.

of days worked also increased, but the volume treated dropped in 1959 compared with 1955, although there was a considerable rise in the latter year over 1950. Ouput per worker improved slightly from 1950 to 1955, but declined sharply in 1959.

To complete the above information, a monthly average may be taken of the tons of run-of-mine ore and fine ore produced by four of COMIBOL's principal tin mines, and the relationship with the number of workers directly employed in mining (see table 4). Between the two periods considered, there was a slight reduction in the tonnage of ore extracted monthly and a far greater reduction in fine ore. Moreover, while output per worker rose for run-of-mine ore, it dropped sharply for fine ore, the main causes being the concentration techniques in use and the capacity and state of the plant, apart from the richness of the ore.

Table 4

BOLIVIA: PRODUCTIVITY OF INSIDE WORKERS AT THE CATAVI, HUANUNI, COLQUIRI AND CARACOLES MINES, 1953-64

(Tons per month)

	1953-56	*1957-64*
Run-of-mine ore ...	174,846.0	165,775.0
Run-of-mine ore per worker	27.7	30.8
Fine ore	1,930.0	1,345.0
Fine ore per worker	0.306	0.250

SOURCE: COMIBOL.

Although these data are so incomplete, they appear in some measure to confirm the assumption that the drop in productivity levels was very largely due to the deterioration in technical mining conditions and the low tin content of the ore, without excluding the economic, financial and socio-political factors which also affected productivity.

(f) *Wages in the nationalized mining industry*

It can be inferred from variations in employment and social conditions that expenditure on wages increased sharply in the first period of COMIBOL's life (1952-56) and declined during the second, i.e., from the beginning of the stabilization period onwards. The only relevant data are for the years 1954-59 and are expressed in current prices, which reduces their usefulness. Unfortunately, there is no way of eliminating the effect of prices, since there is no satisfactory cost-of-living index for the country or the main regions and the multiplicity of exchange rates makes it impossible to select a reasonable rate for converting the Bolivian peso into dollars or other currencies. At all events, between 1954 and 1956 wages increased sevenfold, while prices—according to the cost-of-living index for La Paz—increased less than fivefold. In addition, some evaluation would have to be made of improvements in social welfare (family and post-natal allowances, workers' compensation, construction of housing, etc.) and of the exchange subsidies for imported consumer goods. Losses sustained by the COMIBOL commissaries as a result of these subsidies amounted in 1955 to about 30 per cent of sales.

However, these indications of a possible improvement in wage conditions in the mines must be counterbalanced by the increase in the labour force, referred to above. In view of the importance of this factor, it is reasonable to assume that if there was any progress, it was basically in the expansion of employment, i.e., that the reason for the increase in expenditure on labour was the much larger number of wage-earners, rather than any significant increase in wage levels.

After 1956 the picture changed. The over-all cost of labour remained much the same between 1957 and 1959, and even diminished in 1958; but the amount distributed went to an increasingly smaller number of wage-earners who no longer had the benefit of subsidized imports. On balance, therefore, it would seem that there was no marked change in the traditional situation of the worker, except with regard to the opening or restricting of job opportunities (see table 5).

Table 5

BOLIVIA: WAGES PAID BY COMIBOL, 1954-59

(Millions of Bolivian pesos)

1954	13,438
1955	23,964
1956	92,385
1957	258,048
1958	227,609
1959	266,255

SOURCE: COMIBOL.

(g) *Plans for rehabilitating the nationalized mining industry*

With devaluation and the establishment of a single exchange rate under the stabilization programme which came into force at the end of 1956, COMIBOL's national currency earnings increased. Nevertheless, there was no particular improvement in the financial situation of large-scale tin mining, since the increase in income did not even cover current expenditure, let alone allow of a policy of investment without other sources of financing.

From 1957 onwards, there was a sharp drop in COMIBOL's output, which cancelled out any positive effects resulting from the more favourable exchange rate. Moreover, although the price of tin on the world market began to rise from 1959 onwards, this did not make up for the drop in the volume of exports up to 1964.

Two types of measures were adopted in order to deal with these problems, under the stabilization policy establishing a reduction in financing through central bank issues. Firstly, an attempt was made to cut current expenditure by reducing the labour force by as many as 12,000 workers between 1956 and 1964 (see again table 1); secondly, more money was borrowed from abroad.[15] These efforts culminated in the Triangular Operation for the rehabilitation of the mining industry.[16]

The first plans drawn up, which date back to 1959,[17] ranged from a proposal to improve the supply of machinery and equipment to a more integral approach which included other mining activities. An example of this is the mine "Matilde", which is the largest zinc mine in Bolivia and also belongs to COMIBOL.

The so-called Triangular Operation, which was launched in 1961, was a short-term programme for improving the financial situation of large-scale tin mining and raising production levels. As much as 80.1 per cent of the planned investment was for the renewal and improvement of equipment, the provision of transport units, the supplying of the commissaries and the transfer of surplus labour. Only 19.1 per cent was intended for the discovery of new mineral reserves, research to improve recovery and reduce production costs, and technical assistance (see table 6).

The implementation of the plan was divided into three phases, of which only two were completed between 1961 and 1964. In the first phase 13.6 million dollars were spent, but the objectives listed under items 1, 2, 7 and 8 of table 6 were only partially attained; in the second, 12.7 million dollars were spent on covering the most urgent needs of the moment.

The plan was modified as it went along; in the second phase, for example, the funds allocated for the transfer of workers were reduced to 1.2 million dollars and 3 million dollars was added to commissary expenditure, thus increasing the share of that item in total expenditure from 7.9 to 15.8 per cent. Also modified was the item for metallurgical studies, since over the two phases only 750,000 of the 2 million dollars budgeted was spent. Finally, an extra 3 million dollars had to be included for improvements in the treatment and recovery of ore.

It is difficult to evaluate the results of the Triangular Operation. However, the recovery of tin prices on the world market in the three-year period 1964-66 has done more to increase

[15] Up to 1964 COMIBOL's financial obligations amounted to a little more than 47 million dollars. An official source estimated that, in accordance with its payments plan for 1964-1975 in respect of amortization and interest, this debt would represent a disbursement of 61,690,000 dollars.

[16] The operation was called "triangular" because it was financed by the Federal Republic of Germany, the United States of America and the Inter-American Development Bank (IDB). Subsequent to the signing of the agreement, additional financing was provided by Argentina for supplying the COMIBOL commissaries.

[17] The first plan was based on an offer by the United Kingdom to provide 6 million dollars credit. Two other plans were known as "Over-all supporting programme for the nationalized mining industry" and "Analysis of the nationalized mining industry and rehabilitation programme".

Table 6

BOLIVIA: INVESTMENT BUDGET FOR THE TRIANGULAR OPERATION, 1961

(Thousands of dollars)

Item	*Objectives*	*Total*	*Percentage*
1. Special exploration	To determine mineral potential and locate new reserves	4,000	10.6
2. Metallurgy	Research to improve recovery and reduce production costs	2,000	5.3
3. Material and spare parts	To renew equipment in the mines and ensure proper maintenance	13,500	35.8
4. Equipment	To improve the mines and processing plants	4,500	11.9
5. Transport equipment	To increase the mineral transport units	4,000	10.6
6. Commissaries	Provision of suppplies	3,000	7.3
7. Transfer of surplus labour		5,250	13.9
8. Advisory group	Technical assistance	1,050	4.0
		37,750	100.0

SOURCE: National Planning and Co-ordination Department, "Diagnóstico preliminar del sector minería" (mimeographed).

COMIBOL's value of production than the physical increases in output brought about by the rehabilitation plan.

(h) *General evaluation*

Table 7 contains a number of data on total exports and exports by COMIBOL and the prices of tin on the world market, taking as the base year 1952, which was quite favourable for foreign trade. Although tin exports by the COMIBOL mines continue to be a decisive factor in foreign trade, particularly when prices are favourable, it is clear that, to some extent independently from the fluctuations in prices (particularly in the period 1959-63), there is a relative reduction in COMIBOL's share of total exports and in their physical volume (see again table 7). Although there was a slight recovery in output in 1964, this should not be taken to imply any long-term modification of the trend over the last decade, since the improvement in that year seems to have been more the result of a jump in prices of over 40 per cent.

At all events, judging solely from the quantitative changes in the value and volume of COMIBOL's exports between 1952 and 1964, it would seem that nationalization had an adverse effect on the tin situation.

However, there remains the question of what would have happened if nationalization had not taken place. It is clear from what was said above that large-scale tin mining had long been undergoing a process of decline, and in view of the previous behaviour of private mine-owners as regards investment and technological progress, there is no reason to believe that there would have been any change in the fifties. In other words, it may well be that the evolution of tin mining can partly be explained by the impoverishment of the deposits, which ought to

Table 7

BOLIVIA: TIN EXPORTS FROM THE COMIBOL MINES, 1952-64

Period	*Total exports*[a] *(millions of dollars)*	*COMIBOL tin exports*			*Price of tin (dollars)*
		Millions of dollars	*Thousands of tons of fines*	*Percentage of total exports*	
1952	141.3	71.2	27.3	50.4	1.20
1953-58	97.3	46.8	22.9	48.1	0.96
1959-63	76.8	35.8	15.3	46.6	1.10
1964	113.8	58.6	17.7	51.5	1.58

SOURCE: Central Bank of Bolivia and COMIBOL.

[a] C.i.f. values.

have been offset by the introduction of modern technology as in other tin producing countries. Furthermore, there was no need to discover new techniques; all that needed to be done was to apply already known techniques for the gravimetric concentration of ores. The mining industry was also affected by the upheavals of all kinds which accompanied and followed the socio-political transformations commented on above.

Another factor, which has not perhaps been given sufficient weight, is the government policy launched in 1952. Initially, this policy only took account of the possibility that nationalization of the mines would enable resources deriving from the tin export sector to be transferred to other sectors, for various redistributive and economic purposes. Consequently, as happened in other countries as well as Bolivia, the fact was overlooked that this export sector, for all its limitations and deficiencies, would have to continue to provide, for an indefinite period, a basis of support for all economic and social objectives, and that it was therefore essential that it should be run as efficiently as possible. When subsequent efforts were made to ensure this, the task was even more difficult, because of the general situation then prevailing and the decline in domestic resources.

Finally, it should be pointed out that the unfavourable situation in 1953-58, in relation to 1952, to some extent deteriorated even further in 1959-63, despite the fact that during this period most of the negative factors operating in the first years of nationalization had already disappeared. This could be taken as another confirmation of the chronic nature of the decline of the mining industry, which was temporarily offset by extremely favourable foreign market conditions.

2. Land reform

(a) *Physical and socio-economic characteristics of agriculture*

During the first half of this century agriculture in Bolivia was virtually at a standstill, both because of the specific characteristics of the sector and because of the whole economic and social system of the country.

Agriculture is carried on in the three major regions: the Altiplano, the Yungas and Valles, and the Llanos Orientales. The Altiplano, which accounts for 14 per cent of the country's total area, comprises the high plateau and its surrounding ranges, and has an altitude ranging from 3,300 to 4,500 metres. It has a cold and fairly dry climate and the soil is very poor, erosion being far-advanced and there being almost no organic matter in most of the arable land.

The Yungas and Valles, which make up 16 per cent of the total area of the country, constitute the intermediate region and are at an altitude of between 500 and 2,800 metres. The Yungas have a semi-tropical climate and the arable soil varies a great deal in depth, in certain steep and stony places being less than 30 centimetres. The Valles, which begin at a height of 2,000 metres, are the most important agricultural area under cultivation and have good soil, although it is somewhat exhausted. The climate is temperate.

The Llanos Orientales make up 70 per cent of the total area and are the largest area suitable for farming in the whole country.

The bulk of the rural population, which around 1950 represented about 70 per cent of the total, is found in the Altiplano and the Yungas and Valles.

Although agriculture's share in the gross domestic product was about 30 per cent, this was because of the large number of people engaged in agricultural work. Exports consisted of rubber, Brazil nuts and other less important products.

Since mining and industry imported most of the consumer goods and raw materials they needed, they provided no stimulus for agriculture to introduce technological changes of any importance. In general, the slowness of urban and industrial development in Bolivia and the relative abundance of foreign exchange meant that the backwardness of agriculture did not hamper the operation of the traditional economic system.

Agriculture was carried on under a feudal system of land tenure and farming, based on the concentration of property and social power in the hands of a small minority and on clusters of *minifundios* and indigenous communities on the periphery of the large estates. In these circumstances, land was more a factor of social power and prestige than a production good. Economic activity on the large estates was almost entirely based on the rural labour force, which worked for four to five days in the week without pay. In addition, *colonos* or tenant farmers were obliged to provide human and animal labour and farm implements at seed and harvest time.

The indigenous population and those subject to the latifundia system constituted, in fact, a socially, economically and politically marginal group. This tended to emphasize their isolation from the rest of the community and the hermetic nature of their culture, which was accentuated by their inability to speak any language other than Quechua or Aymará.

Side by side with the bipolar social structure of the large estates—with practically no intermediate groups—was another hierarchy within the rural working population itself. At the top of the scale was the *colono* or tenant farmer, followed by the *peon* or day labourer, who worked on the large estates at seed and harvest time on behalf of the *colono* or tenant farmer, and finally the *hutahuahua,* who worked as a sharecropper on the tenant farmer's lands. To this must be added the fact that most of the farms were concentrated in only one third of the country's territory.

Although public expression of the need for land reform dates back to the twenties, when the problem was first raised in university and labour circles,[18] it was only after the Chaco war that it was included as a principle in the programmes of the new political forces.

However, the realization of this need did not, in general, extend beyond the small circle of intellectuals to the mass of the rural population, with the result that the rural worker's vision remained confined to his traditional attachment to the land. Moreover, in the ideological argument for land reform, which was presented in different terms, ranging from the purely emotional to extremely radical proposals to transform the agrarian structure, no specific model or means for changing the present structure were ever specified. This led those responsible for agrarian policy to combine a variety of positions and points of view which were supported by the various forces in favour of land reform but which did not constitute a precise and coherent model.

(b) *Evolution of the land reform process*

In the evolution of the land reform process in Bolivia, a distinction should be made between the formal or legal aspects or the general patterns governing the structural change and the action taken on the estates by the rural workers themselves, who spontaneously imposed the type of land tenure system in force today.

Land reform, unlike nationalization, did not take place in successive stages, except in relation to its final authorization by law. It was carried out rapidly and intensively as soon as political change made it possible for the rural workers to take the initiative and begin to sieze the land and divide it up in accordance with their own criteria or traditional situation, as they organized themselves or were organized into unions. Meanwhile, at a much slower pace and with all the difficulties inherent in the heterogeneity of the political base and the absence of specific criteria on the agrarian question, the process was pursued on the official and legislative plane. The work was begun in January 1953 by a commission which prepared a draft Land Reform Decree and was completed in October 1956 when the Decree was promulgated.

Its general objectives are as follows:[19]

(*a*) To provide landless or near-landless agricultural workers with arable land, on condition that they work it themselves;

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[18] Resolutions of the Third National Workers' Congress (La Paz, January 1927) and the Programme of principles of the Bolivian University Federation (La Paz, 1928).

[19] The main provisions of the Decree are:

(*a*) Small holding. "A small holding is defined as one which will enable the agricultural worker and his family to satisfy their needs in a rational manner. However, where there is not enough expropriable land, it should be divided among all persons having a right to land." Existing small holdings, basically described as such because of their physical size, are not subject to expropriation, except where they have been abandoned.

(*b*) Medium-size holding. "A medium-size holding is one larger than those in the former category, which, without having the characteristics of an agricultural enterprise, is farmed with the use of paid labour and/or technical and mechanical means, and which, in addition, produces for the market." As in the previous case, such holdings are not subject to expropriation, except in the case of land on which agricultural workers have settled.

(*c*) Agricultural enterprise. An agricultural enterprise is also not subject to expropriation and "is characterized by large-scale capital investment and the use of paid labour and modern methods".

(*d*) Co-operative farm land. Co-operative farm land is:

- (i) Land granted to farmers who have formed themselves into a co-operative in order to obtain the land, rehabilitate it and settle on it;
- (ii) Land belonging to small and medium-size holders, who have joined together to form the capital stock of the co-operative;
- (iii) Land formerly belonging to *latifundios* granted to agricultural workers, if they organize themselves into a co-operative in order to farm it.

(*e*) *Latifundio*:

- (i) "The State does not recognize the *latifundio,* which is a rural property of large size, varying according to its geographical situation, which is either not farmed or farmed inefficiently..."
- (ii) "The disappearance of the *latifundio* is an essential condition for passing beyond the feudal stage."

(*f*) Restoration of land belonging to indigenous communities, defined in the Decree as land "usurped (*b*) To restore to the indigenous communities land which had been taken away from them;

(*c*) To free the rural workers from their serf-like condition;

(*d*) To stimulate greater productivity in agricultural industries and improve the marketing of their products;

(*e*) To preserve the country's natural resources, and

(*f*) To encourage the mobility of the rural population.

(c) *Administrative aspects of land reform*

The administrative aspects of land reform, together with the legal adjudication procedure, have proved the greatest stumbling block to its establishment on a legal basis. Two new government agencies were created to deal with the general process of administration: the Ministry of Rural Affairs and the National Land Reform Council. The latter had a subsidiary body—the National Land Reform Service—to carry out its operational activities. These agencies were added to the existing machinery and acted completely independently, although they had few resources.

The Ministry of Rural Affairs was created to pursue certain fundamental social and political ends. From the political standpoint, its activities were directed towards the organization of farm workers' unions, and in the social field it concentrated on the promotion of rural education and on education policy. At the same time the Ministry was involved in the processing of land reform cases, and this became its chief preoccupation, to the extent that it eventually had the final say in the settlement of such cases.

Although the National Land Reform Council was in principle established to deal with aspects relating to changes in structure—from the processing of the cases to technical assistance to the beneficiaries—in practice it dealt only with the establishment of legal entitlement to the land, and became principally an agrarian court, although its decisions were not final.

(d) *Extent and depth of the process*

Disregarding the intermediate events leading to the break-up of the Bolivian agrarian structure, the actual and almost immediate implementation of the reform in the rural areas had far-reaching effects, particularly in the zones near the urban centres, where there was a greater concentration of rural workers who had greater mobility, and where political action spread rapidly. The changes were also greater, as was to be expected, in the large estates where the seigneurial system was most deeply rooted.

Although there are as yet no data which make it possible to measure the change in depth, since only now are full evaluation studies being made, the information obtained in the 1950 Agricultural Census and in the sample survey carried out in 1963 by the National Sample Survey Office of the Ministry of Finance provides a basis for certain hypotheses on the changes in the land tenure structure. Both series, apart from having their own limitations, are not strictly comparable. They have, therefore, been collated at very high levels of aggregation, in order to reveal a number of trends which, supported by empirical observations, might provide a basis for certain hypotheses. Nevertheless, these data—however incomplete they may be—reveal changes which are so far-reaching that it is clear that they do reflect the situation with a certain amount of objectivity.

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after 1 January 1900". Land at present belonging to such communities was left outside the scope of the Decree on the ground that it would require special legislation, which has not yet been effected. Meanwhile, the Decree establishes that the property of an indigenous community "is not subject to expropriation, except in cases to be established under special regulations". It is further stated that "landless agricultural workers who live in indigenous communities without belonging to them and work for landowners within the community have a right to be granted a piece of land in the uncultivated areas, not larger than the present average holding of families not belonging to the community".

(*g*) Allotment of land. "All Bolivians of more than 18 years of age who are engaged or wish to be engaged in agricultural work shall be allotted land wherever it is available".

(*h*) Allotment of land in *latifundios* for collective farming. "With a view to establishing a co-operative system, where there is excess pasture land on the large estates, this land shall be allotted collectively to the beneficiaries." Where a large estate is subject to expropriation and where there is surplus pasture land, provision is made to allot part of this land for collective farming, with a view to promoting "a co-operative system". The rest of the area should be used for a school, sports grounds and urban development, and if there is any land left it should revert to the State for future allotment to individuals.

(*i*) "The trade union is recognized as a means of defending the rights of its members and of safeguarding social advances."

(*j*) The provision of free labour is abolished and wages are to be regarded as the accepted form of remuneration.

(*k*) The recognized form of expropriation is by means of twenty-five-year non-convertible land reform bonds which will accrue interest at an annual rate of 2 per cent.

Only the changes which occurred in the traditional farming area will be studied,[20] since, apart from the fact that most of the agricultural population lives there, it was the scene of the most important land reforms. The farms in the Llanos Orientales were not included, because they would have distorted the comparison, since that region includes the larger units and land reform had practically no importance there (see tables 8 and 9). The absence of pressure to secure land effectively limited action in that region and there were no changes of importance in the land tenure structure. In view of his dual role as small producer and wage-earner, the agricultural worker in the Llanos Orientales pressed his claims more in terms of the market for his products and labour. For those engaged in the extraction of rubber and the harvesting of Brazil nuts, the basic problem was not so much the availability of land as their subordination to a strongly monopolistic commercial activity. The only important movement in favour of a change in the land tenure structure in this region was in the areas near the city of Santa Cruz, and it was more the result of political circumstances than of pressure to secure land.

In the traditional farming area, with the mobilization of social and political forces the agricultural worker seized possession of the land on which he was living without delay, and this movement spread in various ways and degrees to most of the large estates. Table 9 reveals that not only did the number and proportion of small units increase, but that their share of agricultural land also increased from 1.8 to 50 per cent. Apparently, both the large estates and medium-sized holdings lost part of their land to the small holdings, since in both cases the average size declined. This is because on almost all farms, even in the indigenous communities, there were traditional *colonos,* sharecroppers and landless day-labourers who asserted their claims. Moreover, it is a well known fact that the demand for suitable land outstripped supply, with the result that in 1955, for example, the average size of a holding in irrigation areas in the district of Cochabamba had to be reduced from 50 to 20 hectares. (Legislative Decree of 17 February.)

On the other hand, in 1963 a significant proportion of relatively large estates were still owned by very few units, because not all the estates in the traditional zone had been expropriated in their entirety, either on account of their size, type or system of farming, or because of the lack of social pressure. Similarly, community lands, which contain some fairly extensive properties, were also not expropriated, except that—as on the other estates—the *colonos* or sharecroppers, and even the day labourers, took possession of the land on which they were living either temporarily or as a matter of tradition.

If all the agricultural land in the country were included in the land tenure structure, the distribution would be different, but even in this case the share of small holdings would increase from 0.7 to 20 per cent of the total area (see again table 8).

From the standpoint of farm units, the result of the land reform was that the number of large units was reduced by 73 per cent, or by 67 per

[20] According to the 1950 Agricultural Census, the total farming area was approximately 33 million hectares, divided among 86,377 farm units. The large estates worked by communities of *pegujaleros, sayañeros, colonos* and tenant farmers possessed 12.7 million hectares, and the land owned by the indigenous communities amounted to 7.2 million hectares. These two forms of tenure accounted for 61 per cent of the total area and a little more than 70 per cent of the area under cultivation. (See Antonio García, "La reforma agraria y el desarrollo social" in *Reformas agrarias en la América Latina,* ed. Oscar Delgado (Mexico, Fondo de Cultura Económica, 1965), p. 407.)

Table 8

BOLIVIA: DISTRIBUTION OF LAND TENURE, 1950 AND 1963

Size of units (hectares)	*1950*			*1963*		
	Census units (percentage)	*Area owned (percentage)*	*Average size of farm (hectares)*	*Census units (percentage)*	*Area owned (percentage)*	*Average size of farm (hectares)*
Below 20	77	0.7	3.2	97.8	20	3.9
20 to 100	9	1.0	42.9	1.4	3	33.5
Above 100	14	98.3	2,765	0.8	77	2,140.0

SOURCES: 1950: Statistics and Census Office, *Censo agropecuario*; 1963: National Sample Survey Office, *Muestreo estadístico,* 1963.

Table 9

BOLIVIA: DISTRIBUTION OF LAND TENURE IN THE TRADITIONAL FARMING AREA,[a] 1950 AND 1963

Size of units (hectares)	*1950*			*1963*		
	Census units (percentage)	*Area owned (percentage)*	*Average size of farm (hectares)*	*Census units (percentage)*	*Area owned (percentage)*	*Average size of farm (hectares)*
Below 20	79	1.8	3.2	98.0	50	3.9
20 to 100	9	2.9	42.9	1.4	7	33.5
Above 100	12	95.3	1,051	0.6	43	489.0

SOURCES: As for table 8.
[a] The Altiplano, Valles and Yungas.

cent if the Llanos Orientales are also taken into account (see table 10).

Table 10

BOLIVIA: PERCENTAGE VARIATION IN CENSUS UNITS BETWEEN 1950 AND 1963

Size of units (hectares)	*Increase or decrease (percentage)*
The whole country:	
Below 20	562
20 to 100	—16
Above 100	—67
The whole country, excluding the Llanos Orientales:	
Below 20	562
20 to 100	—16
Above 100	—73

SOURCES: As for table 8.

The reduction in the number of medium-sized units was smaller, but still significant. In addition to the causes mentioned above, many landowners, either for reasons of security or because they had little interest in continuing to farm their land in face of the change in labour relations and the consequent higher costs, abandoned their land, which passed into the hands of the agricultural workers. Finally, the number of small units was 5.6 times higher, and it is this increase which constitutes the basic feature of the land reform process.

In view of the size of this increase, a more detailed analysis should be made of its effect on the new land tenure structure, which seems to have become firmly established now that the most dynamic phase of the reform is over.

Firstly, the average size of small holdings rose slightly, from 3.2 to 3.9 hectares (see again table 8). However, apart from the fact that the change is not very significant and that it might have been supposed that the size would decline because of the increase in the number of holdings, it should be remembered that the registered units are often composed of several smaller plots quite separate from each other, this being a feature of the traditional structure and farming methods. Because of the periods in which the land lies fallow, which ranged from three to twelve years, and because the land occupied by the indigenous inhabitants was marginal, the rural worker's family allotment, apart from being small, was divided into several separate plots. Thus, the agricultural worker took possession of his family allotment, plus the other plots he was accustomed to work. The first to be expropriated were, of course, the ones most suitable for farming or the ones already under cultivation, to be followed later by the land lying fallow. Apart from the fact that this slowed up the processing of land tenure cases, it also led in the end to greater fragmentation of the small holdings and thus held up the development of this type of farming. As can be seen in table 11, the average size of most of the plots was 0.55 hectares, and even in the larger holdings it was only 1.3 hectares.

This picture is confirmed by an analysis of events of a legal and administrative nature. A study which took the individual plots distributed as its point of departure, without taking into account who the proprietors were, showed that the land tenure structure was extremely fragmented, with about 520,000 hectares divided into 135,000 plots.[21] Most of them had an average of less than 0.31 hectares (see table 12). In contrast, the larger holdings had an average size of 31 hectares.

[21] The study was carried out by the National Land Reform Council and the Planning Board in 1962 as part of the preparatory work for the Ten-Year Development Plan, and it covered 49,000 beneficiaries who had received their title-deeds between 1955 and 1959.

Table 11

BOLIVIA: SIZE CLASSIFICATION OF PLOTS IN RELATION TO SMALL HOLDINGS IN THE TRADITIONAL FARMING AREA, 1963

	Thousands of census units	*Thousands of plots*	*Average number of plots per census unit*	*Average area per plot (hectares)*	*Average total area per farm unit (hectares)*
Below 1 hectare	55	150	2.8	0.17	0.47
1 to 5 hectares	266	1,125	4.2	0.55	2.31
5 to 20 hectares	114	699	6.1	1.30	7.93

SOURCES: As for table 8.

Table 12

BOLIVIA: SIZE CLASSIFICATION OF PLOTS TO WHICH SMALL HOLDERS HAD LEGAL TITLE, 1955-59

	Number of individual plots (thousands)	*Area covered (thousands of hectares)*	*Area per plot (hectares)*
Below 1 hectare	90	28	0.31
1 to 5 hectares	32	85	2.66
Above 5 hectares ...	13	408	31.0
TOTAL	*135*	*521*	

SOURCES: National Land Reform Council and the National Planning and Co-ordination Department.

Also based on the records of the National Land Reform Council, another study,[22] which took as its point of departure a breakdown of the cases actually processed, showed how much land had actually been distributed to the beneficiaries and how much remained in the hands of traditional owners. According to the law, division of the large estates could give rise to two types of ownership at one and the same time: individual and collective,[23] the second type being designed to foster co-operative farming.

Table 13 shows that there were still 2,900 landowners with individual title to land representing 30.4 per cent of the total area distributed.

On the other hand, when it is considered that 1.4 million hectares were handed over to the agricultural workers and certain medium-sized landowners as collective land, the proportion of land remaining in the hands of the old landowners drops to 16.3 per cent of the total area distributed up to 1961.

(e) *Economic evaluation*

The economic repercussions of the land reform have constantly engrossed attention. It has been held responsible for successes and failures alike, whereas the truth is that both have usually been due to factors unconnected with the reform project itself. For instance, the development of agriculture in Santa Cruz, where production of sugar-cane, rice, cotton, maize, vegetables and other crops has considerably increased, is not directly attributable to the process of reform. Apart from the fact that the effort to provide technical assistance and credit facilities has been focused almost entirely on that part of the country, road communications have been established between the Oriente and the traditional consumer centres and sugar-mills have been installed and improved; and a new agrarian structure has been organized, based on private investors and immigrants, with the participation—though on a more modest scale—of local smallholders and new settlers from the traditional farming areas.

On the other hand, decreases in production have been imputed to the land reform, as well as the expansion of imports.

As statistics on production are generally inadequate, the analysis of its trends is based on the evolution and composition of agricultural imports. Of the crops grown in the traditional farming area,[24] wheat is the only one included among Bolivia's main imports of foodstuffs. It has been imported in increasing quantities, not only because of the insufficiency of the domestic

[22] National Land Reform Council, with advisory services provided by FAO.

[23] Collectively-owned land was usually intended for pasture. Where a medium-sized estate has extensive pasture land, both the landowner and the agricultural workers have the right to use those lands in common.

[24] The most important of the crops grown in the traditional agricultural area are wheat, barley, maize, potatoes and quinoa, which account for 80 per cent of the farmland in question. Of the total area used for the cultivation of each, they take up, respectively, 96, 100, 71 and 94 per cent.

Table 13

BOLIVIA: ESTABLISHMENT OF LEGAL ENTITLEMENT TO LAND, 1961

	Number of beneficiaries	*Percentage*	*Thousands of hectares*	*Percentage*
Landowners	2,900	2.9	490	30.4
Individual allotment (agricultural workers)	96,000	97.1	1,120	69.6
TOTAL	*98,900*	*100.0*	*1,610*	*100.0*

SOURCES: As for table 12.

supply, which has remained almost stationary, but for other reasons which will be given below. Thus, the non-appearance of the other traditional-area crops among staple food imports suggests that in their case there have been no supply shortages, except as a result of temporary circumstances (see table 14).

Table 14

BOLIVIA: MAIN IMPORTS OF FOODSTUFFS, 1945-55 AND 1960-64
(Thousands of tons)

Commodity	*1945-52*	*1953-55*	*1960-64*
Beef cattle	8.6	4.8	1.8
Lard	2.1	2.8	7.7
Wheat and wheat flour[a]	71.0	85.8	135.9
Milk products	2.5	4.9	5.3
Sugar	33.5	48.1	14.7
Edible oils	1.0	1.4	2.8
Rice	8.9	10.8	2.9

SOURCES: *El desarrollo económico de Bolivia*, United Nations publication, Sales No.: 58.II.G.2, p. 265, table 189; and National Planning and Co-ordination Department, *Plan bienal 1965-66: Sector Agropecuario.*

[a] Flour is expressed in terms of wheat equivalent, by application of an extraction rate of 75 per cent.

The rise in the value of imports of agricultural commodities which took place in 1953-55 was purely due to an exchange and price régime that favoured consumption of foreign products and their re-export to neighbouring markets. Wheat was re-exported not only as flour but even in the form of bread. Nor was this the only period in which wheat production was discouraged. Subsequently, with the stagnation of domestic production, imports of wheat and wheat flour under agreements with the United States Government increased to so marked an extent that by 1961 trade with other countries, notably Argentina, was affected. Consequently, from 1962 onwards, in agreements concluded under the terms of United States Law No. 480, it was stipulated that amounts up to a total of 40,000 tons could be imported from any market. In 1958-64, imports of wheat and wheat flour accounted for about 40 per cent of total purchases of agricultural commodities, while in the year 1961 their share rose to almost 50 per cent.

During the same period, a decline was registered not only in the proportion of total imports represented by those of agricultural origin, but also in the average amount of foreign exchange earmarked for agricultural imports (see table 15).

Table 15

BOLIVIA: SHARE OF AGRICULTURAL COMMODITIES IN TOTAL IMPORTS, 1945-55 AND 1958-64

(Annual averages in millions of dollars)

Period	*Imports of agricultural commodities*	*Total imports*	*Percentage*
1945-52[a]	24.3	66.6	36.48
1953-55[b]	28.7	71.6	40.08
1958-64[c]	21.9	85.4	25.60

SOURCE: ECLA, on the basis of official statistics.
[a] Period preceding the land reform.
[b] Period preceding stabilization of the currency.
[c] Period during which the currency was stabilized.

With regard to the nature and suitability of the structure of ownership and organizational patterns that as a result of the land reform have superseded the system formerly prevailing in the traditional farming area, there are grounds for assuming that the new models have also failed to provide a favourable basis for the assimilation and diffusion of technical progress in traditional agriculture, although opinion is unanimous as to the deficiencies of the previous structure. In the first place, the *minifundio* problem seems to have been aggravated—a development which is all the more serious in view of the ecological characteristics of the area where it is taking place—and this presumably means that there has been no modification of one of the factors determining the stagnation in traditional agriculture. To improve the situation, not only would it be necessary to introduce further adjustments in the agrarian structure and speed up the issue of legal title-deeds to the various categories of owners, but also resources would have to be mobilized to improve yields. For all these purposes, the active participation of those most concerned—Bolivia's rural labour sector—would be a *sine qua non*.

(f) *The political and social framework*

Although the impact of the land reform cannot as yet be precisely assessed, there are indications that an essential change has taken place in social relationships. Rural workers are being drawn together by their own common interests, and have succeeded in making their presence felt in community life. Perhaps this is the most significant and most indisputable effect of the land reform in Bolivia. Although one of the basic objectives pursued was precisely that of restoring their human dignity to the rural population, the dynamics of the process have surpassed expectations not only in respect of the change in the agrarian structure, but also as regards other types of social phenomena.

"Ownership of the land and the right to vote have given the Andean Indian a new approach to life, and, above all, have rescued him from the state of humiliation in which, pariah-like, he had been sunk for centuries. . . . The spirit of self-betterment which now characterizes the Indian inhabitant of the highlands of Bolivia is plain to be seen. The school, once so neglected and standing almost idle, is now the institution most eagerly coveted and supported by the indigenous population."[25] The progress achieved in respect of rural schools and school attendance, a high proportion of which is attributable to the indigenous *campesinos* themselves, is evidenced by the fact that between 1950 and 1963 the number of schools increased from 1,900 to 6,300 and the number of pupils from 50,000 to 231,000.

[25] See Olen E. Leonard, *El cambio económico y social en cuatro comunidades del Altiplano de Bolivia*, Instituto Indigenista Interamericano, Mexico, 1966, introduction.

3. SECTORAL DIVERSIFICATION AND GEOGRAPHICAL INTEGRATION

The third objective of the economic policy brought into operation in 1952 was twofold, simultaneously comprising the diversification of the production system and the integration of two major geo-economic areas—the Altiplano and the Valles—with the Oriente.

The diversification of the economy was initiated in the petroleum sector, in an endeavour to find a new mainspring of development. The petroleum policy applied in the preceding decade had laid the foundations of this industry, which, from 1952 onwards, gained renewed and stronger impetus. While investment in the previous five years had amounted to over 20 million dollars, so that about 30 per cent of domestic consumption had been satisfied by the home industry, in 1952-61 Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) invested approximately 140 million dollars, and by 1954 domestic consumption requirements were already being fully met, except in the case of a few special petroleum products.

In its first phase, YPFB's efforts were directed towards its constitution as an integrated industry covering every stage of activity from development operations to marketing. To this end, it invested substantial sums in purchasing equipment, drilling extensively both in oilfields in production and in exploration areas, laying oil pipelines to link up the mines and the Pacific coast, constructing refineries, and installing storage plants in all the larger towns and major distribution areas. Permanent oil camps were also built, and endowed with all the necessary industrial facilities and social and administrative services.

As from 1956, however, the momentum gathered began to slacken, largely owing to the effects of stabilization policy and to the depletion of the deposits which YPFB had been working until then. Furthermore, under the Petroleum Code promulgated at that juncture, the activities of the enterprise were confined to a virtually unproductive area. As a result of the stabilization measures applied, YPFB's supplies of foreign exchange were so considerably reduced that it had difficulty in purchasing equipment and spare parts and meeting the financial commitments deriving from the construction of the new pipelines. Between 1952-56 and 1957-62, YPFB's average foreign exchange receipts dropped from 8.08 million to 4.10 million dollars.

In addition, it was compelled to sell petroleum fuels at low and frozen prices, besides having to maintain a policy of credit sales to other State enterprises, which endangered its own financial stability.

The deterioration of the financial position coincided with the stage at which the existing oilfields—in particular that of Camiri,[26] which supplied 90 per cent of domestic consumer demand—had been fully developed, so that in the course of nature exhaustion of the reserves was inevitable. From 1957 onwards, production began to follow a gradual downward trend (see table 16).

Table 16

BOLIVIA: PRODUCTION OF CRUDE PETROLEUM BY YACIMIENTOS PETROLIFEROS FISCALES BOLIVIANOS (YPFB), 1942-64

(Thousands of cubic metres)

1942-46	56.0
1947-51	84.7
1952-53	89.5
1954	269.5
1955	428.1
1956	508.1
1957	568.4
1958	546.2
1959	504.0
1960	494.5
1961	430.3
1962	413.8
1963	501.6
1964	496.4

SOURCE: Central Bank of Bolivia, *Boletín No. 176*, September 1966.

Although a measure of recovery ensued, thanks to a crash programme which raised Camiri's output by 100,000 cubic metres of crude petroleum in 1963, in view of the progressive depletion of this oilfield a change of trend is unlikely; on the contrary, the situation and prospects of the State petroleum enterprise will probably grow still worse. Thus, apart from the need for YPFB to place its finances on a sound footing and replenish its capital, its future development will be contingent upon the discovery of new oilfields. But this again is no easy task, since under the 1955 Petroleum Code the areas with the highest production potential were thrown open to foreign companies, whereas YPFB was in effect restricted to working its traditional oilfields.

[26] Camiri is in the south-east of Bolivia, in the sub-Andean watershed.

The construction of the Cochabamba-Santa Cruz highway was the first important step to be taken in respect of geographical integration. The completion of this road in 1955 opened up hopeful prospects, since it permitted mass access of financial and human resources to an area in which natural resources abounded. As a result, cultivation of certain crops increased, and stronger interest was aroused in the idea of geographical integration throughout the whole territory.

State efforts, backed by substantial credit from the Banco Agrícola, were concentrated in agricultural industries; a large sugar-mill was built, and the existing mills were modernized. In the field of livestock industries, a slaughterhouse and cold-storage plant was constructed, with the aim of promoting cattle- and pig-breeding and obviating the need to import pork lard.

Branch roads connecting with the main arterial highway were also built, a measure which did much to further the development of the petroleum industry.

To improve the geographical distribution of the population, the Government started by making a few experiments to test the indigenous population's capacity for adaptation to conditions in the Oriente. Independent settlers had been moving into the area on a fairly large scale ever since the Chaco war; but, in addition, a recruitment campaign was now initiated and an official pilot settlement established. The next step was to begin the construction of approach roads in the tropical zone with a view to the encouragement of larger population shifts and the implementation of a planned settlement programme. This programme provided for the installation of 90,000 households in the Yapacaní, Alto Beni and Chapare areas, situated in the Departments of Santa Cruz, La Paz and Cochabamba, respectively.

Broadly speaking, the Santa Cruz diversification programme enjoyed a good deal of success, since most of the import substitution targets were attained, and a sensitive structure of production, capable of responding to market pressures, was established on a sound footing. For example, table 17 shows the large scale on which the principal import substitution crops were being grown in 1964 by agricultural enterprises and on medium-sized farms. The same cannot be said of land activities, settlement whether officially-planned or independent, for in that year the greater part of the farmland held by settlers was still under subsistence crops. At the end of the first five-year period

Table 17

BOLIVIA: AREA UNDER CULTIVATION IN THE LLANOS ORIENTALES AND YUNGAS, 1964

(Hectares)

	Subsistence crops	*Rice*	*Sugar-cane*	*Cotton*	*Miscellaneous crops*	*Total*
Independent settlers, officially sponsored settlers, and immigrants[a]	41,500	3,500[b]	5,000[c]			50,000
Agricultural enterprises and medium-sized farms		26,500	15,750	1,950	56,000	100,000

SOURCE: National Planning and Co-ordination Department, *Plan bienal 1965-66: Sector agropecuario.*

[a] The total number of settlers' households is estimated at 20,000.

[b] Immigrants' settlements, comprising 700 households account for 3,000 hectares.

[c] The area used for growing sugar-cane is farmed by 2,000 rural families only.

(1962-66), the targets established for transfers of settlers under the government plan were still a long way off, since only about 8 per cent of the total number programmed for 1962-71 had actually been effected. Secondly, the settlements have not been satisfactorily consolidated, mainly because of deficient marketing conditions.

C. THE STABILIZATION PHASE (1957-64)

1. The outbreak of inflation in 1952-56

The economic policy programme was to encounter a severe setback when, from 1952 onwards, inflationary pressures were unleashed, and the average annual rate of increase of overall price levels rose from 18 per cent in 1945-51 to nearly 150 per cent in 1952-56 (see table 18).

Table 18

BOLIVIA: ANNUAL RATE OF INCREASE OF COST-OF-LIVING INDEX IN THE CITY OF LA PAZ, 1945-64

Period	*Percentages*
1945-51	*18.2*
1952-53	173.0
1953-54	99.6
1954-55	68.9
1955-56	196.4
1952-56	*147.5*
1957-58	3.1
1958-59	20.3
1959-60	11.5
1960-61	7.6
1961-62	5.9
1962-63	—0.7
1963-64	10.1
1957-64	*8.3*

SOURCE: National Department of Statistics and Censuses *(Dirección Nacional de Estadística y Censos).*

The inflationary process was aggravated by structural factors dating back to the early 1930s, and others that had their origin in the revolutionary movement of 1952.

Since the Chaco war (1932-35), Bolivia had been affected by chronic inflation, although the area of its market economy was very small. Instead of a national market proper, there were a number of local markets, more or less cut off from one another, which had grown up around the urban centres of La Paz, Oruro, Cochabamba and Santa Cruz and their neighbouring agricultural and mining areas. A large proportion of the rural population, which still represents about 70 per cent of the total population of Bolivia, was not incorporated in the market economy; the industrial sector was small, and the role played by the banking system was insignificant. Lastly, neither the middle-income urban groups nor even the better-organized categories of workers, such as the miners, constituted strong political and social pressure groups.

With the market economy on such a shaky footing, structural imbalances existed, which generated an inflationary process of the chronic type. In contrast to the situation in other Latin American countries during the same period, the source of pressure was not the change in the development model brought about by an industrialization movement based on import substitution and designed to increase the dynamic potential of the domestic market as a factor of growth. In Bolivia the economic model was still that of a primary exporter country, and the distortions that gave rise to inflationary pressures must be sought in the evolution of the external sector on the one hand and, on the other, in the dephasing between the country's slow economic growth and the more rapid development of political and social forces among the groups included in the market economy. The external imbalance found expression in fluctuations, and the socio-economic maladjustment in the deficit financing to which the public sector has resorted, persistently although in varying degrees, since the time of the Chaco war.

Prior to 1952, the external sector generated inflationary pressure either through limitation of the supply of imported goods, as in 1935-39, or through the production of internal income without counterpart imports of goods and services, as, for instance, during the Second World War. The socio-political pressures, in their turn, stemmed essentially from the middle-income urban groups, whose demands compelled the public sector to increase its expenditure on the basis of deficit financing, since they could not be satisfied out of the surplus transferred from the mining sector and from agriculture itself to the State, or directly to the urban groups through the manipulation of relative prices by means of exchange measures.

The combination of these two factors kept inflationary pressures, of different degrees of intensity, latent throughout the period 1932-51. However, the very simplicity of Bolivia's socio-political structure precluded snowballing effects, since there were no such propagation mechanisms as usually exist in more complex societies. Hence, during the whole of this period, inflation was a chronic type, but did not escape all bounds, as it was to do from 1952 onwards.

For purposes of analysis, the inflationary process in the period under discussion can be divided into two clearly-demarcated phases. The first began in April 1952 and lasted throughout 1953, during which time the cost-of-living index rose by 173 per cent. An initial attempt at stabilization during the phase proved fruitless, although the rate of increase of prices was slowed down a little. The second phase covered the years 1954 and 1955, reaching its climax in 1956, when the stabilization programme was launched. In both phases, recourse was had to substantial Central Bank issues in order to finance public expenditure and the nationalized mining industry. The difference between the two lay in the fact that whereas in the first phase the capacity to import was reduced by a decline in exports, during the second imports recovered, thanks to United States aid, which began to supplement the country's diminishing foreign exchange export earnings to a significant extent (see table 19).[27] In other words, while one of the major causes of the acceleration of the inflationary process in 1953 was a falling-off in aggregate supply, during the later months of 1956 the rise in prices was speeded up by the propagation mechanism that came into play.

On the demand side, in 1953 the money supply doubled in relation to 1952, mainly on account of the loans and advances granted to the mining sector. In this sector, costs in local currency had risen considerably, whereas its income in bolivianos did not increase, because foreign exchange earnings surrendered by the mining companies had to be sold to the Central Bank at the official rate of 60 bolivianos to the dollar. By way of compensation, to enable the sector to operate, it was accorded very liberal facilities in the shape of Central Bank credits and advances. Moreover, the Government's expenditure in bolivianos was twice as great as in 1952.

Thanks to the relative simplicity of the market economy which the Government had inherited, in conjunction with the nationalization of the bulk of the mining industry and the fact that the State had become the sole purchaser of all mining products for export, competition for the economic surplus could only take the form of pressure on the public sector to use two mechanisms: the issue of money by the Central Bank, and the manipulation of the exchange system with a view to the transfer of income from the mining sector to the Government and consumers. The over-valuation of the boliviano in

[27] The following were the external events that speeded up the inflationary process in the first phase. The favourable world tin market situation brought about by the hostilities in Korea began to deteriorate in 1952; in 1951 New York tin quotations had averaged 1.27 dollar cents per pound of fine, and in the months immediately preceding the revolution, the mining companies were negotiating agreements with purchasers on the basis of 1.21 cents per pound, but in the course of the year a price decline set in. In 1953 quotations continued to fall, abruptly this time, dropping to 0.81 cents in the United States and 0.76 cents in London. This was why current foreign exchange income was 30 per cent lower in 1953 than in 1952, with the consequent serious repercussions on the volume of imports.

Table 19

BOLIVIA: CAPACITY TO IMPORT AND IMPORTS OF GOODS AND SERVICES, 1950-64

(Millions of dollars)

Year	Current foreign exchange income	External factor payments	Net movement of autonomous capital		Net errors and omissions	Capacity to import	Imports of goods and services	Compensatory financing
			Total	Donations				
1950	81.4	—3.6	+8.5	+0.4	—9.0	77.3	78.3	+1.0
1951	126.3	—3.3	+7.5	+0.4	—1.1	129.4	119.6	—9.8
1952	95.1	(+18.8)	+13.3	+1.0	—2.7	124.5	122.9	—1.6
1953	67.0	—1.9	—12.2	+2.6	+13.1	66.0	89.8	+23.8
1954	75.4	—1.1	+19.2	+14.7	+6.6	100.1	91.5	—8.6
1955	85.4	—4.1	+35.1	+18.9	—15.9	100.5	103.5	+3.0
1956	87.0	—3.1	+43.8	+18.9	—43.9	83.8	104.1	+20.3
1957	79.3	—2.6	+25.1	+27.2	+11.2	113.0	108.4	—4.6
1958	56.9	—2.1	+31.7	+26.4	+1.1	87.6	90.5	+2.9
1959	64.2	(+2.6)	+43.8	+22.6	+16.5	94.1	91.8	—2.3
1960	58.1	(+1.1)	+30.9	+12.8	—3.1	87.0	89.7	+2.7
1961	68.9	—0.8	+37.1	+21.4	—6.8	98.4	95.9	—2.5
1962	71.2	—2.9	+47.2	+19.7	—2.3	113.2	117.3	+4.1
1963	84.4	—2.8	+56.2	+25.9	—5.2	132.6	127.2	—5.4
1964	111.4	—3.2	+47.9	+22.9	—12.0	144.1	127.3	—16.8

SOURCE: ECLA, on the basis of data from International Monetary Fund, *Balance of Payments Yearbook.*

relation to exports made it impossible to determine production costs in the mining sector, and, therefore, to assess the real surplus it generated. Accordingly, the path chosen was the inflationary issue of money as an illusory means of distributing a surplus that in any event was too small to satisfy the expectations and finance the programmes of the new political and social forces which had grown up, and which were basically represented by the miners and by urban groups linked to the public sector. Furthermore, the over-valuation of the boliviano in relation to imports gave rise to a latent nominal demand which strongly influenced prices, especially at a time when the supply of imported goods was dwindling.

This threefold contingency—a decline in the supply of imports, over-valuation of the exchange rate and a considerable increase in the means of payment unaccompanied by any corresponding increase whatsoever in domestic production of goods and services, which seems to have contracted somewhat in the course of 1953—began to result in a sharp upswing in prices, until, halfway through the year, an endeavour was made to put a stabilization programme into effect.

This first attempt at stabilization failed to control the inflationary process that had been sparked off in 1952. The socio-political pressures engendered by the revolutionary movement over-rode concern at the effects of inflation. Moreover, the situation had not become unmanageable for the public sector, whose attention was concentrated on the substantive changes it was introducing.

Thus began the second phase of the inflationary process, covering the years 1954 and 1955 and culminating in the 1956 stabilization programme. During this period, the Government was compelled to adopt supplementary measures which were intended to remedy the shortcomings of the stabilization effort embarked upon in 1953, but only succeeded in making matters worse, until a climax was reached in the shape of the hyperinflation that took place in the second half of 1956.

The devaluation of the exchange rate, for example, was not an effective solution for the problem of the local-currency financing of the mining industry, since the resulting increase in income proved insufficient, especially as the level of domestic prices continued to rise, and with it the local-currency cost of inputs. Thus, the Central Bank's loans and advances to the mining sector, channelled through COMIBOL and the Banco Minero, came to represent a major proportion of total issues by the Central Bank in 1955. In that year, the exchange rate for the foreign currency held by the Banco Minero and COMIBOL was raised again, although to a lesser extent in the case of the latter institution. Nevertheless, costs continued to increase much more rapidly, so that the Central Bank had to go on providing direct financing for the nationalized mining industry.

In its turn, the attempt to expand real public expenditure in order to cover the revolutionary movement's programmes, in combination with the persistent upward trend of internal prices, led the State to resort increasingly to inflationary financing in 1954 and 1955. Regular income was augmented by means of indirect taxes on imports and on consumer goods, which bore primarily and heavily on the cost of living. In the second place, direct recourse was had to Central Bank issues to finance public-sector expenditure, in particular that of the autonomous institutions, many of which were the executing agencies of the Government's programmes.

The inflationary process continued to spiral, and by the beginning of 1954 wage and salary increases of 50 per cent for the private sector and 25 per cent for public employees had to be decreed. Furthermore, to enable the private sector to finance its operations, the regulations governing the statutory cash reserve of commercial banks were suspended, with the result that in 1954 and 1955 their turnover increased. Although this movement represented only a small proportion of the monetary expansion, in any event it spurred on the inflationary process.

The foregoing circumstances speeded up inflation by way of monetary expansion. The other *important contributory factor in this second* phase was constituted by exchange policy and the speculation that grew up in consequence of the combination of a shortage of foreign exchange with the maintenance of an over-valued exchange rate. The problem was still further aggravated because, in order to lessen the disparity between the cost of goods imported at the official exchange rate (190 bolivianos to the dollar) and the prices paid for them within the country, a régime known as the system of "*reversibles*" was established. It consisted in an exchange surcharge varying for each category of goods and each local market, and determined by the Ministry of Economic Affairs and by local boards, which allocated import quotas for the various products. Thus, the maintenance of an over-valued exchange rate inevitably led to the reintroduction of the multiple exchange rates which the first stabilization effort had sought to abolish.

These exchange rates fostered speculation in two forms: firstly, the ordinary type of price speculation in respect of articles in short supply; and secondly, the re-export of imported goods to neighbouring areas at an over-valued exchange rate, which yielded wide margins of profit. These profits were equivalent to a flight of capital not shown in the statistics, and the external-sector imbalance was thus aggravated by a contraction in the real supply of imported goods.

The speculation generated by the over-valuation of the currency and the application of the so-called *reversibles,* which were equivalent to a system of multiple exchange rates, proved to be one of the factors mainly responsible for the fresh impetus gained by the inflationary process in 1956. Speculative hoarding and the practice of re-exporting reduced supply, particularly in the case of wage goods, to an even more marked extent than during the first phase of the inflationary process (1952-53), when the volume of imports had undergone a fairly sharp decline. It must be stressed that this development was essentially the result of speculation, as the apparent level of imports remained the same, and there are no signs that production of agricultural commodities or other goods and services decreased to any significant extent during 1956.

For the first time since 1952, the component of the over-all price index constituted by essential articles, including, of course, wage goods, began to rise much more steeply than the total index. In the course of 1956 the cost of wage goods almost trebled, whereas prices in general were not so much as doubled. With the considerable intensification of the labour sectors' pressure for wage and salary increases, the price-wage spiral was progressively accelerated, until from May onwards prices began to soar, at an average monthly rate of a little over 15 per cent.

2. The stabilization programme

By the end of 1956, the position was becoming more and more untenable both for the Government and for the labour sectors. The former no longer found it possible to manipulate the exchange market or to cope with the financing of the swelling deficits shown by the various public-sector agencies, which were, moreover, subject to no central control. The labour sectors, in their turn, had realized that the upward trend of prices was far outstripping wage and salary increases. Accordingly, it was essential to adopt vigorous decisions, which were to necessitate and bring about substantial economic and socio-political changes.

The outcome was the application of a drastic stabilization programme. In the first place, a sweeping exchange reform was introduced, based on the establishment of a single exchange rate to supersede the different real rates in force for the various import and export items. The new quotation originally set by the Central Bank at 7,700 bolivianos to the dollar, a rate which represented a considerable devaluation in relation to those in force. During the next few years it gradually increased, until it reached the level of about 12,000 bolivianos to the dollar around which it has been fluctuating ever since. At the same time, decrees were issued liberalizing foreign trade and exchange transactions for operations of all kinds, with the sole important exception that COMIBOL had to continue selling its foreign exchange at the official rate of the Central Bank, which in its turn had to place the exchange in question freely at the disposal of the Government and the general public.

Although the subsidies accorded through the exchange system to a good many foodstuffs and raw materials were abolished, together with the subsidies in force for some domestic products, the Ministry of Economic Affairs was authorized to import the goods concerned on a provisional basis when adequate supplies were not forthcoming in the normal course of trade. Internal price controls were lifted, and the Executive was empowered to increase public utility tariffs in general sufficiently to cover operating costs and depreciation and allow for a reasonable margin of profit. The system of low-cost commissaries existing in the mining and railway companies was abolished. The only remaining exception to the free internal price régime consisted in the fixing of a ceiling on rentals.

To cushion the impact of all these measures on the cost of living for workers and employees in general, a form of compensation was instituted which covered public employees and excluded only domestic servants. To make up for the disappearance of the commissaries, an extra bonus was established for workers in both the nationalized and the private mining industries, and for railway and factory workers. At the same time, salaries, wages and similar remunerations were frozen for one year.

On the monetary side, cash reserve and other measures were adopted with a view to restricting bank credit to private activities, and the Central Bank deposits of the Banco Minero were frozen. It was stipulated that the total amount of advances, loans and discounts granted to the Banco Minero by the Central Bank was not to exceed their sum total at the date of promulgation of the decree.

Similarly, stringent measures were applied to stabilize the financial situation of the public sector, including the nationalized mining industry, and to put a stop to the practice of inflationary financing. It was established that thenceforward the public-sector budget was to cover all State institutions or dependencies, and that these bodies could not apply to the Central Bank for credit. Furthermore, a single foreign exchange budget was set up for the public sector, which included COMIBOL. Royalties were also fixed for exports of mining, agricultural and industrial products, to replace the fiscal revenue accruing from the multiple exchange rate which had been in force up to 15 December 1956. To that end, a new *ad valorem* tariff was introduced, and advantage was taken of the opportunity to eliminate the many specially-earmarked tariff duties that had previously been established.

Lastly, a stabilization fund of 25 million dollars was set up, against contributions of 7.5 million dollars from the International Monetary Fund, 7.5 million from the Government of the United States, and 10 million in the shape of United States aid, to be invested in agreement with the International Co-operation Administration (USICA).

3. Bases and results

The theory, aims and procedures of this stabilization programme did not greatly differ from those of its unsuccessful predecessor in 1953, or from other experiments on orthodox lines tried out elsewhere in Latin America. But whereas the first attempt failed to attain its objectives and had to be renounced very shortly, the second programme managed to control the visible manifestations of inflation almost entirely and laid the foundations for a situation of financial stability which lasted right up to the close of the period under analysis. It is therefore worth while to look into the causes of this success.

In the first place, attention must be drawn to the radical change that had taken place in socio-political conditions in Bolivia. The impossibility of responding to the pressures of the organized groups for the maintenance of their own consumption levels and the levels of expenditure of the Government and the autonomous institutions had lessened political contact between the groups in question and the Government. One factor that operated in favour of the official decisions undoubtedly consisted in the lassitude and the obvious distortions which the acceleration of the inflationary process had fostered among the very sectors that might have been expected to benefit by it.

Unquestionably, another factor of primary importance was the liberal support given to the stabilization programme through foreign loans and donations. This backing was of great significance for the implementation of the programme. In the first place, it helped to bolster up the capacity to import and thus ensure a satisfactory supply of foreign goods and services of key importance for consumption and domestic activities. Secondly, it meant that public expenditure could be maintained on a non-inflationary basis, whereas in the past, as has been repeatedly pointed out, too much reliance had been placed upon the illusory expedient of draining off surpluses from the export sector.

As regards this second factor, it is useful to bear in mind that foreign aid came to represent over 25 per cent of the capacity to import between 1956 and 1960. Furthermore, about 55 per cent of transfers from abroad consisted of donations, so that subsequent effects on the capacity for payments, which in other countries had generated the so-called indebtedness spiral, were considerably mitigated. Finally, in the later years of the period, external aid not only financed the public sector's total capital outlays, but in several cases helped to defray more or less substantial proportions of current expenditure itself.

Furthermore, the lasting success of the stabilization measures was linked to the fact that they did not cause major disturbances or marked contractions in the country's economic activity as a whole. Manufacturing output declined so sharply that only in 1964 did it regain the levels it had attained by the mid-1950's. But its contribution to the gross domestic product was very small in comparison to the corresponding proportion in the other Latin American countries—less than 10 per cent—and, in addition, its expansion up to 1956 had been largely artificial, having been promoted more by exchange privileges than by any considerable expansion and diversification of the structure of manufacturing industry.

For a thorough grasp of the situation, account must be taken of more general factors connected with what might be termed the "structural simplicity" of Bolivia's production system. The market economy in Bolivia is only a secondary nucleus in the over-all system, which is further characterized by a low level of sectoral and geographical integration. Thus there are not the manifold inter-relationships which in more complex economies become sources of widespread distortion and set in motion powerful inflationary propagation mechanisms. As a result, disequilibria, whether inflationary or deflationary, are usually localized, and do not affect the system as a whole. The agricultural sector, for instance, which employs a high proportion of the active population and accounts for the biggest share of the gross domestic product, used to be, and to a great extent still is, cut off from what might be called a domestic commercial market, and linked at most with scattered urban centres to which it sells a relatively small proportion of its surpluses.

Another enlightening consideration relates to the social costs of sacrifices entailed by the programme and therefore to the opposition it might have aroused. In view of the division of the system into watertight compartments, these sacrifices have been mainly confined to very small groups attached to specific activities and even areas, such as, for instance, certain groups of workers, the mining sector and the urban middle class. With these particular groups bearing the brunt of the cost, the inevitable outcome was not only a change in the pattern of power or of support for the political administration but also a significant modification of the original economic policy programme.

In short, the reasons that account for the results obtained can be summed up as the control of social pressures, the backing given by foreign aid, and the structural simplicity of the economy which minimized the distortions that might have been caused. Paradoxically enough, these very factors may constitute the Achilles' heel of the programme over the longer term. If the expectations of the various social groups are rekindled and their organization is strengthened, or if the flow of external aid is interrupted or proves inadequate, some of the primary causes of the system's former instability would once again come to the fore.

D. CONCLUDING REMARKS

The economic policy launched in 1952 set itself clearly-defined tasks. The nationalization of the mines, the agrarian reform, the geographical diversification of activities, and even stabilization were at bottom not so much objectives in themselves as stepping-stones towards the substantive goal of steadier and more dynamic economic and social development, with a higher degree of autonomy and under the ægis of a national State independent of the overwhelming and personalistic influence of the export sector.

From a relatively narrow standpoint it can be seen that in general these intermediary objectives have been attained, the decision-making centre of the main export activity was transferred from outside the economy to within it, at least in so far as the exogenous factors affecting all tin producers can be disregarded. A radical change was brought about in the structure of ownership and the system of feudal relations which had characterized the traditional farming area. New development opportunities were opened up, although on a limited scale, for agriculture in the Oriente. During the second phase of the project, monetary stability was achieved although on the somewhat precarious basis of external loans and transfers.

In view of the ultimate aims of the programme, however, it may well be asked whether the gains have been adequate or sufficient to ensure the type of development that constituted the basic target. In other words, it is important to see how far Bolivia's age-old difficulties have been eased by the changes that have taken place.

A first point to note is that the economic system is still vulnerable to the vicissitudes of a single export product. The policy in recent years has been to assign higher priority to the strengthening or modernization of the tin mining industry, but, apart from the weakness of the tin market (temporarily mitigated by international contingencies), the possibility of a considerable diversification of exports still seems a long way off. This seriously cramps the capacity to import, in so far as it is conditioned by national income rather than external borrowing or aid from abroad.

Secondly, consideration must be given to the agricultural sector, which is just as important as the external sector, or even more so, since about 70 per cent of the population depends upon it for a livelihood. Here the situation seems more complex, owing both to the depth of some of the changes and to the magnitude of the obstacles to dynamic growth.

In a sense, the changes in the system of social relationships in the traditional farming area that have resulted from the agrarian reform may possibly be the most significant development of all, precisely because of the size of the group they have affected. In the first place, to take a limited social view, the rural worker has succeeded in freeing himself from the heaviest of the obligations which made him virtually a serf. Secondly, from the macro-social standpoint, he has become a figure in Bolivian affairs, whatever reservations may be made as regards his actual degree of participation. This is clearly evidenced by the weight he now carries in Bolivia's political balance. In these circumstances, it can safely be asserted that by way of the land reform, and given the special situation of Bolivia's rural population, one of the final objectives of the 1952 policy is being reached.

The economic implications of the reform are less clear. Its potential, both as a source of incentives to agricultural development which did not formerly exist, and in view of the probable expansion of rural demand for goods and services produced by other sectors, has been emphasized by many observers and in many studies. Nevertheless, there seems to be a long way to go before these repercussions, which are hard to evaluate with any degree of accuracy, are reflected in a visible activation of farming in the Altiplano and the Valles. Without expatiating on the difficulties inherent in this task, it should be noted that economic policy has not yet been able to map out a clearly defined and resolute strategy, broad enough to bring about favourable changes in the technological and other conditions which are still handicapping expansion in the areas in question.

The outlook is quite different where agriculture in the Oriente is concerned, as was shown in an earlier section. Thanks to a number of factors—greater abundance and fertility of natural resources, the absence or lesser importance of traditional structures, more assistance, on a larger scale, from the national authorities and from foreign institutions, etc.—new opportunities have been opened up for the expansion and diversification of agricultural supply. But this progress has not implied major advances towards another of the objectives established in the preceding phase, i.e., the promotion of population and manpower shifts from the Altiplano and the Valles to the broader and more fertile lands of the Oriente. In fact, the viability of substantial transfers, which in a first analysis would seem to be a matter of basic importance for future development, is still open to question.

A third aspect of the problem relates to the scanty success achieved in respect to sectoral diversification, specifically where industrial development is concerned. As noted in the introduction, the economic policy programme was oddly indifferent to this problem, and its subsequent evolution has shown no sign of any major change. Although the stabilization of the currency eliminated what has been described as the artificial expansion of the manufacturing sector, a favourable environment for sounder development does not seem to have been established. The absolute levels of industrial production are more or less the same as in the mid-1950s.

It would be a grave mistake, however, to underestimate the vital importance of progress in the field, especially in view of the employment problem. The difficulty will become all the more serious in so far as new techniques are introduced and disseminated in primary production.

Lastly, with regard to the relative stability which such pains have been taken to achieve, the progress made is obvious, but the position is insecure, since the basic instrument for the control of disequilibria is still foreign credit and aid. If this support were partly withdrawn, or if social pressures—of which a new source may lie in the incorporation of the rural masses—were to become more insistent, the disparity between aspirations and production capacity, which, as previously shown, mainly affects public expenditure, would make its presence felt at least as strongly as in the past.

THE ECONOMIC POLICY OF COLOMBIA IN 1950-66[1]

1. Some structural features of the Colombian economy

The Colombian economy has many of the features common to developing countries. It relies heavily on exports of a single commodity, coffee, which accounts for about 70 per cent of total exports and whose prices are subject to sharp short-term fluctuations; it has a structure of production in which agriculture employs half the labour force but only generates a third of the total product; productivity and financial resources vary a great deal in the different activities and enterprises; and there is a shortage of both productive and social capital. Moreover, as in other Latin American countries, foreign trade and foreign investment have played an important and often decisive role in the country's development. From the colonial era to the first quarter of the twentieth century, Colombia had a typical export economy, external demand being the main determinant of the level of income and economic activity within the country. In general, the economy depended on sales abroad of a single commodity, whether it was gold, tobacco, indigo, cinchona bark or, as at present, coffee. The external sector has played a less dominant role in the last few decades. As in other Latin American economies, the crisis of the thirties and the subsequent restrictions on the capacity to import forced Colombia to stimulate production for the home market, although this, as will be seen, created a new and more complex kind of dependence on the external sector.

Colombia has also experienced the same rapid population growth as other Latin American countries, and to an even more pronounced degree, the annual natural growth rate of the population being as high as 3.2 per cent. The annual increase in the urban population is 4.5 per cent, whereas for the rural population it is only 1 per cent.

In addition to these characteristics, which are more or less common to Latin America as a whole, there are other structural features of the Columbian economy which set it apart from the rest of the region.

First, it should be noted that there is a great disparity between the different socio-economic areas and the terrain is mountainous, which has made the problem of internal communications particularly difficult and has entailed heavy investment without achieving more than partial results. Moreover, the population is concentrated in an area which covers less than half the territory of the country. Large flat areas to the east and southeast are virtually uninhabited, although some land settlement projects are now under way. In the populated area, the fact that the Andes are split into three great ranges caused, until recently, transport and communication difficulties, and this led to the growth of a number of more or less self-contained urban centres. Thus, urbanization in Colombia was simultaneous and rapid in all these population centres, with the result that cultural and economic life in Colombia does not revolve around one key centre, as in many Latin American countries. This can be considered an advantage in so far as it has permitted a certain spatial diversification; from another standpoint, however, it can be regarded as an obstacle to the expansion of certain activities, such as manufacturing, which are usually favoured by the existence of a "central" market, concentrated in one area, easy of access and not entailing more than moderate costs for transport, distribution and marketing in general.

Coffee, as was pointed out, continues to be the main export of Colombia, accounting for two-thirds of the total value of exports. It also plays a particularly important role in the economy as a whole, since it occupies one-third of the area under cultivation and generates about 17 per cent of the domestic agricultural product.

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[1] In addition to official statistics, this study is based on the following sources: *El desarrollo económico de Colombia* (United Nations publication, Sales No.: 57.II.G.3), vol. III of the series *Analyses and Projections of Economic Development*; Administrative Planning Department (DAP) of Colombia, *Plan general de desarrollo económico y social* (Cali, Editorial El Mundo Ltda., 1962); *El desarrollo industrial de Colombia* (ST/ECLA/Conf.23/L.17), report submitted by the Government of Colombia to the Latin American Symposium on Industrial Development (Santiago, Chile, March 1966); Bank of the Republic, *Cuentas nacionales 1950-65*, National Administrative Department of Statistics (DANE), *Anuario general de estadística*.

Over and above this, there are a number of features which place coffee production in a very particular situation. This key export item is not, as in other cases, relatively separate from the national economy. On the contrary, it is deeply rooted in the domestic system; in other words, coffee production is closely interrelated with the rest of the economy. This is largely the result of certain important aspects of the structure of ownership, which is based on some 250,000 coffee farms. Of these, almost 60 per cent have an area ranging from one to ten hectares and account for 57 per cent of total production. There are only 130 farms of more than 100 hectares, and these account for 26 per cent of total production. More than one-third of the estates are *minifundios* of less than one hectare and they produce 6 per cent of the coffee crop. Sometimes these small units form part of larger farms which grow several kinds of crops, and four out of every five coffee farms are worked by their owners. Coffee production is, therefore, in the hands of a conglomeration of small and medium-size farmers. Given this structure of ownership and system of land tenure, it is easy to appreciate the economic and social impact of any developments affecting the coffee crop.

This situation is also largely responsible for the existence of institutions such as the National Federation of Coffee-Growers, which, although it has its counterparts in other coffee-producing countries, is far more important in Colombia, in view of the diversity of its functions, the scope of its activities and its influence on the formulation of economy policy. An idea of the scope of its activities can be gained from the fact that they range from marketing (purchase, selection and exporting of coffee beans) to the conclusion of international agreements relating to coffee. Moreover, its influenuce extends to the field of national investment: through the National Coffee Fund, for example, which it administers, it is one of the main shareholders in the Flota Mercante Grancolombiana, and it has interests in transport, insurance and fertilizer companies.

The continued importance of coffee has not prevented Colombia from vigorously pursuing the diversification of its productive system, particularly its industrial and supporting activities. Foreign trade restrictions and the direct or indirect help of the State have provided ample incentive for the development of import substitution industries to the point where they replace a large proportion of imported consumer manufactures and the production of certain intermediate and basic goods has been expanded. However, this development has fallen far short of achieving complementarity and ensuring a sufficient supply of capital goods and key inputs, and this has led to a high degree of dependence on foreign sources of supply. Thus, the rate of growth of the manufacturing sector is closely tied to fluctuations in the capacity to import and, therefore, to the fate of exports and the inflow of foreign capital.

After the Second World War there was considerable modernization in agriculture, which led to a marked increase in the cultivation of a number of cash crops. Particular success was achieved in cotton, rice, sugar cane, certain oilseeds and stock farming, with the result that domestic production satisfied demand for almost all foodstuffs and agricultural raw materials.

One aspect of industrial and general development often referred to in studies of Colombia is the skill of the entrepreneurial groups, particularly those in the Antioquia area. Their highly developed civic pride and business ability have enabled them to transform the capital of the region, Medellín, into the main industrial centre in Colombia. They have also played a leading role in land settlement, deforestation, the creation of population centres, and the establishment and development of the coffee economy on the slopes of the central Andean range.

Finally, mention should be made of a number of important elements of the institutional structure.

In the first place, of course, there is the fact that the State plays a less important role in Colombia than in other Latin American countries at a similar stage of development. Government spending, for example, accounts for slightly less than 20 per cent of the gross domestic product, whereas it approaches or exceeds 30 per cent in countries like Brazil, Chile or Uruguay.[2] Moreover, the Government has rarely entered the field of production of goods, and where it has, it is usually through autonomous and decentralized enterprises which do not exclude the operation of the private sector, e.g. in steel and petroleum and petroleum products. In short, the State has preferred to play an indirect role by providing different kinds of incentives or investing in social capital.

Together with the above, it should be emphasized that the country has retained its basic traditional political structure. Two large groups dominate the scene, their differences being

[2] See *Economic Survey of Latin America, 1965* (United Nations publication, Sales No.: 67.II.G.1), p. 35 (table 13).

mainly political and constitutional, and both are influenced by local factors and personalities. This seems to be largely responsible for the fact there is relatively little variation in the approach to many aspects of over-all economic policy.

2. Development and economic policy in Colombia in the period 1920-1950

The period dealt with in this study could not be analysed without regard for the main features of the country's economic and social structure or for the main lines of development in the period before 1950. Events since 1950 have their roots in the previous decades and take place within a structural framework which, it is true, changes to a greater or lesser extent with the passage of time.

This retrospective view of the situation cannot of course be taken too far back, nor is it possible to examine all the relevant questions in detail. Thus, only the most significant developments of the period since 1920 will be discussed and grouped together chronologically for greater clarity.

(a) *The twenties*

This important decade presents general features that are common to nearly the whole of Latin America, especially the second half when the inflow of foreign capital and the expansion of the external sector enabled the State to play a more vigorous role in a relatively new task of vital interest to the country: the establishment of basic services designed to promote internal economic integration, urban growth and diversification of the structure of production. Economic policy guidelines and prospects during this period should, however, be considered in the light of some specific circumstances. First, the so-called "point of departure" is more recent than that of other Latin American economies—in the southern zone of South America or Mexico, for instance—not only because the economy had not been as outward-directed as in those countries, but also because of the fragmentation of Colombia's economic system.[3] Early in the twenties, "localism" continued to be a feature of this system, composed as it was of isolated geographic-economic areas lacking co-ordination or stable links between one another, although they co-existed in an area that was politically dependent upon the central government.

[3] Colombia's per capita exports in 1928 amounted to approximately 31 dollars, compared with 95 dollars in Chile and 150 dollars in Argentina.

Secondly, the external resources obtained during that exceptional boom period were relatively modest compared with those of countries more favoured by earlier development, or with the needs and tasks arising from the absence of territorial and economic integration. The inflow of foreign capital in the late twenties is estimated at about 200 million dollars,[4] which is far less than in the southernmost countries.

In any case, it was in that period and in those circumstances that one of the basic guidelines of Colombia's economic policy was clearly defined, i.e., to create an integrated economy or establish a national production system. However, a reservation or clarification is necessary here. This aim, particularly as it affected the communications system, was part of another more direct and pressing aim: to establish transport and exit routes for the export of coffee. In this, moreover, Colombia was no different from other countries exporting primary commodities. Subsequently, the public investment policy designed to integrate the economy gradually shifted, placing more emphasis on linking up domestic activities than on facilitating exports.

(b) *The thirties*

The depression had far-reaching, though not exceptional, effects on the Colombian economy. Although the volume of exports was maintained from 1931 to 1934, the capacity to pay for exports was halved in relation to 1928-30.

Nevertheless, as in other countries, external sector restrictions and the various excise taxes imposed with a view to improving the balance of payments paved the way for a period of "spontaneous industrialization"; in other words, diversification prospered not as the result of a particular economic policy decision but as the natural outcome of measures imposed because of the decline in external purchasing power.

As regards the instruments used, this phase of Colombia's development clearly had a great deal in common with that of other Latin American countries. In addition to devaluation, bans and strict controls were imposed on imports, and tariff reform provided expedients which were applied far more stringently and efficiently than in other countries.

However, a distinctive feature of events in Colombia at that time was the attempt to improve fiscal means of action. The 1935 tax reform was perhaps the most striking manifesta-

[4] A proportion of these foreign exchange resources represented compensation paid to the Colombian Government by the United States for the dismemberment of Panama in 1903.

tion of this concern and was undoubtedly the outcome of a decision to keep up the level of public expenditure despite the unfavourable turn taken by the external sector. This reform not only increased the flexibility and tax collection capacity of the system, but made it more progressive than other tax systems in the region.

Be that as it may, there is no doubt that the Colombian economy showed great flexibility in adapting to the opportunities opened up by the break in the traditional pattern of trade, to the extent that from 1933 to 1939 domestic industry expanded by nearly 11 per cent annually.

Various explanations have been suggested for this growth, which compares favourably with that attained during similar phases in other Latin Latin American countries: (i) the low level of industrialization when the new opportunities arose; (ii) the favourable basis created by investment in infrastructure and imports of capital goods during the previous decade; and (iii) the existence of the dynamic "nucleus" of Antioquia, with a sizable population, active entrepreneurial group and relatively high level of income.

However, during that phase of active spontaneous industrialization only the slow-growing or traditional activities expanded. The vertically undiversified structure of manufacturing hampered the process, making it closely dependent on imports of intermediate and capital goods. These circumstances, which were to have a lasting effect on foreign trade problems, also prompted a change in economic policy in subsequent periods.

(c) *The Second World War years (1939-45)*

Colombia's problems during the Second World War were very similar to those besetting most of the other Latin American countries. Import difficulties and an increase in the value of exports to almost pre-war levels resulted in an accumulation of foreign exchange, inflationary pressures and favourable conditions on the side of over-all demand.

Perhaps the most outstanding development during this phase, at least in so far as economic policy is concerned, was the express formulation of an industrialization policy, even though only provisional. This may be considered a result of the characteristics and limitations of past manufacturing trends and the way in which they prevented the sector from expanding spontaneously at the same rate as in the previous decade. The historic decree No. 1157 of June 1940 and the establishment of the Industrial Development Institute were tangible evidence of the Government's increasing concern with manufacturing prospects and aims. In the circumstances, the vertical diversification of industry was a necessary step and Colombia planned to establish basic industries such as steel, caustic soda, and chemicals in general. Practically at the same time, a very similar plan was prepared in Chile by the Development Corporation (CORFO), founded in 1939.

Furthermore, the Government continued to expand Colombia's infrastructure, although not as intensively as in the preceding stage. A particular feature of government action during this phase was the large scale on which public securities were being sold—mainly of necessity—on the domestic market. Annual sales in the years 1941-45 rose to almost eight times the level of 1936-40. Thus public revenue was increased and private income absorbed at a time when the pressure of demand in the private sector was intensified.

During the war years, economic foreign trade policy was more expressly intended to promote internal changes through multiple exchange rates, which were used almost throughout the region at that time. Basically, this was an attempt to improve upon the import restrictions imposed during the preceding phase to remedy the balance of payments position. When the 1931 tariff modifications (based on specific taxes) became less effective, multiple exchange rates were introduced to promote imports which could help to diversify the domestic economy, and reduce or eliminate those less likely to do so.

In spite of all these interrelated measures, the wartime restrictions on strategic imports required to expand the economic system, and the nature of the first drive towards industrialization outlined above made it impossible to sustain the intensive rate of economic and industrial expansion achieved in the previous decade. Nevertheless, from 1939 to 1945 manufacturing attained a fairly high rate for Latin America (6 per cent annually), which was higher than that of countries like Argentina or Chile with a longer tradition in this field.

(d) *The post-war period up to 1950*

Until the 1949 coffee boom, which was to leave its stamp on subsequent development, the post-war years in Colombia showed a series of similarities and contrasts with economic policy developments and reactions in other Latin American countries.

One outstanding feature was the improvement or stabilization of foreign trade, with easier import conditions and sufficient financial resources to take advantage of them, thanks to an increase in export values because of the improved terms of trade and the accumulation of reserves. As a result of these circumstances, the whole region, including Colombia, eased its foreign trade and exchange policy. But at the same time, the pent-up demand for imports and its steady growth soon caused an external imbalance to reappear at other levels, which in turn prompted a new shift in policy.

This chain of events is clearly observable in Colombia. From 1940 to 1945 import restrictions and the increase in export values pushed up reserves from approximately 27 to 182 million dollars. The removal of restrictions halved this figure in less than two years: to 91 million in 1948. At the same time, the system of controls, which began to be eliminated in 1944 with the establishment of a single parity for foreign exchange, was replaced by stringent controls on external operations, in which conventional measures such as devaluation of the peso were combined with unconventional instruments such as different exchange rates for imports and exports.

With the elimination of difficulties in the external sector, the wartime policy of deliberately promoting industrialization began to lose momentum. A somewhat ineffectual exception to this was the measures adopted in 1948, and maintained in 1953 according tax exemptions for new types of industries established in Colombia. It should be borne in mind, however, that from 1948 onwards there were serious internal upheavals, with repeated widespread acts of violence, particularly in rural areas. The destruction of rural dwellings and facilities, abandoned crops and large-scale migration to the towns prevented an improvement in the agricultural products.

However, these vicissitudes did not curb industrial expansion. On the contrary, it proceeded at a faster rate from 1945 onwards, exceeding the pre-war rate and reaching over 9 per cent annually, or close to the growth rate attained in 1933-39.

Some plausible theories have been advanced to explain this somewhat surprising trend. Although with the removal of import restrictions purchases of consumer goods increased substantially, imports of manufacturing equipment and inputs also rose sharply, particularly as this sector appears to have accumulated sufficient resources to make the most of the opportunities offered. A second factor was the drive shown by entrepreneurs, who were careful to miss no opportunity despite the Government's cooler attitude towards industrial development. Lastly, stress has been laid on more general factors relating to increases in income, greater co-ordination at the national level, previous government policy and the like, all of which provided a favourable background for internal diversification.

3. Development and economic policy in Colombia during the period 1950-66

This central part of the study will begin with an attempt to make a broad comparison between development and economic policy over the three decades prior to 1950, and in the period 1950-66, highlighting the changing relationships between external sector trends and domestic activity.

Despite some temporary ups and downs, Colombia developed fairly steadily from 1920 to 1950. In particular, Colombian industry in the post-depression era made good progress under the stimulus of restrictions on foreign trade, mainly on imports. This process was favoured by the broader opportunities of acquiring inputs and capital goods for manufacturing industries and infrastructure.

National accounts data indicate some strange phenomena after 1950. Development became irregular and generally followed the same course as fluctuations in foreign trade sometimes with a time lag. (See tables 1 and 2.) There is therefore conflict between the growth of the national production system and the behaviour of the external sector, inasmuch as the former was periodically hampered by fluctuations in the latter. These maladjustments had their effect on economic policy, which attempted to promote internal growth or, alternatively, to correct the recurrent disequilibria in the balance of payments.

To simplify matters, this period is divided into three principal phases: expansion (1950-54), contraction (1955-58) and a relative recovery with occasional setbacks (up to 1966).

(a) *Expansion in 1950-54*

Colombia, like all the coffee-producing countries, enjoyed a boom in its chief export commodity between 1949 and 1954. Quotations rose from 27 cents per pound in 1945-49 to 72 cents in 1954. The value of Colombian exports rose

Table 1

COLOMBIA: PRODUCT AND REAL INCOME,[a] 1950-65

(Millions of pesos at 1958 prices)

Year	*Gross domestic product*	*Annual growth rate*	*Real gross domestic income*	*Annual growth rate*
1950	14,688.8		15,338.4	
1951	15,146.6	3.1	15,400.0	0.4
1952	16,102.0	6.3	16,333.0	6.1
1953	17,081.0	6.1	17,824.7	9.1
1954	18,262.3	6.9	19,682.5	10.4
1955	18,976.1	3.9	19,747.3	0.3
1956	19,745.7	4.1	20,566.8	4.1
1957	20,186.2	2.2	20,785.2	1.1
1958	20,682.5	2.5	20,682.5	—0.5
1959	22,128.6	7.0	21,930.2	6.0
1960	23,041.8	4.1	22,667.4	3.4
1961	24,179.0	4.9	23,625.3	4.2
1962	25,396.0	5.0	24,762.5	4.8
1963	26,238.0	3.3	25,549.7	3.2
1964	27,812.3	6.0	27,608.9	8.1
1965	28,701.7	3.2	28,064.6	1.7

SOURCE: National Accounts, Bank of the Republic.

[a] Real gross domestic income includes direct profits or losses sustained by the Colombian economy in foreign trade in goods as a result of variations in import and export prices.

Table 2

COLOMBIA: FOREIGN TRADE IN GOODS,[a] 1949-65

(Millions of dollars at current prices)

Year	*Exports f.o.b.*[b]	*Annual growth rate*	*Imports c.i.f.*	*Annual growth rate*
1949	321.0		264.6	
1950	395.6	23.2	364.7	37.8
1951	463.3	17.1	419.0	14.9
1952	473.3	2.2	415.4	—0.9
1953	596.1	25.9	546.7	31.6
1954	657.1	10.2	671.8	22.9
1955	583.9	—10.1	669.3	—0.4
1956	537.0	—8.0	657.2	—1.8
1957	511.1	—4.8	482.6	—26.6
1958	460.7	—9.9	399.9	—17.1
1959	473.0	2.7	415.6	3.9
1960	464.6	—1.8	518.6	24.8
1961	434.5	—6.5	557.1	7.4
1962	463.4	6.7	540.4	—3.0
1963	446.7	—3.6	506.0	—6.4
1964	548.1	22.7	586.3	15.9
1965	539.1	—1.6	453.5	—22.7

SOURCE: National Administrative Department of Statistics, foreign trade yearbooks.

[a] Only registered trade.

[b] Coffee accounts for 70 per cent of total exports of goods.

from about 321 million dollars in 1949 to 657 million in the most favourable year. The rates of growth and absolute increase in imports were even sharper; only in 1952 did imports level off as a result of the previous year's measures to contain demand for foreign goods, a subject which is referred to later.

The external sector boom extended to the whole economic system. On an average, both product and income (which reflects the improvement in the terms of trade) attained the highest rates for the period under review. (See again table 1.)[5] The figures for the three years 1952-54 also show a steep rise in manufacturing output. (See table 3.) Agriculture was the only sector with a feeble growth, partly as a result of the social disruptions referred to above. (See table 4.)

[5] The 1951 figure will probably be corrected, in subsequent revised versions, since it does not seem justified in the light of the changes which took place in foreign trade and industry.

Table 3

COLOMBIA: PERCENTAGE ANNUAL GROWTH OF MANUFACTURING, 1950-65

Year	*Increase in the manufacturing product*
1950	—
1951	—
1952	7.0
1953	9.1
1954	9.3
1955	6.8
1956	7.4
1957	4.6
1958	4.4
1959	8.3
1960	6.2
1961	6.0
1962	6.8
1963	4.8
1964	5.9
1965	4.7

SOURCE: National Accounts, Bank of the Republic.

Table 4

COLOMBIA: GROSS DOMESTIC PRODUCT FOR AGRICULTURAL SECTOR AND FOR COFFEE, 1950-65

(Millions of pesos at 1958 prices)

Year	*Agriculture as a whole*	*Annual percentage*	*Agriculture excluding coffee*	*Annual percentage*	*Coffee*	*Annual percentage*
1950	5,553.0		4,831.0		722.0	
1951	5,622.0	1.2	4,900.0	1.4	722.0	—
1952	6,006.0	6.8	5,051.0	3.1	955.0	32.3
1953	6,018.0	0.2	5,055.0	—	963.0	0.8
1954	6,178.0	2.7	5,207.0	3.0	971.0	0.8
1955	6,327.0	2.4	5,390.0	3.5	937.0	—3.5
1956	6,528.0	3.2	5,557.0	3.1	971.0	3.6
1957	6,928.0	6.1	5,896.0	6.1	1,032.0	6.3
1958	7,146.0	3.1	6,140.0	4.1	1,006.0	—2.5
1959	7,505.0	5.0	6,473.0	5.4	1,032.0	2.6
1960	7,513.0	0.1	6,353.0	—1.9	1,160.0	12.4
1961	7,808.0	3.9	6,579.0	3.6	1,229.0	5.9
1962	8,063.0	3.3	6,773.0	2.9	1,290.0	5.0
1963	8,106.0	0.5	6,756.0	—0.3	1,350.0	4.7
1964	8,564.0	5.7	7,154.0	5.9	1,410.0	4.4
1965	8,560.0	—	7,090.0	—0.9	1,470.0	4.3
Average percentage		*2.9*		*2.6*		*4.9*

SOURCE: National Accounts, Administrative Planning Department, Bank of the Republic.

Several features of economic policy stood out during the period, although that policy had no clearly-defined underlying objectives. Special measures were taken to invest in infrastructure, maintain favourable conditions for import substitution industries and control the imbalance in external transactions.

From 1950 to 1954, total tax revenue and government expenditure increased substantially in real terms, the former from some 1,500 million to over 2,000 million pesos, and the latter from nearly 1,150 million to over 1,800 million pesos. (See table 5.) The proportion of total expenditure absorbed by investment followed an upward trend from 1951 until the beginning of the sixties, even though the foreign trade boom had already petered out. (See table 6.) This subject will be dealt with again later in this study. In contrast, income shows little change, the relative share of direct and indirect taxes remaining virtually the same. In short the Government failed to take advantage of these circumstances to make the tax system more progressive, and it was not until the sixties that this reform was instituted under far less favourable circumstances.

Foreign trade policy and changes introduced during the coffee boom were to some extent conflicting. In the first place, the relatively stringent controls imposed at the end of the forties were considerably eased, a list of prohibited imports representing the only remaining restrictions. At the same time, the application of multiple exchange rates was drastically reduced. Imports rose as a result of these measures. (See again table 2.) However, measures having the opposite effect were adopted concurrently—the 1951 currency devaluation and tariff reform—and not only curbed the demand for imports but helped to protect domestic activities, particularly industry, from foreign competition. The latest provisions were possibly prompted by the rise in imports in 1950, which caused a deficit in the balance of payments in spite of substantial foreign exchange earnings, and by the fear that exports would not continue to expand. Be that as it may, the fact remains that this rise and fall in the demand for imports facilitated the inflow of inputs and capital goods, which triggered a new phase of expansion for industrial activities and infrastructure works. The structure of manufacturing was diversified with the establishment of new basic industries such as steel, caustic soda, sulphuric acid, rayon fibre, textile yarn, etc., i.e., virtually the same industries as those considered in the first industrial

Table 5

COLOMBIA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE, 1950-65

(Millions of pesos at 1958 prices)

Year	*Direct taxes*	*Indirect taxes less subsidies*	*Total tax revenue*	*Consumption expenditure*	*Investment expenditure*	*Total expenditure*	*Annual rates*
1950	565.6	934.6	1,500.2	856.0	293.0	1,149.0	—
1951	596.6	969.3	1,565.9	965.5	396.3	1,361.8	18.5
1952	665.2	1,031.7	1,696.9	1,026.7	374.0	1,400.7	2.9
1953	776.1	1,140.2	1,916.3	1,231.9	491.0	1,722.9	23.0
1954	767.4	1,268.2	2,035.6	1,277.3	534.5	1,811.8	5.2
1955	874.2	1,300.5	2,174.7	1,329.4	739.9	2,064.3	13.9
1956	989.0	1,338.1	2,327.1	1,285.1	745.1	2,030.2	—1.7
1957	1,047.5	1,344.0	2,391.5	1,146.4	625.5	1,771.9	—12.7
1958	981.0	1,371.5	2,352.5	1,196.1	624.4	1,820.5	2.7
1959	1,198.6	1,501.0	2,699.6	1,214.3	659.6	1,873.9	2.9
1960	1,335.1	1,599.2	2,934.3	1,339.6	653.9	1,993.5	6.4
1961	1,423.0	1,650.4	3,073.4	1,413.2	805.3	2,218.5	11.3
1962	1,554.2	1,766.7	3,320.9	1,531.2	846.4	2,377.6	7.2
1963	1,617.9	1,831.8	3,449.7	1,619.4	714.0	2,333.4	—1.9
1964	1,542.4	1,971.1	3,513.5	1,641.2	740.8	2,382.0	2.1
1965	1,542.3	2,061.2	3,603.5	1,744.8	824.9	2,569.7	7.9
					Average rate		*5.5*

SOURCE: National Accounts, Bank of the Republic.

Table 6

COLOMBIA: CENTRAL GOVERNMENT REVENUE AND EXPENDITURE, 1950-65

(Percentage composition)

Year	*Direct taxes*	*Indirect taxes*	*Consumption expenditure*	*Investment expenditure*
1950	37.7	62.3	74.5	25.5
1951	38.1	61.9	70.9	29.1
1952	39.2	60.8	73.3	26.7
1953	40.5	59.5	71.5	28.5
1954	37.7	62.3	70.5	29.5
1955	40.2	59.8	64.4	35.6
1956	42.5	57.5	63.3	36.7
1957	43.8	56.2	64.7	35.3
1958	41.7	58.3	65.7	34.3
1959	44.4	55.6	64.8	35.2
1960	45.5	54.5	67.2	32.8
1961	46.3	53.7	63.7	36.3
1962	46.8	53.2	64.4	35.6
1963	46.9	53.1	69.4	30.6
1964	43.9	56.1	68.9	31.1
1965	42.8	57.2	67.9	32.1

SOURCE: National Accounts, Bank of the Republic.

development programme in the early forties, which had subsequently failed to materialize. At the same time, the Government promoted existing activities, such as refineries and tyre, paper, paperboard and cotton textile plants, which were considerably modernized.

(b) *The end of the expansion and the institution of a policy of stability, 1955-58*

The foreign trade boom petered out in 1954, and was followed by a four-year decline, which became particularly severe during certain periods. The effects of this decline on the product and income were immediate and appreciable although the only outward sign was the failure of industry to maintain the same rate of growth. (See again tables 1, 2 and 3.)

During that period, some of the basic economic activities were out of kilter, as in many other Latin American countries. Table 2 shows that in the last two years of the expansion (1953-54), imports increased far more rapidly than exports and declined much more slowly during the next two years. This disproportion was dealt with temporarily by external borrowing and the postponement of payments that fell due, but the situation became untenable and stringent import controls finally had to be applied in 1957-58.[6]

Foreign trade and fiscal activities also fluctuated considerably. Public expenditure continued to grow in 1955 and the share of investment in the total also increased. (See again tables 5 and 6.) During this phase, there were heavier outlays on the steel installations under construction at Paz del Río and on electrification, roads and housing construction. Government bonds were floated to finance the internal debt (10 per cent of public expenditure was subsidized in this way in 1954), making it just possible for those activities to be kept up after external aid had been sharply reduced. However, in 1956 and more particularly in 1957, expenditure was cut back and did not regain its previous level until the early sixties.

It was against this background of events and after a change of government that the stabilization policy was first applied in 1957. The years of instability were also the years of the decline of a régime and serious political disturbances. Consequently, the restrictive measures represented *a reaction against the general situation* and an attempt to restore normality.

Both in the motivation and consequences, the policy decision to make stability the prime objective had special features distinguishing it from those observed during similar phases elsewhere.

The changes in foreign trade trends and terms, and the Government's efforts to keep up the level of trade in spite of circumstances had little impact on domestic prices. As table 7 indicates, consumer prices rose hardly at all in 1955 and only a little over 5 per cent in 1956. In other words, there were apparently no internal forces either producing or propagating inflation as a corollary to the external imbalance, which seems to indicate that the stabilization measures were based almost entirely on the balance of payments.

However, the continuation of external restrictions coupled with the Government drive for expansion shows that this imbalance undoubtedly created a source of inflationary pressures in the fiscal system that could only be repressed by emergency measures such as a compulsory nation-wide government bond issue.

[6] In 1957, the debts outstanding amounted to 497 million dollars, the gold and foreign exchange reserves of the Bank of the Republic dropped from 269 million dollars in 1954 to 144 million in 1956 but, in general, the market was kept artificially primed by imported goods.

Table 7

COLOMBIA: CONSUMER PRICE (COST-OF-LIVING) INDEXES, 1954-66

(ANNUAL AVERAGES)

Base: July 1954 to June 1955 = 100

Year	*Employees*	*Percentage annual variation*	*Workers*	*Percentage annual variation*
1954 (6 months)	99.5		99.9	
1955	100.9	1.4	100.1	0.2
1956	106.0	5.1	105.6	5.5
1957	121.9	15.0	124.0	17.4
1958	137.9	13.1	140.4	13.2
1959	149.6	8.5	151.9	8.2
1960	158.6	6.0	160.5	5.7
1961	171.1	7.9	174.1	8.5
1962	180.6	5.6	181.6	4.3
1963	224.9	24.5	231.1	27.3
1964	260.1	15.7	272.1	17.7
1965	282.8	8.7	291.3	7.1
1966 (first six months)	321.7	13.8	332.7	14.2

SOURCE: DANE, monthly bulletins.

Another endogenous factor in inflation was the sluggish growth of agricultural production. While not as slow as in some countries, the growth rate was certainly very low if coffee is excluded. (See again table 4.) Agriculture seems even more backward when contrasted with the dynamic development of industry and services and the high rates of population growth (over 3 per cent) and urbanization (a little under 5 per cent). The growth rate of the agricultural product (except coffee) was well below these levels since it did not amount to more than 2.6 per cent annually during that period, and fluctuated violently. However, a few crops, notably cotton, certain oil-seeds and rice, made good progress, and imports of these commodities could be cut down or stopped altogether. The growers concerned generally formed associations and were successful in obtaining credit, protection and incentives from the Government.

The effects of this process on inflation should be assessed in the light of another factor in which Colombia differed considerably from other Latin American countries. This was the degree of social pressure in the country, as reflected in demands for higher wages, which, in Latin America, have sometimes been largely responsible for intensifying structural imbalances. For various reasons, which cannot be explained at length here (one being the small organized labour movement), the pressures in Colombia were undoubtedly fairly slight.

To revert to the main point under discussion, it should be stressed that during the two-year period 1957-58, the primary aim of economic policy, to which all others were subordinated, was to remedy the imbalances in foreign trade. A number of instruments were used for this purpose; some of them were traditional, while others strengthened Colombia's reputation as an innovator in methods and procedures.

The peso was devalued, and a new exchange system of "certificates" was established for most foreign trade transactions and certain movements of capital. A free exchange rate was fixed for all other negotiations.

A novel element in the system was the creation of the "exchange regulation fund" and of the *Superintendencia Nacional de Importaciones* for the purposes of preventing sharp fluctuations in foreign exchange transactions, regulating imports of certain goods, and approving requests for foreign exchange to pay for goods requiring an import licence in advance, as well as authorizing imports of machinery and equipment. As further measures of control, more goods were added to the list of embargoed imports, while prior deposits were increased considerably and frozen in the Bank of the Republic.

Economic policy had more than one target in fiscal matters. In the first place, it aimed at reducing public expenditure, and did so by roughly 13 per cent in 1957. (See again table 5.)

Equally or even more important were the tax measures, headed by a 15 per cent dollar tax on export earnings from coffee, bananas and precious metals, and of a 10 per cent tax on drawings of foreign exchange. The revenue from these taxes was made available to the Bank of the Republic and used in the main for settling trade arrears. The taxes also served to syphon off some of the export profits obtained as a result of devaluation. In the case of the coffee crop, which increased less rapidly in 1956-57, 15 per cent of the volume of exports had to be withheld in kind. (See again table 4.)

In any attempt to evaluate these measures aimed partly at curbing domestic demand and the demand for foreign imports, they should be taken as a whole, bearing in mind that the Government had to finance the coffee surpluses produced by the decline of the market and rising output.

Although seemingly paradoxical, the relatively steep rise in prices (17 per cent in 1957 and 13 per cent in 1958) that followed the stabilization measures was actually an indirect proof that inflationary pressures originating in the external sector were active. The main reason for the price increases was the change in the ratio of external to domestic prices as a result of devaluation. In this sense, therefore, there was no incompatibility between the rise in prices and stabilization policy.

The external imbalance was reduced considerably by a sharp cut in imports that considerably exceeded the fresh drop in the value of exports. (See again table 2.) While imports decreased by about 27 and 17 per cent in 1957 and 1958, exports declined by only 5 and 10 per cent.

These measures also had a pronounced although not spectacular effect on the growth of the product and income and on industrial development. (See again tables 1 and 3.) The growth rate of the product dropped to an average of about 2.3 per cent in 1957-58, while that of income rose less than 1 per cent as a result of the deterioration in price ratios. Meanwhile, the growth rate of manufacturing production fell to 4.5 per cent as an average for the two years of stabilization.

This review seems to indicate that stabilization was only a passing phase and that it was useful only in so far as it met the need to restore the balance of foreign trade. However, viewed in conjunction with the expansionist phase that preceded it, it assumes more importance because the two phases constitute the first clear demonstration of the increasingly unfortunate economic effects of the fluctuations in the external sector, and a foretaste of the dilemma to be faced in the next few years when domestic expansion would have to be reconciled with preservation of a balanced external sector.

(c) *Policy in 1959-62*

In 1957-58, economic policy managed to bring under control the most violent maladjustments in the external sector. However, its depressive effect on the domestic economy and a temporary improvement in exports, which rose 2.7 per cent after four years of decline (see again table 2), led to the adoption of a more liberal approach in 1959 which was maintained up to 1962. The immediate result was a substantial increase in the value of imports (approximately 25 per cent in 1960), more public expenditure (see table 5), the recovery of industry, which achieved growth rates of over 8 per cent in 1959 and of 6 per cent thereafter up to 1962 (see again table 3), and, lastly, a satisfactory growth rate for the product and income (see table 1). It should be emphasized that this expansion was accompanied by a reduction in inflation (see again table 7), since prices rose less between 1959 and 1962 than in the two years of stabilization.

These developments show that many of the instruments and mechanisms perfected previously were put to good use, and a great effort was made to devise a truly national economic policy and co-ordinate its objectives by strengthening the planning system, and adopting public sector plans and a General Development Plan. These, especially the former, contributed appreciably to the reorganization of the public administration, the analysis of government investment and expenditure and a more rational allocation of resources.

Several of those instruments and mechanisms are worthy of special mention. The retention of a certain proportion of export income, mainly from coffee, kept some of the surplus of Colombia's major export item off the market. The revenue obtained from the 15 per cent tax on coffee sales helped to normalize payments on the external debt and to finance a certain amount of public expenditure, thus making it unnecessary to use potentially inflationary devices to subsidize the growth of such expenditure. At the same time, the authorities' purchases of non-exportable coffee surpluses were reduced, and it was decreed that importers with foreign currency debts for which the State assumed responsibility were to pay their liabilities in local currency.

Public finances were strengthened because tax collection, particularly collection of income tax, was more strictly controlled. As table 5 indicates, this led to an appreciable increase in the revenue from direct taxes. In 1959 their share of total tax income began to rise from around 42 per cent, at which it had stood the year before, to over 46.5 per cent by 1961-62. (See again table 6.)

These measures, which were largely the responsibility of the State, were applied together with others mainly designed to safeguard and encourage industrial development. The customs tariff established in 1951 was revised so as to give greater protection to the traditional industries (food, tobacco, wood, etc.) and to increase still further the customs duties levied on consumer goods to the benefit of raw materials. In addition, a special customs duty was imposed on certain agricultural items (wheat and wheat flour, cotton, oats, hops, oil-seeds, etc.) and the revenue used to promote the cultivation of those crops in Colombia.

The policy of tax incentives for priority activities was also strengthened. Export earnings from all items except unprocessed coffee, petroleum and petroleum products, bananas, hides, raw tobacco and precious metals were declared exempt from payment of income tax. Total or partial exemption from payment of income tax was also granted up to 1970 to corporations concerned exclusively with establishing and operating basic industries, or with developing industries connected with iron production which used inputs from the Paz del Río steel plant. Those corporations were also empowered to form special reserves, exempt from payment of income tax, for investment in the production of raw materials and goods for import substitution. Tax exemptions were also accorded to other high-priority activities, such as the national airlines and construction for low- and medium-income groups.

Monetary policy concentrated on stabilization by keeping both the expansionist and restrictive forces in check. The money supply was increased only very gradually irrespective of the fluctuations in prices. (See table 8.) In 1959-60, there was a moderate rise in prices and a relatively small increase in the money supply (12 and 10 per cent a year respectively), and, in 1961-62, a rather more substantial increase in the two (25 and 21 per cent). In 1963, however, the situation changed altogether: prices climbed rapidly although there was less monetary expansion. Without entering into greater detail, it seems clear that other forces must be held responsible both for the price movements and the trend of the money supply.

Table 8

COLOMBIA: PERCENTAGE INCREASE IN THE MEANS OF PAYMENT IN CIRCULATION, 1951-65

Year	*Total at year end, excluding official deposits*
1951	16.4
1952	16.9
1953	18.3
1954	19.3
1955	4.7
1956	24.9
1957	13.6
1958	20.9
1959	12.0
1960	10.4
1961	24.6
1962	20.7
1963	12.2
1964	20.9
1965	15.7

SOURCE: Reviews of the Bank of the Republic.

In order to deal with a basic problem of its agrarian structure, the Government of Colombia set up a National Agrarian Committee (Comité Nacional Agrario) to assist it in "the study of legislative and executive measures relating to the reform of the agrarian social structure, the development of agricultural productivity and the organization and improvement of the level of living of the rural population". The Committee drafted a bill which was submitted to Congress for discussion, and which served as a basis for the Agrarian Reform Act (*Ley de Reforma Social Agraria*) passed in 1961. The Colombian Institute for Agrarian Reform (Instituto Colombiano de Reforma Agraria) was established under the Act itself as its executing agency. This Institute purchases farm land for the purpose of parcelling it out in smaller lots and transferring the ownership or constructing canals, dams, roads, etc. Its primary objectives were not so much an expeditious and radical reform of the structure of ownership of lands already farmed, as the settlement of unused and State-owned land, the building of neighbourhood roads, land reclamation and preparation, irrigation programmes, reforestation and forest conservation. It was also engaged in such activities as the granting of supervised credit, the encouragement of certain lines of crop farming, and of studies on soil climate, meterological conditions, etc., with its assistance.[7]

As pointed out, the other salient feature and, in a sense, the ultimate effort to systematize economic policy objectives consisted in the formulation of public investment plans and of the over-all development plan (*Plan General de Desarrollo*) promulgated in 1961.

Under the *Plan General,* an attempt was made in allocating resources, to define their implications in each sector with reference to a co-ordinated programme; at the same time, a basis was provided for government politico-economic decisions aimed at improving the average standard of living of the population. The preamble of the *Plan* specified the Government's wish to channel national efforts in the economic and social fields towards the attainment of the optimum rate of development compatible with Colombia's resources, and with the increasing extension of the benefits of progress to the most depressed sectors.

Through development planning Colombia sought to simplify and rationalize State intervention in economic affairs, by discarding the makeshift and empirical approach which often led to the dissipation and inefficient use of financial and natural resources and ensuring proper co-ordination of public and private efforts on behalf of economic progress. The intention was not to increase direct State intervention, to broaden the sphere of action of the public authorities, to introduce more and more control procedures, but to guarantee the effectiveness of economic policy by making it at once more carefully thought out and more resolute.

Like all plans, the Colombian plan used a diagnosis of the status and prospects of the economy as a basis for establishing definite over-all and sectoral targets for the economy in the period under consideration, and for evaluating and determining the means of attaining them. Broadly speaking, this plan was in essence an attempt to orient economic policy towards relatively rapid economic and social expansion without upsetting external equilibrium and the stability of over-all price levels.

The cumulative annual growth rate of the product established as a target under the plan was 5.6 per cent, which in practice implied a higher rate of development, since the base year to which the target rate related was 1959. To attain this objective, not only more active and rational utilization of installed production capacity was called for, but also a vigorous capital-formation effort. In view of the Colombian economy's vulnerability to external sector fluctuations, and on the assumption that international coffee prices would go down, it was felt that the first essential was to boost other exports (meat, cotton, sugar, manufactured goods, etc.) in order to maintain a favourable balance of payments. Clearly, however, this alone would not suffice, and the country would need blanket assistance from abroad for the implementation of the over-all plan, not merely sporadic aid for the purpose of correcting maladjustments. This assistance would have to be granted on exceptional terms in the form of subsidies or long-term loans with flexible conditions of payment, to ease service commitments on a disproportionately large external debt and meet the growing need to import materials and equipment.

Together with its purely economic targets, the plan envisaged changes in various aspects of the social structure: the education and public health sectors, housing, public utilities, etc. The development process should generate economic prosperity and convince the country that it was desirable and necessary to overcome its backwardness.

Although the plan was not detailed on many points except with respect to the activities of the public-sector and industry, it constituted a useful guide and frame of reference open to improvement and adjustment, since it made no claim to lay down hard and fast rules for the course that Colombia should follow in the period covered. Instead it was a set of flexible hypotheses, subject to the situation of the economy and its foreseeable prospects.

(d) *Fluctuating development trends from 1963 onwards*

The impetus that had been given to the economy since 1959 petered out at the end of 1962,

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[7] Land settlement in Colombia had been on a modest scale up to the end of 1964. According to available information, 1,400 farmers were actually settled on the land as at that date and 13,600 hectares had been distributed. One year later, the Colombian Institute for Agrarian Reform (Instituto Colombiano de Reforma Agraria—INCORA) announced that about 1.3 million hectares had been allotted to some 33,000 households.

The Agrarian Reform Act stipulates that it shall be enforced in stages on the basis of decrees for each part of the country. Purchases of private land for redistribution are confined to uncultivated estates of over 2,000 hectares, with the inclusion, in some instances, of land needed for settlement programmes. The Act establishes, however, that the publicly-owned land shall be distributed first, and later, should it prove necessary, the private estates. The following is the order of priority for the distribution of the latter: unused land, inefficiently utilized land, properties farmed by tenants or sharecroppers, and farms that the owners wish to sell directly.

and in the following year, according to almost all the relevant indicators, there was another recession and another transitory outbreak of inflation. From 1963 onwards, development began to fluctuate, while economic policy lagged behind striving to adjust its decisions to the movements of the major variables. The cycles were very short—virtually annual. The downturns of 1963 were followed by a slight recovery in 1964, a relapse in 1965 and a further mild recovery in 1966. Policy had to be adapted to the particular circumstances of the moment: it vacillated between certain expansionist impulses and a preoccupation with the external imbalance.

Among the circumstances prevailing in 1963, the external transactions of decisive importance showed negative rates, since exports dropped by 3.6 per cent and imports by 6.4 per cent. (See again table 2.) Public expenditure contracted, although moderately, as did agricultural production, except for coffee, and the expansion of the manufacturing sector levelled off. (See again tables 3, 4 and 5.) In the course of the year the growth rates of the product and income declined to a little over 3 per cent. Furthermore, these downturns were accompanied by a substantial rise in prices: the workers' cost-of-living index showed any increase of almost 18 per cent. (See again table 7.)

Apart from the decline in agricultural production which can be explained by natural conditions, the chain of events which led to this situation is not difficult to trace, particularly as it reproduces a familiar sequence in the vicissitudes of the Colombian economy.

With regard to the fluctuations of foreign trade, it can be seen from table 2 that the expansion of exports in 1959 was followed by successive contractions in 1960-61, and, after an upswing in 1962, by another decline in 1963. Moreover, the growth rate of imports, which in 1959 had already exceeded that of export earnings, soared in 1960 (reaching almost 25 per cent) and continued positive in 1961 (a little over 7 per cent). Thus, despite the improvement in the export trade in 1962, both in that year and in the next the flow of purchases abroad had to be restricted, a step which inevitably heralds a decline in development in general and in the manufacturing sector and investment in particular. To make this restriction effective, the authorities again had to devaluate the currency and apply various measures to control demand for imported goods, while at the same time resorting to external financial assistance in order to mitigate the consequences. These decisions, and the special circumstances which led to their adoption,[8] were obviously the basic causes of the renewed rise in prices in 1963-64 (see again table 7). The external origin of inflationary movements again became obvious, that is, it became manifest that inflation was structurally inherent in the economy because of its vulnerability to fluctuations in the market for its main export, coffee.

In addition to this depressive combination of circumstances, a factor of a different kind supervened: the weakening of the planning process. The guidelines and operational machinery established in the plans came to exert less influence, in practice, as instruments of economic policy.

Between 1964 and 1965-66 another drastic change typical of this period took place. Once again, in 1964, a recovery in external transactions produced repercussions throughout the Colombian economy, as can be seen from the most representative figures (see again table 2). *Inter alia*, the public sector became more active, industrial expansion was speeded up, the overall growth rate rose and inflationary pressure on prices diminished.

But the boom was of very brief duration. In 1965, starting from its point of origin, the chain of events unwound in the opposite direction. As shown in table 2, a slight decrease of under 2 per cent in the value of exports was accompanied by another, far more marked (approximately 23 per cent), in imports, although during the previous year's short-lived prosperity the ratio between external income and expenditure had been much more favourable and conservative than usual (the former had increased by almost 28 per cent, whereas the latter had risen by only 16 per cent). But the economy was already operating at a relatively high level of indebtedness, especially in respect of trade arrears, so that temporary increases in income (or new credits) were largely absorbed by the servicing of commitments.[9]

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[8] The devaluation was preceded by a considerable expansion of the means of payment, amounting to 20.6 per cent, during the second half of 1962. Moreover, the discussion of the measure in Congress before it became law sparked off various forms of speculation prior to its adoption (changes in price levels, hoarding, stock-piling, pressure for imports, etc.). Labour clamoured for the maintenance of real wages, and concurrently with the devaluation a wage increase was granted, which exceeded the 1962 rise in prices and was to be adjusted every year in accordance with the variations in the cost of living. This system was abrogated the following year.

[9] By 1965, the external public debt totalled about 833 million dollars, and debt services represented some 108 million dollars, as against approximately 540 mil-

The relapse that occurred in 1965 was essentially reflected in the external imbalance, since its inflationary implications were almost negligible, as is evidenced by a price rise of about 8 per cent (see again table 7). It led to the adoption of a new stabilization programme, which was launched in the last quarter of 1965 and continued in operation until the end of 1966. The usual combination of measures and instruments was applied. Devaluation of the currency was accompanied by yet another experiment in the liberalization of a given proportion of imports, while at the same time the system of multiple exchange rates was expanded and strengthened, and customs tariffs were further increased. Moreover, a special surcharge on income tax[10] was introduced, and investment in government securities was made compulsory for investment associations and agencies and individual taxpayers. While the State was thus provided with non-inflationary resources, which enabled it to raise its level of expenditure—although the share of investment was relatively small as it had been since 1963 (see again tables 5 and 6)—the monetary authorities succeeded in moderately reducing the expansion of the money supply (see again table 8). Despite these decisions and as a result of the exchange measures, a device used previously in similar circumstances, prices rose by about 14 per cent in the first half of 1966.

(e) *Recent developments*

In November 1966 a new foreign exchange régime was adopted as an emergency measure, and the partially free exchange system that had been in force was rescinded. The factors that determined the reform were listed in a decree of that date as the fall in coffee prices, and world coffee market fluctuations during the past few months; the maturing of external commitments contracted by the central bank (Banco de la República), the Government and the National Federation of Coffee-Growers (Federación Nacional de Cafeteros) to strengthen international reserves; and the difficulties encountered by the Government and the central bank in bringing their new external credit operations to a successful conclusion. On all these grounds, it was considered essential to prevent abrupt distortions in the use of foreign exchange and outbreaks of speculation that might cause social unrest.

In brief outline, the provisions of the new régime were as follows: only the Banco de la República could buy and sell gold and foreign exchange; foreign exchange could not be disposed of without prior authorization from the Office of the Superintendent of Foreign Trade (Superintendencia de Comercio Exterior), which was to be accorded subject to the regulations of the Monetary Council (Junta Monetaria); the Monetary Council was to fix the rates at which the Banco de la República should buy and sell foreign exchange, which had hitherto been freely negotiable (the rates were set at 16.25 and 16.30 pesos to the dollar, respectively); and until the supply of foreign exchange was regularized, the Monetary Council was to determine an order of priorities for external payments. Furthermore, severe penalties for infringement of these regulations were established, and, as a supplementary measure, the Board of Foreign Trade (Junta de Comercio Exterior) decided that all goods which were being imported freely should be brought under the import permit régime.

In addition to the foregoing measure, prices were frozen and controls were intensified to ensure that no improper advantage was taken of the new situation.

These emergency regulations obviously were imperative because of the chronic structural weakness of the balance of payments, as a result of which external aid has been negotiated annually to make up for the inadequacy of the country's regular income. With some international agencies, such agreements have been increasingly difficult to conclude, and the terms have been hardening. It was proposed to make new credit resources for 1967 conditional upon a large-scale devaluation, which could be followed by others in succession, according to the levels shown by international reserves. The Government repudiated this type of condition because of its effect on the stability of prices and wages and because it was felt to be at variance with the principles of liberty and autonomy in the conduct of national economic affairs.

A matter of immediate concern was to make the foreign trade régime clear-cut and permanent in every respect. Early in 1967 a foreign

lion accruing from exports of goods (see again table 2). These figures do not include private commitments. See Planning Department of Colombia (*Departamento Administrativo de Planeación de Colombia*—DAP), *Algunos aspectos de la economía colombiana, 1961-65.*

[10] The increase in wages and salaries (including those payable in the public sector) granted at the end of 1962, and the sharp rise in over-all price levels in 1963, were early signs of the inelasticity of the tax system in the latter year. As a result of this inelasticity, serious difficulties in the financing of official programmes arose, and were partly evaded by recourse to stopgap expedients such as the special income tax surcharges decreed in 1963 and 1965.

exchange statute was promulgated, which was designed to act as an effective instrument of economic development. To this end, exchange controls were instituted, and the free market for foreign exchange was abolished, as well as the free import system. Regulations for foreign investment in Colombia were also established, and conditions and amounts were stipulated for the repatriation of foreign capital and profits and for the payment of royalties. A fund to promote and finance exports was created, with substantial resources and extensive operational capacity. This exchange statute met with a favourable reception in international circles. With its entry into force, external credit for balance-of-payments purposes and for specific projects was re-established.

(f) *Final considerations*

To conclude this cursory review of the main features of Colombia's development and the reaction of economic policy to events, it may be useful to emphasize a few salient points.

First, there is clear evidence of ingenuity and efficiency at the level of institutional creativeness and management of the instruments of economic policy. The combination of orthodox and unconventional expedients found in Colombia is outstanding in the experience of Latin America as a whole. Another striking feature is the wide range of institutes and agencies responsible for specific problems and activities.

Secondly, although the relatively long period covered is distinguished by no radical proposals for structural reforms of the economic system, this does not imply that economic policy has been inconsistent or failed to define targets. Circumstances have often compelled it to concentrate upon certain problem areas of key importance to the nation.

Unquestionably, one of the main problem areas is the economy's structural dependence upon a single export item. To make matters worse, this key product, coffee has not only been subject to abrupt and recurrent fluctuations, but has not found the market very favourable in the last ten years. This trend is particularly serious in view of the relative importance and pervasive influence of coffee in Columbia's production system.

Closely linked to the foregoing problem is a second form of dependence: the dynamic possibilities of the diversification of production—specifically, industrial development—are contingent upon the expansion and contractions in the capacity to import. As in other countries, although the import substitution process has been another mainspring of the economic system, which in the past was wholly subordinated to external sector trends, it has also involved increasing requirements of inputs and capital goods for the expansion of manufacturing activities, particularly as in those branches of production substitution has taken place only on a very modest scale.[11] In so far as periodic fluctuations or inadequate growth of the capacity for payment make it difficult to meet these needs, the process slackens or comes to a standstill. And if due proportion is not preserved, and that limitation is disregarded the outcome is almost inevitably a balance-of-payments crisis, with all the consequences described in earlier sections, including inflationary pressures.

Lastly, to underline only what seems of primary importance, there is the major problem of Colombia's geographical and economic integration, which, despite the endeavors and achievements of government policy, is still only a distant objective—not to speak of its cost—because of the country's topography. Incidentally integration is also an urgent need at the social and political levels.

As was shown in the last section of the analysis, economic policy entered upon a new phase of readjustment in 1966-67 in response to another external imbalance, and in an endeavour to break away from the conventional procedures which at the best have barely served as palliatives in emergencies. The programme now under way is closely linked to the major "problem areas" which call for immediate attention, so that its basic objectives are easy to identify. It is essentially concerned with the diversification and expansion of the economy's export base. An Export Promotion Fund (*Fondo de Promoción de Exportaciones*) was established not long ago, and it will gain strength from the progress of the Latin American integration movement. To fill up the gaps and hiatuses in the industrial structure left by the spontaneous growth of substitution industries—a field which seems to offer plenty of room for development with a potential market of a little under 20 million inhabitants—is now one of the express aims of government action. The Industrial Development Institute (Instituto de Fomento Industrial—IFI) has been financially and operationally

[11] "Traditional" industries still account for about 60 per cent of manufacturing output. Moreover, in 1963 approximately 20 per cent of all industrial inputs came from foreign sources, while the figure for intermediate products, fuels and capital goods exceeded 34 per cent.

strengthened to fit it for this task. Priority is being given to the construction of the key links in the communications network and in the economic infrastructure, so as to unify the country geographically and lay sounder foundations for providing incentives and facilities for the economy. For this purpose, resources from the newly established Highway Fund (*Fondo Vial*) are being used, together with the traditional budget allocations and external financing obtained for given projects. All these fundamental aims of current economic policy go hand in hand with social objectives, in the broad sense of the term. In its next stages in particular, this programme will probably not only require a more explicit formulation of targets and their proper co-ordination, but will force the State to play a more active promotional role than in the past, just as has been or is necessary in other Latin American economies.

I

THE MEASUREMENT OF LATIN AMERICAN REAL INCOME IN U.S. DOLLARS

INTRODUCTION

It has long been recognized that official exchange rates provide an unsatisfactory method of expressing national income data in a common monetary denominator. They are an indication of monetary equivalence covering that part of a country's transactions which involve the movement of funds across national frontiers, often reflecting governmental efforts to achieve or to maintain a given financial situation in spite of varying pressures on the balance of payments, and irrespective of any disequilibrium which exists between external and internal price levels. The economic history of Latin American countries provides countless and recurring instances where a given exchange rate has been maintained for a lengthy period of time, even though the internal price level has long since fallen out of line with prices in other parts of the world—equilibrium in the balance of payments being achieved only by drawing on exchange reserves, by loans, exchange controls or such other expedients as are open to the government in order to meet an emergency situation.

An additional problem arises in that frequently no single or unique rate of exchange exists and the economist wishing to express national data in a selected currency is given a choice of free rates, controlled rates, preferential, basic, auction, non-preferential, etc. rates depending on the monetary system applicable at any given time. In addition, inflationary conditions characterize the price structure of many Latin American countries, and a price or exchange rate relationship which was applicable for a given date may be completely inappropriate a few months later.

In this connexion, it should be noted that in all developing countries, and in some developed countries, the exchange rate is determined largely by the level of prices of a few basic products in which the country concerned has a cost advantage, thus reflecting the efficiency of the export industries instead of indicating comparative costs for the economy as a whole. While this may be of greater significance in other contexts (e.g. in studies of integration, promotion of trade flows, development of national industry, etc.), it is important in explaining why, and to what extent, the currencies of some Latin American countries can be considered as undervalued in relation to others. Hence, while exchange rates may or may not be adequate measures of the demand/supply situation relating to a country's international transactions, they cease to be valid measures of purchasing power as soon as they are applied to the internal price or cost structure of the country. As a corollary, the application of prevailing exchange rates to income earned or to output gives data of very limited utility in making inter-country comparisons of values and prices or for establishing absolute levels in terms of a common currency.

The problem is not a new one. Its existence has long been recognized by economists working in the field of international trade or monetary comparisons; but it is difficult to evaluate statistically and few serious attempts have been made to develop alternative conversion factors suitable for comparing or for aggregating national accounts data which relate to countries with different monetary denominators.[1]

The data given in the present study reflect the efforts made by the Economic Commission for Latin America to overcome this problem and to express data in a monetary denominator indicative of the value of currencies when these are measured in terms of purchasing power in the country concerned.

[1] The best known of these were the pre-war calculations of Colin Clark in his *Conditions of Economic Progress* and, more recently, those of Gilbert, Kravis and Associates in two OEEC publications: *An International Comparison of National Products and the Purchasing Power of Currencies* (Paris, 1954), and *Comparative National Products and Price Levels* (Paris, 1958).

A. THE ESTABLISHMENT OF PURCHASING POWER EQUIVALENTS

The first estimates of the Economic Commission for Latin America giving income in terms of dollar equivalents appeared in the 1951-52 edition of the *Economic Survey of Latin America*, values for the period 1945-1952 being expressed at 1950 prices. The methodology made no pretence to sophistication and in many cases the estimates of purchasing power equivalence were extremely arbitrary. In Mexico, Central America and the Caribbean, prevailing exchange rates, for instance, were assumed to provide a purchasing power equality between the national currency and the dollar. Elsewhere (i.e., for most South American countries), 1937 or 1938 exchange rates were extrapolated to provide a "parity" rate for 1950. This was justified on the ground that in the pre-war period the rates were more indicative of purchasing power than in the post-war years when multiple exchange rate systems, governmental controls, imperfect trade flows and the influence of accumulated exchange reserves distorted the situation. Where an extrapolation of the pre-war rates failed to produce acceptable results (as in Brazil), or was impracticable because of a lack of a precise rate for that period (as in Chile), estimates were made very arbitrarily in accordance with the empirical judgement of economists familiar with prices in the countries concerned. The conversion factors and the resulting dollar estimates of the gross domestic product are shown below in table 1.

Although the extrapolation of rates prevailing in a so-called "normal" period has been practised by national and international organizations in order to obtain a more realistic rate for current periods, the weakness of assuming "normality" in any reference period is widely recognized. Less recognition has however been given to the distortions which arise when a single rate is applied to the various components of the gross domestic product or income. Conversion into dollars with a single rate assumes that the purchasing power of currency used for investment goods is, for example, the same as for governmental or private consumption; alternatively, that goods and services have the same price relationship in national currency as in dollars (or in any other currency); likewise, that the value of the output of each branch of activity can be revalued in the prices of another country by the adoption of a single conversion factor that applies equally to agriculture, mining, manufacturing, construction, internal trade, distribution, administrative services, and so on, even though the price relationships for these sectors *inter se* differ substantially from country to country. In the same way, the use of a single index (usually based on consumer prices) to measure price changes between a reference year and the current period is open to serious objections, particularly when applied across-the-board to all components of the gross domestic product, expenditure or national in-

Table 1

TOTAL AND PER CAPITA INCOME IN LATIN AMERICAN COUNTRIES, 1950[a]

(Values in national currency and in U.S. dollars equivalents)

Country	*Population (millions)*	*Purchasing power equivalent*[b]	*National currency*		*U.S. dollars*	
			Unit	*Total (millions)*	*Total (millions)*	*Per capita*
Argentina	17.2	6.3	Peso	53,700	8,524	496
Brazil	52.1	25.0	Cruzeiro	270,900	10,836	208
Chile	5.8	85.0	Peso	131,900	1,552	268
Colombia	11.3	2.7	Peso	6,124	2,268	201
Cuba	5.4	1.0	Peso	2,010	2,010	372
El Salvador	1.9	3.0	Colón	846	282	148
Guatemala	2.8	1.0	Quetzal	464	464	166
Mexico	25.7	8.0	Peso	43,300	5,412	211
Peru	8.5	15.0	Sol oro	15,240	1,016	121
Venezuela	4.9	3.5	Bolívar	8,358	2,388	487
Other countries	19.7	—	—	—	3,568	181
LATIN AMERICA	*155.3*	—	—	—	*38,320*	*247*

SOURCE: *Economic Survey of Latin America, 1951-52* (E/CN.12/291/Rev.1).

[a] As estimated by the Economic Commission for Latin America in 1953.

[b] Units of national currency per U.S. dollar.

come. This means in practice that the extrapolated results are not influenced directly by price changes applicable to investment, governmental consumption, and a large part of personal and professional services. Finally, there is the basic problem that, no matter how reliable the indexes used for extrapolation may be, all the inaccuracies of the original data are perpetuated, and often magnified, in the process of extrapolation.

Recognizing these limitations, ECLA, while continuing to publish[2] its dollar estimates for total and per capital gross domestic product (first at 1950, and later at 1960, prices) set about devising some system to measure comparative purchasing power statistically and provide a valid means for expressing national accounts data in a common monetary denominator. The work carried out by ECLA is described in a study,[3] and only the salient features need be noted here. These were as follows:

(1) Practical considerations to a large extent determined the choice of the formula, the scope of the study, the planning and execution of the field work and the derivation of the final results.

(2) Specifications were drawn up for a common market basket of commodities representative of the expenditure pattern of the nineteen Latin American countries included in the comparison. This basket comprised 261 consumption goods and 113 investment goods, many of the latter being subdivided according to quality, size, type, horsepower or other salient characteristic.

(3) Prices were collected from shops or outlets in each of the capital cities of the countries concerned during the period 1960-62.[4] Adjustments were made for seasonality and other sources of incomparability, the results being related to the common reference periods of June 1960 and June 1962.

(4) A quantitative weighting pattern was derived from 1960 per capita expenditure data given for each country in its national accounts, with supplementary information such as consumer expenditure surveys, trade and production statistics, governmental accounts etc. being used for a breakdown at the item level. Quantities were then averaged for the nineteen Latin American countries in order to reflect the relative importance of each item during the base year. A somewhat similar procedure was adopted in order to provide a per capital weighting system indicative of the 1960 expenditure pattern of the United States.

(5) The application of quantity weights to the 1960 (and 1962) prices of each country gave a revaluation of the market basket in each currency using first, average Latin American and secondly United States quantitative expenditure patterns. This in turn yielded a set of price relatives and purchasing power equivalents for 1960 and 1962 with alternative weights for each main expenditure sector—viz., private consumption, government consumption, construction, and producers' equipment—the geometric and arithmetic crossing of the results providing further estimates of purchasing power which reflected (without exactly measuring) an average of Latin American and United States expenditure patterns in quantitative terms.

(6) Being of a fixed weight aggregative type, the formula for the price relatives was as follows:

$$L \cdot \overline{P}_{ku} = \frac{\sum_{i=1}^{n} p_{ik} \quad q_{j\bar{o}}}{\sum_{i=1}^{n} p_{iu} \quad q_{j\bar{o}}} \qquad (1)$$

$(i = 1,2,3 \ldots\ldots j \ldots\ldots n$ items)
$(o = a,b,c \ldots\ldots k \ldots\ldots m$ countries)

and

$$P \cdot \overline{P}_{ku} = \frac{\sum_{i=1}^{n} p_{ik} \quad q_{ju}}{\sum_{i=1}^{n} p_{ik} \quad q_{ju}} \qquad (2)$$

where

k is any Latin American country, and u is the United States;

p_{ik}, p_{iu} are the prices of item i in countries k and u;

$q_{j\bar{o}}$ and q_{ju} are average per capita quantities purchased of item j in k and u (j and i being virtually identical), and

$L \cdot \overline{P}_{ku}$ is a Laspeyres-type price index of coun-

[2] Data were published for individual countries only in the 1952-53 editions of the *Economic Survey of Latin America*. These figures were nevertheless still calculated in order to obtain the annual regional aggregates which appeared in the later *Economic Surveys*.

[3] ECLA, *A Measurement of Price Levels and the Purchasing Power of Currencies in Latin America, 1960-62* (E/CN.12/653).

[4] In some cases more than one city was covered; while for those countries where inflation could jeopardize the results, prices were collected both in 1960 and in 1962.

try k relative to county u with quantity weights based on the Latin American expenditure pattern; while

$P \cdot \bar{P}_{ku}$ is a Paasche-type index with weights based on the United States expenditure pattern.

As purchasing power is inversely proportional to the level of prices, the purchasing power equivalent R for any Latin American country k vis-à-vis the United States u may be written:

$$R_{ku} = \frac{1}{L \cdot \bar{P}_{ku}} = \frac{\sum_{i=1}^{n} p_{iu} \quad q_{j\bar{o}}}{\sum_{i=1}^{n} p_{ik} \quad q_{j\bar{o}}} \qquad (3)$$

(with average Latin American quantity weights)

or

$$\frac{1}{P \cdot \bar{P}_{ku}} = \frac{\sum_{i=1}^{n} p_{iu} \quad q_{ju}}{\sum_{i=1}^{n} p_{ik} \quad q_{ju}} \qquad (4)$$

(with United States quantity weights)

Where a Fisher-type formula is used to establish the purchasing power equivalents, the index becomes:

$$R_{ku} = \sqrt{\frac{\sum_{i=1}^{n} p_{iu} \quad q_{j\bar{o}}}{\sum_{i=1}^{n} p_{ik} \quad q_{j\bar{o}}} \cdot \frac{\sum_{i=1}^{n} p_{iu} \quad q_{ju}}{\sum_{i=1}^{n} p_{ik} \quad q_{ju}}} \qquad (5)$$

Other formulae could have been used to give alternative results, e.g., by the geometric averaging of weights, the arithmetic crossing of results using Laspeyres and Paasche-type indexes, the adoption of a total (rather than an average per capita) expenditure weighting pattern, and so on. Nevertheless, for ECLA's objectives it was considered that formulae (3), (4) and (5) provided the most satisfactory measures of purchasing power, taking into account the scope of the study and the material plus the resources available to ECLA at that time.

Additional calculations were subsequently made to cover changes in inventories (to the extent that these were recorded in the national accounts); while in the case of the foreign trade balance, official or trade exchange rates were considered appropriate. In this way, a full set

Table 2

PURCHASING POWER EQUIVALENTS OF LATIN AMERICAN CURRENCIES, BY MAIN SECTOR OF EXPENDITURE, JUNE 1960

(Units of national currency per U.S. dollar)

Country	Currency unit	Consumption		Construction	Producers' durables	Inventory changes	Trade balance
		Private	Government				
		(a) *With Latin American quantity weights*					
Argentina	Peso	42.9	22.1	71.0	151.9	42.6	82.7
Bolivia	Peso	6.81	2.52	7.02	16.79	7.41	11.88
Brazil	New Cr. $ [a]	0.0989	0.0749	0.1180	0.3003	0.09600	0.1376
Chile	Escudo	0.830	0.481	0.707	1.853	0.865	1.050
Colombia	Peso	4.46	2.36	3.85	9.30	4.79	6.60
Ecuador	Sucre	10.47	4.93	8.80	22.72	11.77	15.78
Paraguay	Guaraní	65.9	33.5	83.3	195.5	71.5	119.1
Peru	Sol oro	15.07	6.59	16.92	34.81	16.16	27.24
Uruguay	Peso	5.73	2.71	7.96	19.13	6.28	11.43
Venezuela	Bolívar	4.09	4.15	4.27	4.18	4.16	3.35
Costa Rica	Colón	4.65	2.47	5.02	7.66	5.17	6.20
Dominican Republic	Peso	0.945	0.451	0.861	1.350	1.097	1.00
El Salvador	Colón	2.00	1.12	1.65	2.93	2.34	2.50

Table 2 (*continued*)

PURCHASING POWER EQUIVALENTS OF LATIN AMERICAN CURRENCIES, BY MAIN SECTOR OF EXPENDITURE, JUNE 1960 (*continued*)

(Units of national currency per U.S. dollar)

Country	Currency unit	Consumption: Private	Consumption: Government	Construction	Producers' durables	Inventory changes	Trade balance
Guatemala	Quetzal	0.889	0.474	0.701	1.188	0.969	1.00
Haiti	Gourde	3.60	2.04	3.16	5.81	4.04	5.00
Honduras	Lempira	1.900	0.838	1.579	2.506	2.075	2.000
Mexico	Peso	7.23	5.45	8.46	15.12	8.13	12.50
Nicaragua	Córdoba	5.93	3.60	6.69	9.28	6.78	7.00
Panama	Balboa	0.841	0.463	0.984	1.196	0.899	1.00
(b) *With United States quantity weights*							
Argentina	Peso	64.4	32.5	70.8	178.5	64.5	82.7
Bolivia	Peso	10.12	4.48	6.28	17.63	11.94	11.88
Brazil	New Cr. $[a]	0.1501	0.0972	0.1076	0.3503	0.1394	0.1376
Chile	Escudo	1.295	0.725	0.682	2.169	1.405	1.050
Colombia	Peso	6.85	3.31	3.22	9.23	7.18	6.60
Ecuador	Sucre	14.52	7.41	7.64	20.52	16.81	15.78
Paraguay	Guaraní	94.9	46.2	68.6	194.9	144.7	119.1
Peru	Sol oro	20.61	9.78	14.53	36.82	23.40	27.24
Uruguay	Peso	8.27	4.02	6.94	22.02	10.14	11.43
Venezuela	Bolívar	5.84	4.46	3.07	4.12	5.54	3.35
Costa Rica	Colón	6.21	3.56	3.74	8.29	6.87	6.20
Dominican Republic ..	Peso	1.240	0.695	0.610	1.400	1.480	1.000
El Salvador	Colón	2.46	1.50	1.26	3.06	2.86	2.50
Guatemala	Quetzal	1.140	0.718	0.534	1.268	1.289	1.000
Haiti	Gourde	4.54	2.73	2.80	6.07	5.41	5.00
Honduras	Lempira	2.431	1.248	0.998	2.566	2.661	2.000
Mexico	Peso	9.53	6.70	6.88	15.44	11.58	12.50
Nicaragua	Córdoba	7.98	4.67	5.52	10.20	9.72	7.00
Panama	Balboa	1.045	0.638	0.699	1.214	1.090	1.000
(c) *Geometric mean*							
Argentina	Peso	52.6	26.8	70.9	164.6	52.4	82.7
Bolivia	Peso	8.30	3.36	6.64	17.20	9.41	11.88
Brazil	New Cr. $[a]	0.1219	0.0853	0.1126	0.3243	0.1157	0.1376
Chile	Escudo	1.036	0.590	0.694	2.000	1.103	1.050
Colombia	Peso	5.53	2.79	3.52	9.27	5.87	6.60
Ecuador	Sucre	12.33	6.04	8.20	21.60	14.06	15.78
Paraguay	Guaraní	79.0	39.4	75.6	195.2	90.6	119.1
Peru	Sol oro	17.62	8.03	15.68	35.80	19.45	27.24
Uruguay	Peso	6.88	3.30	7.43	20.52	7.98	11.43
Venezuela	Bolívar	4.89	4.30	3.62	4.15	4.80	3.35
Costa Rica	Colón	5.37	2.97	4.33	7.97	5.96	6.20
Dominican Republic ..	Peso	1.082	0.559	0.725	1.375	1.274	1.000
El Salvador	Colón	2.22	1.30	1.44	3.00	2.59	2.50
Guatemala	Quetzal	1.007	0.583	0.613	1.228	1.117	1.000
Haiti	Gourde	4.04	2.36	2.97	5.94	4.68	5.00
Honduras	Lempira	2.149	1.023	1.255	2.536	2.350	2.000
Mexico	Peso	8.30	6.04	7.63	15.28	9.70	12.50
Nicaragua	Córdoba	6.88	4.10	6.08	9.73	8.12	7.00
Panama	Balboa	0.937	0.543	0.829	1.205	0.990	1.000

SOURCE: Economic Commission for Latin America: Series compiled by the Special Studies Section.

[a] New Cr. $ (New Cruzeiro) = 1,000 cruzeiros (as from February 1967).

of purchasing power equivalents, suitable for expressing national expenditure data in the various Latin American currencies or in U.S. dollars, was elaborated. The equivalents, in terms of units of national currency per U.S. dollar, are shown in table 2 for June 1960 which was the principal reference point of the ECLA study.[5] These in turn formed the basis of the estimates of real income in dollar terms which are analysed in the following chapters.

[5] In the ECLA study, results were obtained for both 1960 and 1962. These data were then used in order to estimate purchasing power equivalents for each expenditure sector annually beginning 1955 and quarterly beginning 1963.

B. DOLLAR ESTIMATES OF EXPENDITURES ON THE GROSS DOMESTIC PRODUCT, 1960

1. Total and per capita income for the region

Unfortunately, a detailed breakdown of the gross domestic product by type of expenditure is available for very few countries in Latin America, and only very broad categories can usually be distinguished, these being private consumption, governmental consumption, construction, producers' durables, transport equipment and the foreign trade balance. Changes in inventories are recorded for only half the countries, the figures being incomplete since many inventories, e.g. those held by wholesale and retail traders, are generally omitted. To the extent that published data were however available, dollar values were established by applying to the data for each sector in national currency,[6] the conversion factors corresponding respectively to (*a*) official exchange rates,[7] and (*b*) purchasing power equivalents with quantity weights based on an average Latin American expenditure pattern, a United States pattern and a geometric average of the two. The results are given as regional aggregates in table 3, from which it will be observed that while the application of official (or trade) rates gave a regional average expenditure of 337 dollars per head, the use of purchasing power equivalents raised the figure to 502 dollars when a Latin American weighting pattern was adopted; 373 dollars when the weights were based on the United States; 437 dollars when an arithmetic average of the two was taken; and 431 dollars when the calculation was carried out in accordance with the Fisher "Ideal" formula. These data may be compared with the estimate of 392 dollars per head which appeared in ECLA's *Economy Survey of Latin America* for 1965 (when conversion factors were obtained principally by an extrapolation of pre-war exchange rates).

[6] National currency data were based on statistics actually published by the individual countries. In some cases, the United Nations *Yearbook of National Accounts Statistics, 1965* was used as the source. When no breakdown of fixed investment was available, the sub-division between construction and producers' equipment had to be estimated.

[7] Where these were not available, the exchange rates implicit in the country's trade statistics were applied (these being obtained through relating the value of trade in dollars to the value of the same trade in national currency).

Table 3

LATIN AMERICA:[a] GROSS DOMESTIC PRODUCT IN U.S. DOLLARS, 1960, CALCULATED AT OFFICIAL EXCHANGE RATES[b] AND WITH PURCHASING POWER EQUIVALENTS

Basis of estimation	*Total (million dollars)*	*Per capita (dollars)*
At prevailing exchange rates	67,072	337
Previous ECLA estimates[c] ..	78,115	392
Based on purchasing power equivalents[d]		
(*a*) With Latin American weights	100,012	502
(*b*) With United States weights	74,178	373
(*c*) Arithmetic mean	87,095	437
(*d*) Geometric mean	85,850	431

[a] Excluding Cuba.

[b] Where no official rates were available, trade rates were used.

[c] 1965 edition of the *Economic Survey of Latin America*.

[d] Each expenditure sector was calculated separately and results summarized in order to provide the over-all total.

The use of purchasing power equivalents in place of exchange rates thus raised the average regional level of the 1960 gross domestic product by almost 50 per cent when a Latin American expenditure pattern was used for weighting purposes, 10 per cent when a United States pattern was used and a little less than 30 per cent when a crossed average of the two was taken. This is in keeping with the disparity observed by other investigators, notably Gilbert and Associates of the OEEC, whose data for eight European countries gave on the average an increase of 67 per cent in 1950 (and 54 per cent in 1955) when purchasing power equivalents based on national expenditure patterns were used instead of exchange rates (the increase being 19 and 11 per cent for the same two years when a United States pattern was used).[8] For individual European countries, there was, moreover, a greater range between maximum and minimum data than that observed for Latin America, though this may well be due to differing methodology—particularly since national weighting was used for the European study and average regional weighting for Latin America.

A precise evaluation has not been made for Latin America as to the possible effect of applying national rather than regional weighting patterns; but a short-cut method using price relatives for homogeneous groups of commodities indicated that in practice national weights changed the results very little—the dollar valuation being generally 2 to 5 per cent lower, with the average expenditure level of the region falling from 502 to 484 dollars per head.

The figures for total (as distinct from per capita) expenditure indicate that the Latin American region had a global gross domestic product in 1960 valued at 67,000 million dollars if measured on the basis of official exchange rates, 100,000 million if measured with purchasing power equivalents using a Latin American weighting pattern, 74,000 million with equivalents based on a United States pattern, and 86,000 million using a geometric mean of the two. These estimates may be compared with a 1960 total of 501,000 million dollars for the United States—the per capita figure for that country being 2,775 dollars, or roughly six times the Latin American level in terms of purchasing power and eight times the level obtained with official exchange rates.

2. Estimates for individual countries

Figures for individual countries calculated with exchange rates and with alternative measures of purchasing power equivalence, are given in table 4—both total and per capita data being presented. (See also figures V and VI.)

[8] An extrapolation to 1960 would give a 73 per cent increase with national weights and 0.3 per cent with U. S. weights, though such extrapolations are notoriously unreliable. Source: *Comparative National Products and Price Levels,* op. cit.

The main points which emerge are as follows:

(a) *At official rates of exchange*

At official rates of exchange, 1960 expenditure on the gross domestic product in Latin American countries ranged from a nominal level of 70 dollars per head for Haiti to 1,040 dollars per head for Venezuela. In the upper brackets, Chile appears with over 600 dollars, followed closely by Argentina with 560. Next came Uruguay, Panama, Costa Rica, and Mexico with nominal incomes between 300 and 500 dollars, followed by Guatemala, Colombia, Brazil,[9] the Dominican Republic, Nicaragua, El Salvador, Ecuador and Peru, with a range from 200 to 300 dollars. Three countries—Honduras, Paraguay and Bolivia—had levels which at official exchange rates varied between 100 to 200 dollars. Haiti was distinguished as the only country with a nominal income below the hundred dollars mark.

(b) *With regionally-weighted purchasing power equivalents*

The adoption of *purchasing power equivalents* to measure real income or expenditure involved a change of substantial magnitude for most countries, especially when the calculations were based on a *Latin American quantity weighting pattern.* In virtually all cases, this increased the dollar valuation substantially—the exception being Venezuela where the results decreased by roughly one-sixth (the price level being higher than in the United States). For Uruguay, Bolivia, Peru, Argentina, Paraguay and Ecuador on the other hand, the dollar estimates, on the basis of regionally weighted purchasing power equivalents, increased by fifty to one hundred per cent. Lesser increases applied to such countries as Brazil, Colombia, Chile, etc., while smallest increases were registered for Honduras, Guatemala, Nicaragua and the Dominican Republic where the price level was more similar to that of the United States.

In absolute terms, the highest real expenditure figures corresponded to Argentina and Uruguay—the per capita levels in these two countries being respectively 1,045 and 1,012 dollars in place of 561 and 477 dollars at prevailing exchange rates. Next highest were Venezuela and Chile where the real expenditure level was between 800 and 900 dollars. After these came Mexico, Costa Rica and Panama with real levels between 500 to 600 dollars. Then followed six countries in the range 300 to 400

[9] The level was affected substantially by the exchange rate selected (an implicit trade rate being used in the absence of an official rate).

Table 4

DOLLAR ESTIMATES OF EXPENDITURE ON THE GROSS DOMESTIC PRODUCT IN LATIN AMERICAN COUNTRIES, 1960

(Calculated with alternative conversion factors)

Country	Total (million dollars)				Per capita (dollars)			
	With exchange rates	With purchasing power equivalents based on:			With exchange rates	With purchasing power equivalents based on:		
		Weighting pattern of:		Geometric mean		Weighting pattern of:		Geometric mean
		Latin America	United States			Latin America	United States	
Argentina	11,602	21,602	14,914	17,947	561	1,045	721	868
Bolivia	376	745	499	609	102	201	135	165
Brazil	17,575	24,080	17,213	20,305	250	342	245	289
Chile	4,724	6,304	4,177	5,128	606	809	536	658
Colombia	4,003	6,133	4,470	5,203	259	396	289	336
Ecuador	933	1,518	1,141	1,312	216	352	264	304
Paraguay	283	524	389	450	160	296	220	255
Peru	2,074	3,899	2,958	3,387	207	389	295	338
Uruguay	1,188	2,522	1,798	2,124	477	1,012	722	853
Venezuela	7,648	6,388	5,595	5,933	1,043	871	763	809
Costa Rica	453	648	501	568	376	537	415	471
Dominican Republic	723	863	686	766	239	285	226	253
El Salvador	567	765	640	698	228	307	257	280
Guatemala	1,021	1,230	980	1,094	271	327	260	291
Haiti[a]	298	436	350	390	72	105	84	94
Honduras	378	448	372	406	194	230	191	208
Mexico	12,471	20,965	16,735	18,688	346	582	464	518
Nicaragua	337	409	317	359	228	277	214	243
Panama	448	531	443	484	439	520	434	474
LATIN AMERICA[b]	*67,072*	*100,012*	*74,178*	*85,850*	*337*	*502*	*373*	*431*

[a] Where official rates were not available, trade rates were used.

[b] Excluding Cuba.

dollars; and four countries from 200 to 300 dollars. At a low extreme were Haiti and Bolivia whose real expenditures (on the basis of a Latin American weighting pattern) were 105 and 201 dollars respectively.

This involved a certain change in the ranking of the countries, Venezuela dropping to third highest when valued in terms of purchasing power, instead of highest (easily) at prevailing exchange rates. Argentina moved up, from third to first; Uruguay from fourth to second; Mexico from seventh to fifth; Colombia from ninth to eighth; Ecuador from fourteenth to tenth; Peru from fifteenth to ninth; and Paraguay from seventeenth to fourteenth. On the other hand, Chile fell from second to fourth; Panama from fifth to seventh; Guatemala from eighth to twelfth; Brazil from tenth to eleventh; the Dominican Republic from eleventh to fifteenth; Nicaragua from twelfth to sixteenth; and Honduras from sixteenth to seventeenth. The relative positions of Costa Rica (sixth), El Salvador (thirteenth), Bolivia (eighteenth), and Haiti (last) were unchanged.

(c) *With United States weighted purchasing power equivalents*

The revaluation of Latin American expenditure at U.S. prices using a national or a regional (quantitative) weighting pattern gives dollar levels at a high extreme—mainly because of the strong inverse correlation between prices charged and quantities consumed (expenditure in each situation tending to adjust itself in such a way that a greater quantity of cheap items are consumed and a lesser quantity of the expensive ones). When Latin American weights are used, the quantitative consumption of items cheap in the region is in normal circumstances maximised. However, the U.S. prices applied to those quantities are in many cases also at a high extreme (e.g. food, transportation, services).

Figure V

LATIN AMERICA: REAL PER CAPITA GROSS DOMESTIC PRODUCT, 1960

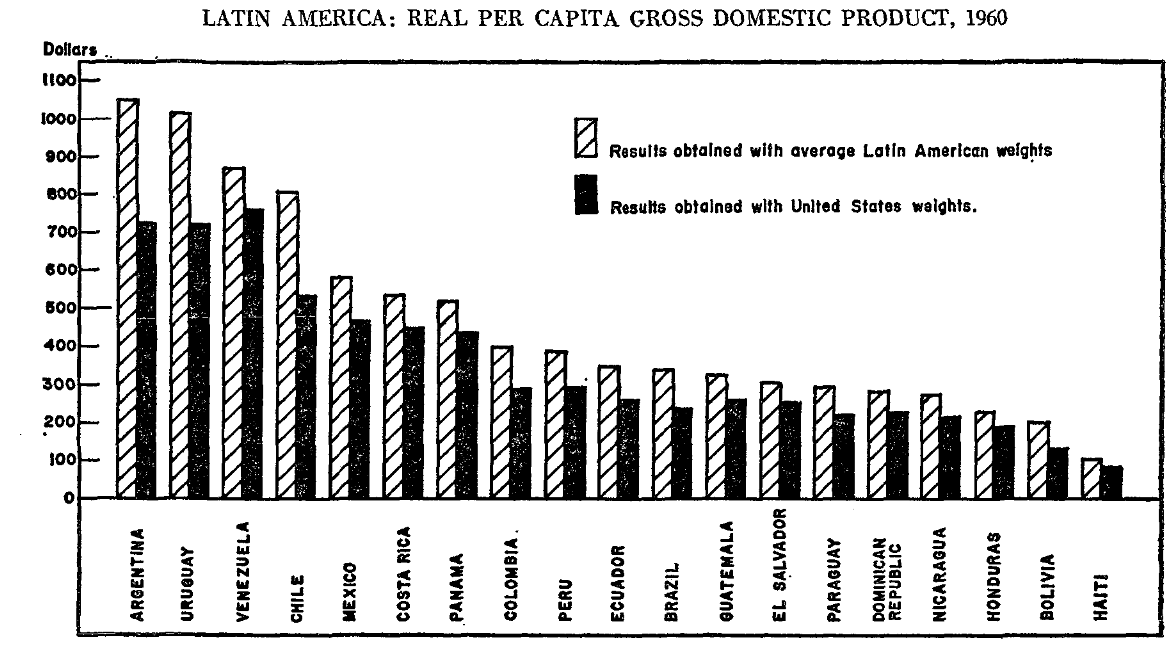
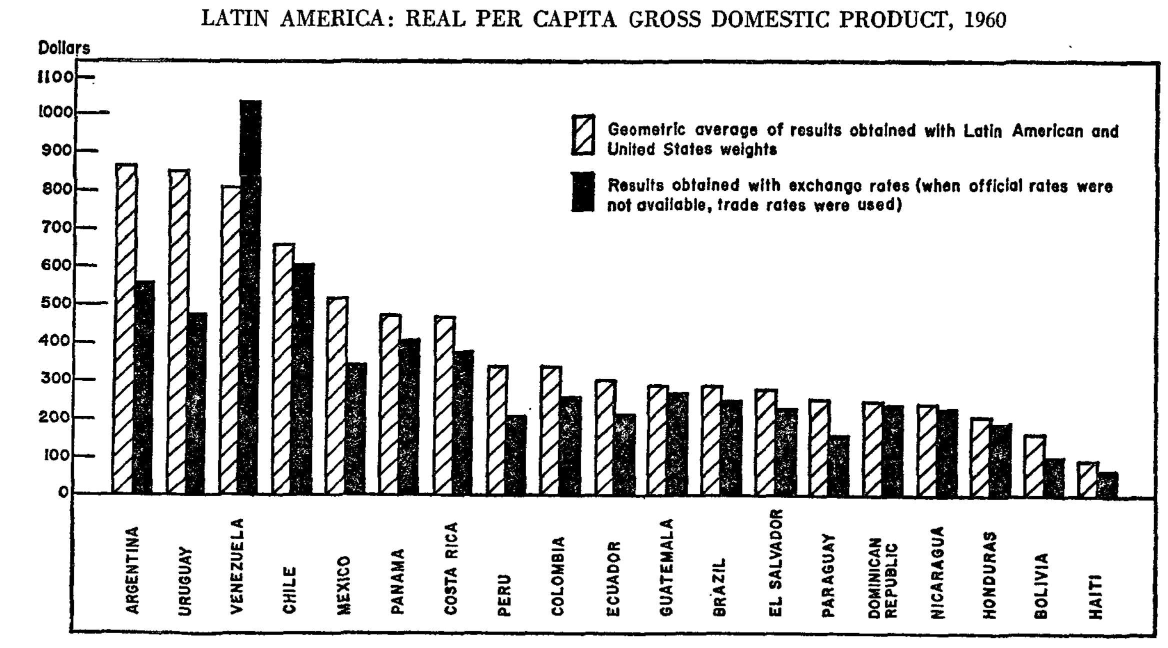


Figure VI

LATIN AMERICA: REAL PER CAPITA GROSS DOMESTIC PRODUCT, 1960



The combination of large quantitative consumption and high relative prices affects the purchasing power equivalence in such a way that a correspondingly high dollar valuation is given to Latin American income or expenditure.

The converse was true when a United States (quantitative) weighting pattern was applied to prices—the dollar values being this time at a low extreme. The change was not uniform, however, southernmost countries (Argentina, Bolivia, Chile, Paraguay and Uruguay) being affected most and the northernmost countries (Mexico, Central America plus Venezuela) least. Tropical countries in South America occupied an intermediate position. Accordingly, with United States weights, Venezuela with an expenditure of 763 dollars per capita regained its role as the country with the highest real expenditure in the region, followed closely by Argentina (721) and Uruguay (722). Chile (536) and Mexico (464) remained fourth and fifth highest. However, the relative positions of Panama (434) and Costa Rica (415) were reversed, as were those of Peru (295) and Colombia (289). In the same way both Guatemala (260) and El Salvador (257) displaced Brazil (245), while the Dominican Republic displaced Paraguay. The ranking of other countries remained unchanged, only the absolute levels being affected.

(d) *With a geometric crossing of Central America weighted and United States weighted equivalents*

A geometric crossing of the respective equivalents provided a series which were inevitably intermediate in level vis-à-vis regionally-weighted or United States-weighted estimates. The dollar values for Argentina, Bolivia, Ecuador, Paraguay, Peru, Uruguay and Mexico were nevertheless still 50 to 60 per cent higher than those obtained with exchange rates (the percentage being almost 80 in the case of Uruguay). For Chile, Brazil, most of Central America and the Caribbean, the percentage increase was less pronounced, while for Venezuela, the dollar level was 20 per cent below that obtained with exchange rates. As a result, Venezuela (with 809 dollars per capita in place of 1,043 dollars with exchange rates) was once more only third highest in the region—Argentina (868) and Uruguay (853) both surpassing it. After Venezuela came Chile (658), Mexico (518), Costa Rica (471) and Panama (474). Other countries were in the 200-400 dollar bracket, except Bolivia (165) and Haiti (94).

This meant that if a comparison is made with the United States, no Latin American country has a per capita expenditure level equal in purchasing power to one-third of that prevailing in the United States (2,775 dollars) in 1960. At a low extreme were two countries—Haiti and Bolivia—where expenditures (measured on the basis of geometrically-crossed equivalents) were only 3 and 6 per cent respectively of the United States level; four countries were in the range of 7.5 to 10 per cent; six from 10 to 12.5 per cent; three from 17 to 20 per cent; one has 24 per cent; one 29 per cent and, for two, 31 per cent of the 1960 United States level.

It must, of course, be recognized that comparisons of this kind are venturesome in view of the wide differences in income and expenditure patterns which characterize the United States and Latin America (especially the poorer countries). However, the results do serve to provide rough orders of magnitude and to emphasize the fact that in many parts of the region, inhabitants had a real income figure far below what would be considered a subsistence level in the United States.

Averaging results for the whole Latin American region, it will be found that the real expenditure level was 16 per cent of that in the United States (18 per cent if items are combined in accordance with their relative importance within the Latin American region). Nominal dollar expenditure, obtained by applying official or trade exchange rates, was of course still lower, being only 12 per cent. However, whatever figure is accepted, it is obvious that an extremely wide gap in income levels existed, and in only one or two countries did it approximate average per capita income in the poorer sectors of the population of the United States. (See table 5.)

Table 5

REAL PER CAPITAL PRODUCT OR EXPENDITURE IN LATIN AMERICA AND THE UNITED STATES, 1960

IN U.S. DOLLARS: AND AS INDEXES

(Indexes: USA = 100)

Geometric	*Based on exchange rates*	*Based on purchasing power equivalents*		
		Regional weights[b]	*U.S.A. weights*[b]	*Geometric mean*
United States	100.0	100.0	100.0	100.0
LATIN AMERICA	12.1	18.1	13.4	15.5
Argentina	20.2	37.7	26.0	31.3
Uruguay	17.2	36.5	26.0	30.7
Venezuela	37.6	31.4	27.5	29.2
Chile	21.8	29.2	19.3	23.7
Mexico	12.5	21.0	16.7	18.7
Panama	15.0	18.7	15.6	17.1
Costa Rica	13.5	19.3	15.0	17.0
Peru	7.5	14.0	10.6	12.2
Colombia	9.3	14.3	10.4	12.1
Ecuador	7.8	12.7	9.5	11.0
Guatemala	9.8	11.8	9.4	10.5
Brazil	9.0	12.3	8.8	10.4
El Salvador	8.2	11.1	9.3	10.1
Paraguay	5.8	10.7	7.9	9.2
Dominican Republic	8.6	10.3	8.1	9.1
Nicaragua	8.2	10.0	7.7	8.8
Honduras	7.0	8.3	6.9	7.5
Bolivia	3.7	7.2	4.9	5.9
Haiti	2.6	3.8	3.0	3.4

[a] Arranged according to income levels when calculated with geometrically-crossed formulae.

[b] Weights applied to prices in order to calculate purchasing power equivalents.

C. EXPENDITURE ON THE GROSS DOMESTIC PRODUCT BY SECTOR, 1960

1. The main sectors of expenditure

In the preceding chapter, an analysis was made of the dollar aggregates obtained when alternative conversion factors were applied to the national currency data for each expenditure sector. The relative importance of the sectors varied, however, from country to country and different price levels applied to each. For this reason, it is convenient to examine each sector individually, at the same time relating them to total expenditure. In this chapter, an analysis is accordingly made of results obtained on the one hand with exchange rates, and on the other with purchasing power equivalents, calculated, it should be noted, as a geometric mean of the regionally weighted and the United States weighted purchasing power equivalents. These data are given in summary form in tables 6 and 7—the latter showing the per capita level in relation to the corresponding level in the United States.

(a) *Private consumption expenditure*

At official rates of exchange private consumption expenditure in 1960 ranged from 60 dollars per head (for Haiti) to 584 dollars (for Venezuela), with intermediate levels of 492 dollars for Chile, 390 dollars for Argentina, 377 dollars for Uruguay, 281 dollars for Mexico and 172 dollars for Brazil, etc.

When measured *on the basis of geometrically-crossed purchasing power equivalents,* Venezuela (401 dollars) was superseded as the Latin American country with the highest level of per capita private consumption by Uruguay (626), Argentina (615), Chile (500) and Mexico (424). Next came Panama (340 dollars) and Costa Rica (330 dollars). Remaining countries had levels which in no case exceeded 250 dollars in real terms—three of these (Honduras, Bolivia and Haiti) being under 150 dollars. For the region as a whole, the average in terms of purchasing power was 306 dollars (as compared with 242 dollars at official exchange rates).

As already pointed out, the wide disparity in income levels, expenditure patterns, etc., makes a comparison of levels in Latin America and the United States highly controversial. The present estimates would, however, suggest that, in terms of purchasing power, the average level of private consumption expenditure for the region was approximately 18 per cent that of in the United States (the corresponding figure being 14 per cent when measured with exchange rates). For individual countries, the levels varied considerably. For Uruguay and Argentina, in purchasing power terms, it was as high as 37 per cent; in Chile 29 per cent (the same figure being obtained with official exchange rates); in Mexico 25 per cent; Venezuela 23 per cent; while Panama and Costa Rica were each 20 and 19 per cent of the corresponding United States level. Countries having levels below the regional average vis-à-vis the United States included Colombia (14 per cent), Guatemala (13 per cent), Peru (12 per cent), Brazil, Ecuador, Paraguay and Nicaragua (each 11 per cent), with Bolivia (7 per cent) and Haiti (4 per cent) at the bottom of the scale. It must of course be recognized that these levels are only approximate as they reflect not only differences in income and expenditure characteristics but also the crudity of the original national currency estimates (private consumption being generally calculated as a residual). They can, nevertheless, be used to provide some guide regarding probable orders of magnitude.

(b) *Governmental consumption expenditure*

As table 6 shows, per capita expenditure in the government sector was low in Latin American countries, even when purchasing power equivalents were used for conversion purposes. For 1960, only Argentina, Uruguay, Venezuela and Chile had, in real terms, an expenditure exceeding 100 dollars; while of the remainder only Brazil, Ecuador, Peru, Costa Rica, Panama and the Dominican Republic spent the equivalent of fifty dollars or more. Lowest estimates apply to Haiti, where the amount spent probably represented between 10 and 15 dollars per head of population. This meant that, on the average, the regional expenditure was only 67 dollars per head in real terms (35 dollars at official rates of exchange). Both these estimates were very much below that of the United States where a figure of approximately 500 dollars in 1960 reflects both a high income level and a more comprehensive infrastructure with heavy commitments for items like defence, foreign aid, etc. which had little counterpart in the national accounts of the Latin American region.[10]

When individual countries are considered, it will be observed that government consumption expenditure in purchasing power terms represented 37 to 39 per cent of the United States level for Argentina and Uruguay; 28 per cent for Venezuela and Chile; 21 to 23 per cent for

[10] See foot-note 11 below.

Table 6

MAIN SECTORS OF EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, 1960

(Estimated in dollars with exchange rates and with purchasing power equivalents)

Country	With exchange rates						With purchasing power equivalents[a]					
	Consumption		Fixed investment	Inventories	Trade balance	Total	Consumption		Fixed investment	Inventories	Trade balance	Total
	Private	Public					Private	Public				
					(a) *Total* (million dollars)							
Argentina	8,065	1,042	2,518	117	—140	11,602	12,716	3,223	1,968	181	—140	17,947
Bolivia	318	30	54	3	—29	377	453	115	65	4	—29	609
Brazil	12,103	2,693	2,904	137	—262	17,575	13,669	4,345	2,390	162	—262	20,305
Chile	3,834	485	487	21	—103	4,724	3,897	866	449	20	—103	5,128
Colombia	3,001	251	731	98	—80	4,003	3,583	594	995	111	—80	5,203
Ecuador	668	120	125	17	4	933	821	300	170	17	4	1,312
Paraguay	214	22	48	c	0	283	330	67	53	c	0	450
Peru	1,400	174	348	100	53	2,074	2,179	595	419	142	53	3,387
Uruguay	938	107	179	30	—67	1,188	1,558	372	217	44	—67	2,124
Venezuela	4,284	1,058	1,432	—86	959	7,648	2,937	824	1,272	—60	959	5,932
Costa Rica	344	53	77	6	—27	453	398	11	81	c	—27	568
Dominican Republic	501	92	75	c	55	723	463	164	83	c	55	766
El Salvador	457	57	79	c	—26	567	515	110	98	c	—26	698
Guatemala	852	80	103	6	—20	1,021	846	137	126	5	—20	1,094
Haiti*	250	26	20	c	2	298	310	54	25	c	2	390
Honduras	297	37	48	5	—8	378	277	72	62	4	—8	406
Mexico	10,138	639	1,858	c	—165	12,471	15,279	1,322	2,252	c	—165	18,688
Nicaragua	274	28	46	c	—10	337	279	48	43	c	—10	359
Panama	325	47	62	6	—2	448	347	92	76	c	—25	489
LATIN AMERICA[c]	*48.263*	*7.043*	*11,193*	*460*	*112*	*67,067*	*60,857*	*13,407*	*10,834*	*643*	*112*	*85.850*

(b) *Per capita* (1960 dollars)

Argentina	390	50	122	6	—7	561	615	156	95	9	—7	868
Bolivia	86	9	14	1	—8	102	123	31	18	1	—8	165
Brazil	172	38	41	2	—4	250	194	62	34	2	—4	289
Chile	492	62	62	3	—13	606	500	111	58	2	—13	658
Colombia	194	16	47	6	—5	259	232	38	64	7	—5	336
Ecuador	155	29	28	4	1	216	190	70	39	4	1	304
Paraguay	121	12	27	[c]	0	160	187	38	30	[c]	0	255
Peru	140	17	35	10	5	207	217	59	42	14	5	338
Uruguay	377	43	72	12	—27	477	626	149	87	17	—27	853
Venezuela	584	144	195	—12	131	1,043	401	112	174	—8	131	809
Costa Rica	285	44	64	5	—22	376	330	92	67	5	—22	471
Dominican Republic	165	30	25	[c]	18	239	153	54	27	[b]	18	253
El Salvador	183	23	32	[c]	—10	228	207	44	39	[b]	—10	280
Guatemala	226	21	27	1	—5	271	225	36	33	1	—5	291
Haiti[a]	60	6	5	[c]	0	72	75	13	6	[c]	0	94
Honduras	152	19	24	2	—4	194	142	37	32	2	—4	208
Mexico	281	18	52	[c]	—5	346	424	37	62	[c]	—5	518
Nicaragua	186	19	31	[c]	—7	228	189	32	29	[c]	—7	243
Panama	318	46	61	6	—22	439	340	85	65	6	—22	674
LATIN AMERICA[c]	*242*	*35*	*56*	*2*	*1*	*337*	*306*	*67*	*54*	*3*	*1*	*431*

[a] Geometric average of results obtained with Latin American and United States weights.

[b] Probably included with "Private consumption expenditure".

[c] Excluding Cuba.

Table 7

REAL PER CAPITA EXPENDITURE IN LATIN AMERICA COMPARED WITH THE UNITED STATES, 1960

BASED ON DOLLARS OBTAINED WITH EXCHANGE RATES AND WITH PURCHASING POWER EQUIVALENTS

(Indexes: United States = 100)

Country	With exchange rates				With purchasing power equivalents[a]			
	Consumption		Fixed investment	Total[b]	Consumption		Fixed investment	Total[b]
	Private	Public			Private	Public		
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Argentina	23.0	12.5	18.6	20.2	36.2	39.0	14.5	31.3
Bolivia	5.1	2.2	2.1	3.7	7.2	7.8	2.7	5.9
Brazil	10.1	9.5	6.2	9.0	11.4	15.5	5.2	10.4
Chile	29.0	15.5	9.5	21.8	29.4	27.8	8.8	23.7
Colombia	11.4	4.0	7.2	9.3	13.7	9.5	9.8	12.1
Ecuador	9.1	7.0	4.4	7.8	11.2	17.5	6.0	11.0
Paraguay	7.1	3.0	4.1	5.8	11.0	9.5	4.6	9.2
Peru	8.2	4.2	5.3	7.5	12.8	14.8	6.4	12.2
Uruguay	22.2	10.8	11.0	17.2	36.9	37.2	13.3	30.7
Venezuela	34.4	36.0	29.8	37.6	23.0	28.0	26.6	29.2
Costa Rica	16.8	11.0	9.8	13.5	19.4	23.0	10.2	17.0
Dominican Republic	9.7	7.5	3.8	8.6	9.0	13.5	4.1	9.1
El Salvador	10.8	5.8	4.9	8.2	12.2	11.0	6.0	10.1
Guatemala	13.3	5.3	4.1	9.8	13.2	9.0	5.0	10.5
Haiti*	3.5	1.5	.8	2.6	4.4	3.2	.9	3.4
Honduras	9.0	4.8	3.7	7.0	8.4	9.2	4.9	7.5
Mexico	16.6	4.5	7.9	12.5	25.0	9.2	9.5	18.7
Nicaragua	11.0	4.8	4.7	8.2	11.1	8.0	4.4	8.8
Panama	18.7	11.5	9.3	15.0	20.0	21.0	9.9	17.1
LATIN AMERICA[c]	*14.3*	*8.8*	*8.5*	*12.1*	*18.0*	*16.8*	*8.2*	*15.5*

[a] Geometric mean of results obtained with Latin American and United States weights.

[b] Includes inventory changes and the foreign trade balance.

[c] Excluding Cuba.

Panama and Costa Rica; 14 to 18 per cent for the Dominican Republic, Ecuador, Peru and Brazil; 7 to 11 per cent for El Salvador, Paraguay, Colombia, Mexico, Honduras, Guatemala, Nicaragua and Bolivia; but only 3 per cent for Haiti.

(c) *Fixed investment*

At official rates of exchange, 1960 fixed investment in the Latin American region ranged from 5 to 195 dollars per inhabitant—the regional average being 57 dollars, or roughly one-tenth of the per capita fixed investment level in the United States.[11]

When a revaluation was made on the basis of *geometrically crossed purchasing power equivalents*, the dollar estimates for countries such as Argentina, Brazil, Chile and Venezuela fell—in this way reflecting a high cost of locally produced equipment and, in the case of imported goods, high trade barriers, which in addition to transport costs and dealers' mark-ups, automatically raised the price of equipment, machinery, etc. substantially above the United States level. To some degree, low construction costs brought the sector price levels down (except in Venezuela where the reverse was true); but, generally speaking, it was only in non-industrialized countries plus Mexico that the dollar valuation of fixed investment was higher in terms of purchasing power equivalents that at prevailing exchange rates.

From the estimates for individual countries, it will be seen that Venezuela alone had a per capita fixed investment level equivalent to 100 dollars or more, the figure in real terms being 174 dollars (195 dollars at prevailing exchange rates). Next followed Argentina with 95 dollars. Six other countries had levels equivalent to 50

[11] Exact information in this respect was difficult to obtain and many items, e.g. construction for defence purposes, were classified differently in the various national statistics. Strict comparability within the region and with the United States was not therefore possible. (This problem also affected the comparability of data relating to governmental consumption expenditure.)

dollars or more—these being Uruguay, Panama, Costa Rica, Colombia, Mexico and Chile. Elsewhere, the level ranged from 30 to 50 dollars per head, though for the Dominican Republic, Bolivia and Haiti still lower levels prevailed.

For the region as a whole, the average in real terms was 54 dollars per head, as against 56 dollars per head at official rates of exchange. That is to say, for Latin America generally, fixed investment in purchasing power terms was only 8.2 per cent of the per capita level in the United States—the percentages for individual countries fluctuating between 1 per cent for Haiti and 27 per cent for Venezuela, with intermediate levels of 14 per cent for Argentina,[12] 13 per cent for Uruguay, 10 per cent for Colombia, Costa Rica, Mexico and Panama, a notably low figure of 9 per cent for Chile (where construction could be much understated), 5 to 6 per cent for Peru, Ecuador, Brazil, El Salvador, Guatemala, Honduras and Paraguay, but only 3 to 4 per cent for Nicaragua, the Dominican Republic and Bolivia.

(d) *Changes in inventories*

Changes in inventories are ill-defined for most Latin American countries and are probably recorded in part only. For some, e.g. Paraguay, El Salvador, Mexico, Nicaragua, Panama and the Dominican Republic—the sector was not shown separately, the common practice being to include the values implicitly in private consumer expenditure since this was frequently obtained as a residual. Where changes in stocks were actually registered, they related to a few readily-identifiable commodities only, e.g. agricultural raw materials in Argentina; and coffee, livestock, etc., in Colombia. The method of valuation was also a potential source of error and little could be ascertained regarding practices adopted in national accounting—particularly in cases where inflationary price conditions affected the figures assigned to the commodities concerned. For the most part, the magnitudes—recorded or unrecorded—of inventory changes would not however be large; and even in statistically-advanced countries, as in Western Europe, they rarely exceed two or three per cent of the gross domestic product. In Latin America for 1960, only Colombia and Uruguay showed magnitudes of 2 per cent or more—the majority being at the level of 0.5 to 1.0 per cent. In dollars at prevailing exchange rates, this represented exceedingly small per capita amounts, the maximum being 12 dollars for Uruguay, 10 dollars for Peru and 6 dollars for Colombia. A revaluation with purchasing power equivalents (calculated on the assumption that the inventories were comprised almost entirely of non-durable consumer goods or raw materials) changed the level very little, the maximum value being 17 dollars per capita for Uruguay and 14 dollars for Peru. The influence on over-all expenditure was accordingly minimal.

(e) *The foreign trade balance*

This was converted into dollars with the exchange rates which actually applied to international trade, and, according to the concept adopted, the magnitudes remained unaltered in terms of dollar purchasing power. As was the case for inventory changes, the sector represented a minor fraction of the gross domestic product—though this varied considerably from country to country and from year to year. In the case of Venezuela, for instance, the excess of exports over imports in 1960 was 131 dollars per head or 1,000 million dollars in total—thus constituting one eighth of the 1960 gross domestic product. In the Dominican Republic, the per capita figure was 18 dollars and in Peru 5 dollars. Elsewhere, the balance was either negligible or unfavourable—the negative magnitudes ranging up to 22 dollars per head in Panama and 27 dollars per head in Uruguay. As the situation was so unstable over time, undue importance should not, however, be attached to these figures.

2. The expenditure structure, by country

In national currency or at prevailing exchange rates[13] 1960 expediture in Latin America was allocated in the proportions of 72 per cent to private consumption expenditure, 10.5 per cent to government, 17 per cent to fixed investment and 0.6 per cent to inventories. The trade balance represented only 0.2 per cent of the total. A valuation in terms of geometrically crossed purchasing equivalents changed the relative situation substantially—the explanation being found in the widely divergent price levels for the various sectors. Because of this, the proportions

[12] The level was over 19 per cent when exchange rates were used for conversion purposes.

[13] If the same rate is applied to all sectors, the structure in dollars will be identical with that in national currency. Where a different rate is applicable to trade (as in countries with dual exchange rates) there would theoretically be some difference in the two sets of figures. In practice, the trade balance is so small that any differences can safely be ignored.

devoted to governmental consumption rose while fixed investment fell (private consumption showing little over-all change).

When the data shown in table 8 are examined, it will be found that in the *fixed investment* sector the most striking change applied to Argentina where the proportions of the total product allotted to the sector declined from over 21 per cent on a national currency basis to 11 per cent in terms of dollar equivalence. (A compensating increase, from 9 to 18, applied to governmental consumption expenditure.) For Brazil, fixed investment fell from 16 per cent of the total in national currency to 12 per cent when the relatively high prices of producers' and transport equipment were taken into account. For Mexico, the percentage also dropped, from 15 to 12; for Uruguay, from 15 to 10; for Paraguay and Peru, from 17 to 12. In a few cases—notably Venezuela, Honduras and Colombia—the application of purchasing power equivalents to investment data had the opposite effect, the percentage being rather higher in real terms than in national currency or at prevailing exchange rates.

As already indicated, *governmental consumption expenditure* generally increased its importance in terms of purchasing power equivalence. At a high extreme were Ecuador, the Dominican Republic and Brazil, in respect of which the sector represented from 21 to 23 per cent of total expenditure in real terms as against 13 to 15 per cent in national currency. For eight other countries, government consumption in dollar equivalents represented 17-19 per cent of the gross domestic product as against 9-11 per cent on a national currency basis. At a low extreme was Mexico where a figure of 7 per cent in real terms (or 5 per cent in national currency) is difficult to reconcile with the expenditure distribution on other countries at similar income levels or with similar administrative infrastructures.

With percentages ranging from 65 to 75 in the majority of countries, the share of *private consumption* in total expenditure was generally lower in purchasing power terms than in national currency (thus reflecting very largely the increased importance of governmental consumption expenditure). Chief changes applied to Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Panama and the Dominican Republic where the share of the sector declines by six or seven percentage points when measured in terms of dollar equivalence. Lesser—but still pronounced—declines applied to Colombia, Chile, Peru, Venezuela, Costa Rica and Haiti; while only in the case of Argentina and Mexico did the percentages actually increase. (In Argentina this reflected the decline in the relative importance of investment, not fully offset by the increased importance of governmental consumption.) In the case of Venezuela, the percentage for the sector was exceptionally low, whether measured in national currency or in terms of purchasing power. This is however explained by the unusual characteristics of the Venezuelan economy since national income originates largely in the mining industry and expenditure is devoted partly to payments abroad, partly to investment, and only a relatively small part (56 per cent on a national currency basis; 50 per cent in terms of purchasing power) to private consumption. If the foreign trade balance is excluded, the proportion devoted to private consumption rises in Venezuela's case to 64 per cent on a national currency basis, and 59 per cent in terms of dollar purchasing power. For Bolivia, the situation was reversed—1960 private consumption representing 85 per cent (in national currency) when the foreign trade balance was included, but only 78 per cent if the latter is omitted. (Corresponding figures are 76 and 72 when a valuation is made on a purchasing power basis.)

Despite the changes brought about when a valuation was made with purchasing power equivalents rather than exchange rates, the proportion of the gross domestic product devoted to private consumption expenditure was still unusually high for Chile, Guatemala and Nicaragua (all about 75 per cent), Haiti (80 per cent) and Mexico (a rather doubtful 81 per cent). Peculiarities, however, exist in the national accounts data of all these countries: e.g. consistently negative household savings for Chile and a low value placed on construction for the same country; an unusually high proportion (28 per cent) of the gross domestic product derived from internal trade in Guatemala; and 26 per cent (at 1950 prices) for the same sector in Mexico; etc. This serves to strengthen the view that in Latin America (as in other parts of the world) national accounts estimates are still subject to wide margins of error, this being especially so when inflation distorts the price and value structure and when sectors such as private consumption expenditure (or savings) are calculated as a residual.

Table 8

STRUCTURE OF EXPENDITURE FOR EACH LATIN AMERICAN COUNTRY, 1960

IN NATIONAL CURRENCY AND IN U.S. DOLLAR EQUIVALENTS

(Percentage represented by each sector)

Country	In national currency					In U.S. dollar equivalents[a]				
	Consumption		Fixed investment	Inventories	Trade balance	Consumption		Fixed investment	Inventories	Trade balance
	Private	Public				Private	Public			
Argentina	69.5	9.0	21.7	1.0	—1.2	70.8	18.0	11.0	1.0	—
Bolivia	84.0	8.6	14.2	0.8	—7.7	74.4	18.9	10.7	0.7	—4.8
Brazil	68.9	15.3	16.5	0.8	—1.5	67.3	21.4	11.8	0.8	—1.3
Chile	81.2	10.3	10.3	0.4	—2.2	76.0	16.9	8.8	0.4	—2.0
Colombia	75.0	6.3	18.3	2.5	—2.0	68.9	11.4	19.1	2.1	—1.5
Ecuador	71.6	12.8	13.4	1.8	0.4	62.6	22.9	13.0	1.3	0.2
Paraguay	75.6	7.6	16.8	b	—	73.4	14.8	11.8	b	—
Peru	67.5	8.4	16.8	4.8	2.5	64.3	17.6	12.4	4.2	1.6
Uruguay	79.0	9.0	15.1	2.6	—5.6	73.3	17.5	10.2	2.0	—3.1
Venezuela	56.0	13.8	18.7	—1.1	12.5	49.5	13.9	21.4	—1.0	16.2
Costa Rica	76.0	11.7	17.0	1.2	—6.0	70.0	19.5	14.2	1.1	—4.8
Dominican Republic	69.3	12.7	10.4	b	7.6	60.5	21.4	10.8	b	7.2
El Salvador	80.5	10 1	13.9	b	—4.5	73.8	15.8	14.0	b	—3.7
Guatemala	83.5	7.8	10.1	0.6	—2.0	77.3	12.5	11.5	0.5	—1.8
Haiti*	84.1	8.6	6.8	b	0.5	79.4	13.9	6.4	b	0.4
Honduras	78.7	9.7	12.7	1.2	—2.2	68.2	17.6	15.3	1.0	—2.1
Mexico	81.3	5.1	14.9	b	—1.3	81.8	7.1	11.9	b	—0.9
Nicaragua	81.3	8.3	13.6	b	—3.1	77.7	13.2	11.9	b	—2.9
Panama	77.7	11.2	14.8	1.4	—5.2	71.7	17.9	13.7	1.3	—4.6
LATIN AMERICA[c]	*71.9*	*10.5*	*16.7*	*0.7*	*0.2*	*70.9*	*15.6*	*12.6*	*0.7*	*0.1*

[a] Geometrically-crossed equivalents obtained with Latin American and United States weights.

[b] Presumably included in private consumption expenditure.

[c] Excluding Cuba.

D. HISTORICAL SERIES: 1955-1964 EXPENDITURE EXPRESSED IN DOLLARS OF 1960 PURCHASING POWER

1. Total expenditure

Estimates for the period 1955-64 in dollars of 1960 purchasing power were obtained by applying to the data of each country (expressed in national currency at 1960 prices) conversion factors applicable to each expenditure sector in 1960—the sectoral data being aggregated in order to obtain the regional total for each year. As three means of conversion were utilized, namely, prevailing exchange rates, regionally weighted purchasing power equivalents and United States weighted purchasing power equivalents, three basic series were obtained, while the geometric averaging of the values obtained for each sector with regional and United States weighting patterns provided a fourth set of data along similar lines. The estimates thus obtained are shown in table 9:

Table 9

LATIN AMERICA:[a] EXPENDITURE ON THE GROSS DOMESTIC PRODUCT 1955-64, IN 1960 DOLLARS

Calculated with exchange rates and with purchasing power equivalents

Year	Total (million 1960 dollars)				Per capita (1960 dollars)			
		With equivalents based on				With equivalents based on		
	With exchange rates	Weighting pattern of		Geometric mean	With exchange rates	Weighting pattern of		Geometric mean
		Latin America	United States			Latin America	United States	
1955	53,106	80,619	59,727	68,455	308	467	346	397
1956	55,170	83,474	62,114	70,972	311	470	350	400
1957	58,846	88,439	65,458	75,137	322	484	358	411
1958.......	61,556	92,407	68,443	78,864	327	491	364	420
1959	63,500	94,409	70,059	80,452	328	488	362	416
1960	67,279	100,263	74,415	85,850	338	504	374	431
1961	70,458	105,076	77,867	90,390	344	513	380	442
1962	73,410	109,104	80,920	93,584	349	518	384	444
1963	75,185	110,805	83,183	95,747	347	511	384	442
1964	79,313	118,235	88,954	102,461	356	531	399	460

[a] Excluding Cuba. Data for some of the countries were estimated in certain years.

The aggregation of regional data presumes a comparability and reliability which unfortunately does not always hold true for an area like Latin America where methods of compilation are inconsistent (and often of varying degrees of accuracy). This may not be of transcendental importance in studying data for an individual country, where changes over time are of more interest than absolute magnitudes. On the other hand, the usefulness of regional data could be seriously prejudiced, especially where inter-country relationships are concerned. Moreover, since the regional aggregates are dominated by a few large countries—Brazil, Argentina and Mexico—any errors in the estimates for these will inevitably influence the aggregate to a greater extent than errors for, say, Haiti, Bolivia or Nicaragua (which are specifically mentioned seeing as the data used in this study contain—outwardly at least—the greatest element of estimation). Moreover, for a series over time, the incomparabilities are greater than they are for a single year, the expression of annual data at base-year prices introducing additional errors because of the methods used to deflate the current price data or to extrapolate data compiled for a benchmark period. In the first case, price indicators and, in the second, quantum indexes are generally applied (some countries relying on one method, some on the other, and some on a mixture of the two). Invariably, the indexes used are subject to severe limitations, since only in exceptional cases does a country calculate such series specially for deflating or extrapolating its national accounts. The totals shown in table 9 must therefore be treated with caution, since the summation of country data compiled with widely different methods (and also accuracy) leads to a set of regional estimates in respect of which not all changes can be attributed to variations in the actual expenditure or income levels.

Subject to these limitations, the data do show a marked increase in real income or expenditure for the period reviewed—the change being, on a per capita basis, from 308 dollars in 1955 to 356 dollars in 1964 with the use of official exchange rates; from 467 dollars to 531 dollars for the same years when regionally-weighted equivalents of purchasing power were applied; from 346 to 399 dollars when the weights were based on a United States quantitative expenditure pattern; and from 397 to 460 dollars when a geometric average of the last two series was used. This signified an average annual increase for the region of 1.6 per cent for each inhabitant, as compared with 3.0 per cent over the same years for the United States—per capita income of this country being 2,328 dollars in 1955 and 3,180 dollars in 1964. (In Western Europe, it may be noted, the rate of increase was 2.6 and 2.9 per cent in the United Kingdom and Sweden, 3.0 to 3.9 per cent in Switzerland, Ireland, the Netherlands, Belgium and Norway; 4.0 to 4.9 per cent in Denmark and France; and over 6 per cent for Italy and Western Germany. Elsewhere, in Australia the rate was 2.2 per cent; in Canada, 1.9 per cent; and in Japan a high of 13.7 per cent.)[14]

The data for Latin America show that, expressed in 1960 dollar equivalents, the expenditure on the gross domestic product grew at a slightly faster rate in the 1956-61 years when, with the exception of 1959, a per capita increase approximating two per cent was maintained. Beginning 1961, a slowing down took place while a decline occurred in 1963 when Brazil, Chile, Argentina and Uruguay all showed a *reduction in the level of their expenditure, relative* to 1962. The upward trend was resumed in 1964.

Per capita data for individual countries (using geometrically averaged purchasing power equivalents for conversion purposes) are shown in quantum index for $(1960 = 100)$ in table 10, countries being rearranged in order to indicate more clearly quantitative movements over time for real product or expenditure. From the latter, it is apparent that the fastest per capita increases applied to Panama, Guatemala, Peru, Mexico and El Salvador for which the annual rate of growth ranged from 2.5 to 3 per cent. Next came Brazil, Venezuela, and the Dominican Republic, with approximately a 2 per cent annual increase; Argentina, Columbia, Costa Rica, Chile, Honduras and Ecuador with a 1 per cent increase; while Nicaragua and Bolivia had very little over-all change (though with substantial year-to-year fluctuations). Paraguay and Haiti had a slight tendency to decline; while Uruguay was the only country where per capita expenditure fell off to any appreciable degree—this being most pronounced in the 1962-64 years as a result of the economic recession which was experienced by that country.

Absolute levels are given in table 11 and figure VII, from which it will be seen that while in the 1955-57 years, Uruguay was the country with the highest per capita income figure, it was then superseded by Argentina and, in 1963, by Venezuela as well. In the same way, the substantial gap in expenditure levels between Venezuela and Argentina was steadily reduced until in 1963 Venezuela became (temporarily at least) the country with the highest per capita expenditure level—Argentina regaining that role in 1964. Chile remained throughout the period in fourth place with an expenditure level ranging from 600 to 700 dollars—though Mexico and Panama showed more rapid growth and substantially reduced the margin in their income levels vis-à-vis Chile (both approaching 600 dollars per capita in 1964). Costa Rica, whose per capita expenditure in 1955 had roughly equalled that of Mexico and Panama had a much slower rate of growth, per capita expenditure reaching only 500 dollars in 1963-64. This was nevertheless sufficient to maintain a level well ahead of Colombia and Peru, both of whom (despite a comparatively rapid growth rate for Peru) remained in the 300-400-dollar bracket. The ranking of these two countries, however, changed. Peru being the higher from 1960 onwards.

The trends for Brazil, Ecuador, El Salvador, and Guatemala were all very similar, per capita expenditure increasing from approximately 250 dollars in 1955 to 310 and 320 dollars in 1964. Paraguay and Nicaragua on the other hand failed to show any significant increase; and, as a result, the expenditure level in these countries was more or less equalled in 1964 by that of the Dominican Republic (per capita expenditure for which had been some ten per cent lower in 1955). Honduras and Bolivia both showed a slight increase, though the figures for the latter are largely estimated and hence unreliable. The same remarks apply to Haiti where a virtual stagnation in expenditure (at the 95-dollar mark may or may not be accurate.

If national rather than per capita levels are examined, it will be seen from table 12 that the regional total was throughout the period dominated by three countries—Argentina, Brazil and Mexico—which together represented 66-67 per

[14] All figures relate to the years 1955 and 1964 only. Intervening years are ignored.

Table 10

REAL PER CAPITA EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

(Indexes: 1960 = 100)

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Panama	89	91	97	95	97	100	105	115	118	120
Guatemala	86	96	98	99	101	100	101	100	108	113
Peru	92	91	88	91	93	100	104	111	112	118
Mexico	87	90	94	96	95	100	100	102	105	112
El Salvador	93	98	102	101	100	100	101	109	111	117
Brazil	87	86	90	92	96	100	104	107	106	106
Venezuela	87	93	96	95	99	100	96	100	102	106
Dominican Republic	90	96	100	103	99	100	92	102	104	106
Colombia	96	96	96	96	100	100	102	105	105	108
Costa Rica	92	88	93	96	98	100	98	101	104	106
Chile	95	92	98	98	97	100	101	106	104	105
Honduras	93	100	101	100	101	100	100	103	101	100
Ecuador	94	94	95	94	96	100	100	100	99	102
Nicaragua	109	108	112	107	104	100	102	110	112	109
Bolivia	108	103	99	99	98	100	101	104	109	112
Argentina	96	96	99	104	96	100	107	100	94	103
Paraguay	105	100	102	106	102	100	102	102	101	103
Haiti	103	110	100	104	97	100	97	101	101	101
Uruguay	104	110	106	99	95	100	99	96	93	93
LATIN AMERICA[b]	*92*	*93*	*95*	*97*	*97*	*100*	*103*	*103*	*103*	*107*

[a] Based on geometrically-averaged purchasing power equivalents for 1960. [b] Excluding Cuba.

Table 11

REAL EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
(a) *Total* (million 1960 dollars)										
Argentina	15,875	16,033	16,819	18,012	16,916	17,947	19,477	18,555	17,790	19,612
Bolivia	593	576	565	580	581	608	629	662	710	747
Brazil	15,228	15,554	16,613	17,639	18,903	20,305	21,749	23,002	23,432	24,224
Chile	4,305	4,268	4,663	4,773	4,822	5,128	5,306	5,718	5,722	5,922
Colombia	4,334	4,477	4,602	4,700	5,041	5,203	5,475	5,786	5,961	6,295
Ecuador	1,050	1,082	1,129	1,153	1,216	1,312	1,354	1,397	1,421	1,511
Paraguay	417	413	426	455	450	450	472	478	496	513

Table 11 (*continued*)

REAL EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Peru	2,741	2,759	2,764	2,921	3,050	3,387	3,648	3,988	4,163	4,509
Uruguay	2,075	2,226	2,169	2,050	1,991	2,124	2,122	2,100	2,053	2,105
Venezuela	4,279	4,737	5,097	5,257	5,670	5,933	5,920	6,347	6,736	7,193
Costa Rica	427	425	470	506	536	568	582	622	668	694
Dominican Republic	591	652	696	741	737	766	734	840	880	926
El Salvador	558	608	653	666	678	698	730	809	848	927
Guatemala	815	929	984	1,022	1,071	1,094	1,136	1,159	1,295	1,387
Haiti	360	391	363	388	370	390*	386*	411*	421*	431*
Honduras	321	355	372	382	397	406	422	447	455	465
Mexico	13,782	14,756	15,961	16,829	17,210	18,688	19,342	20,266	21,623	23,894
Nicaragua	330	338	360	358	358	359	381	424	447	450*
Panama	374	393	429	432	454	489	531	573	625	656
TOTAL, LATIN AMERICA[b]	*68,455*	*70,972*	*75,137*	*78,864*	*80,452*	*85,850*	*90,390*	*93,584*	*95,747*	*102,461*
(b) *Per capita* (1960 dollars)										
Argentina	840	833	857	902	832	868	927	869	820	891
Bolivia	178	170	163	164	161	165	166	171	180	185
Brazil	252	250	259	266	277	289	300	308	305	307
Chile	627	605	645	644	635	658	665	699	684	691
Colombia	322	324	324	321	335	336	344	354	354	364
Ecuador	285	285	287	285	291	304	304	305	301	310
Paraguay	267	256	259	270	261	255	261	257	260	262
Peru	312	306	299	308	313	338	353	375	380	399
Uruguay	884	937	904	844	810	853	841	822	794	804
Venezuela	707	751	776	770	801	809	780	808	828	854
Costa Rica	434	415	439	454	463	471	464	477	492	492
Dominican Republic	228	244	253	261	251	253	234	259	263	267
El Salvador	260	275	287	284	280	280	284	305	310	328
Guatemala	250	278	285	288	293	291	294	291	316	329
Haiti	97	103	94	98	91	94*	91*	95*	95*	95*
Honduras	193	208	210	209	210	208	209	214	210	208
Mexico	449	466	488	498	493	518	519	526	542	579
Nicaragua	265	262	271	260	252	243	249	268	273	265*
Panama	422	432	458	449	458	474	499	545	558	568
TOTAL, LATIN AMERICA[b]	*397*	*400*	*411*	*420*	*416*	*431*	*442*	*444*	*442*	*460*

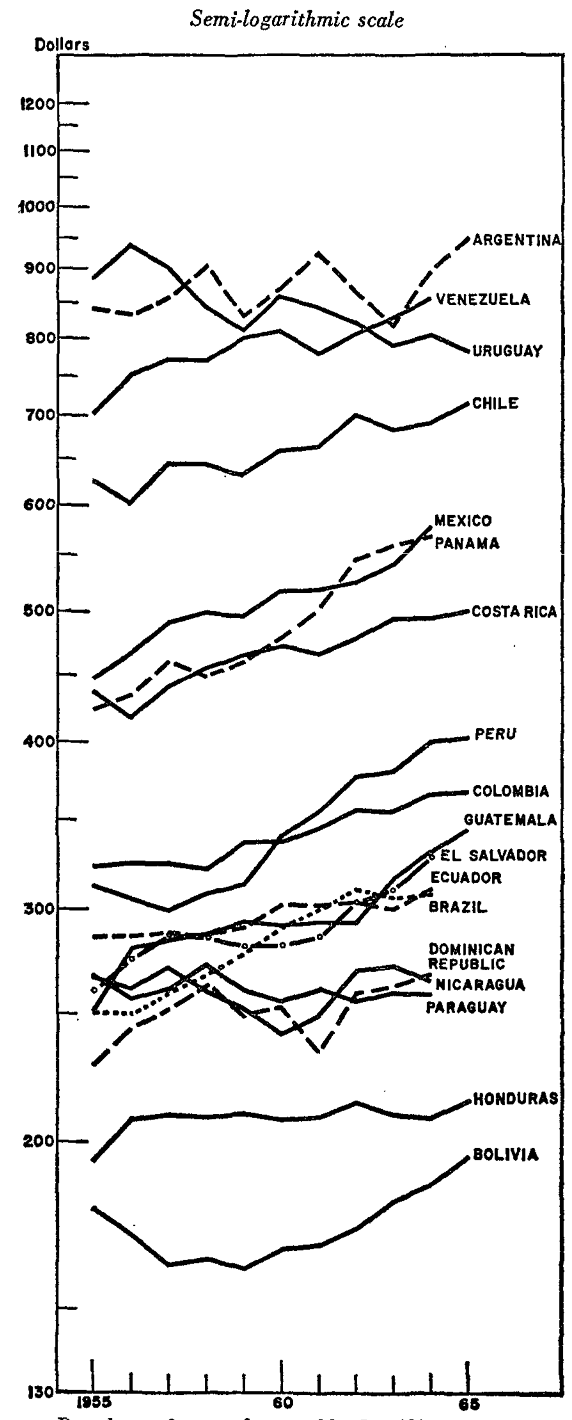
[a] Calculated for 1960 on the basis of geometrically-averaged purchasing power equivalents, using Latin American and United States weights.
[b] Excluding Cuba.

Figure VII

LATIN AMERICA: REAL PER CAPITA GROSS DOMESTIC PRODUCT, 1955-65[a]

(DOLLARS AT 1960 PURCHASING POWER)

Semi-logarithmic scale



[a] Based on figures from table 11 (*b*).

cent in all years. The stagnation of the Argentina economy and the more dynamic trend displayed by Mexico (less so by Brazil) is however reflected in the individual country data—Mexico's share of the total increasing from 20 per cent in 1955 to 23 per cent in 1964, and Brazil's from 22 per cent to 24 per cent for the same years. (1962-63 figures were slightly higher.) In contrast, the importance of Argentina fell steadily from 23 per cent in 1955 to 19 per cent by the end of the period under review. In the case of Venezuela, a slight rise (from 6.2 to 7.0 per cent) is in evidence, while Peru also increased its relative importance (from 4.0 to 4.4 per cent). Colombia's share remained fairly stable with approximately 6.0 per cent—as also was the case for Chile until 1964 when a decline from 6.0 to 5.8 occurred. A still greater decline characterized the relative position of Uruguay—its share of the total dropping from 3.0 per cent in 1955 to 2.0 in 1964. For other countries, the share in the regional total was limited and the percentage figures lack real significance.

2. Private consumption expenditure

The relatively large share of the gross domestic product devoted to private consumption expenditure signified that in most respects the trends for total expenditure were reflected in those for the private consumption sector. That is to say, the rates of growth were, generally speaking, similar and the relative importance of each country within the region was the same.

With per capita consumption of roughly 600 dollars, the highest level throughout the period was reached by Argentina and Uruguay—Uruguay ranking first in certain years (1956, 1957 and 1960) and Argentina in the remainder. (See table 13.) Next came Chile (rising from 440 dollars in 1955 to 490 dollars in 1957, thereafter showing only a small increase); Mexico (360 dollars in 1955 rising steadily to 470 dollars in 1964); Venezuela (350 dollars in 1955, 460 dollars in 1957 but declining to 400 dollars in subsequent years); and Costa Rica increasing gradually from 310 to 330 dollars at the end of the period). A faster rate of growth was displayed by Panama where the level of almost 400 dollars in 1964 contrasted with 280 dollars nine years earlier. Peru also showed a substantial increase—most of all in the 1962-64 period when its level surpassed that of Colombia. Others to show a sizable growth (from 200 to 250 dollars) were El Salvador and Guatemala. In contrast, the level for Brazil, Paraguay,

Table 12

SHARE OF EACH COUNTRY IN THE LATIN AMERICAN GROSS DOMESTIC PRODUCT, 1955-64

(Percentages of regional total)[a]

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
Argentina	23.2	22.6	22.4	22.8	21.0	20.9	21.5	19.8	18.6	19.1
Bolivia	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Brazil	22.2	21.9	22.1	22.4	23.5	23.6	24.1	24.6	24.5	23.6
Chile	6.3	6.0	6.2	6.0	6.0	6.0	5.9	6.1	6.0	5.8
Colombia	6.3	6.3	6.1	6.0	6.3	6.1	6.1	6.2	6.2	6.1
Ecuador	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Paraguay	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Peru	4.0	3.9	3.7	3.7	3.8	3.9	4.0	4.3	4.3	4.4
Uruguay	3.0	3.1	2.9	2.6	2.5	2.5	2.3	2.2	2.1	2.0
Venezuela	6.2	6.7	6.8	6.7	7.0	6.9	6.5	6.8	7.0	7.0
Costa Rica	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.7	0.7
Dominican Republic	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9
El Salvador	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Guatemala	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.4	1.4
Haiti	0.5	0.6	0.5	0.5	0.5	0.4	0.4	0.4	(0.4)	(0.4)
Honduras	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	(0.4)
Mexico	20.1	20.8	21.2	21.3	21.4	21.8	21.4	21.6	22.6	23.3
Nicaragua	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	(0.4)
Panama	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
TOTAL, LATIN AMERICA[b]	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

[a] Based on geometrically-averaged purchasing power equivalents for 1960, using Latin American and United States weights.
[b] Excluding Cuba.

Table 13

REAL PRIVATE CONSUMPTION EXPENDITURE, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
					(a) *Total* (million 1960 dollars)					
Argentina	11,927	11,786	12,568	13,522	12,246	12,716	14,077	13,520	13,219	14,551
Bolivia	421	430	433	443	445	453	475	491	527	550
Brazil	10,615	10,389	11,272	12,515	12,933	13,670	14,125	15,092	15,101	15,889
Chile	3,028	3,085	3,555	3,598	3,556	3,897	4,068	4,073	4,247	4,319
Colombia	2,970	2,942	3,052	3,095	3,337	3,583	3,721	4,020	4,114	4,378
Ecuador	684	711	737	774	781	821	830	852	854	896
Paraguay	324	318	319	337	338	330	346	349	371	388
Peru	1,890	1,894	1,914	2,011	2,137	2,179	2,320	2,596	2,884	3,116
Uruguay	1,482	1,604	1,618	1,411	1,355	1,558	1,514	1,561	1,449	1,534
Venezuela	2,128	2,361	3,019	2,845	3,179	2,937	2,942	3,112	3,261	3,606
Costa Rica	305	315	336	348	388	398	405	427	453	471
Dominican Republic	368	406	426	452	443	463	458	581	628	669
El Salvador	421	439	471	468	461	515	518	585	620	688
Guatemala	674	722	774	817	842	846	853	875	974	1,064
Haiti	278	287	283	299	289	310*	314*	332*	337*	348*
Honduras	230	242	266	278	275	277	294	306	324	333
Mexico	11,086	11,948	13,081	13,838	13,995	15,279	15,815	16,494	17,599	19,507
Nicaragua	247	260	270	275	258	279	286	318	330	320*
Panama	248	264	302	324	348	347	368	389	422	465
TOTAL, LATIN AMERICA[b]	*49,323*	*50,403*	*54,698*	*57,653*	*57,607*	*60,857*	*63,729*	*65,984*	*67,714*	*73,107*

(b) *Per capita* (1960 dollars)

Argentina	631	612	641	677	602	615	670	633	610	661
Bolivia	127	125	125	125	123	123	126	127	133	136
Brazil	176	167	176	189	190	194	195	202	197	201
Chile	441	437	492	485	468	500	510	498	507	504
Colombia	221	213	215	212	222	232	234	246	245	253
Ecuador	185	187	188	191	187	190	186	186	181	184
Paraguay	207	197	194	200	196	187	191	188	195	198
Peru	215	210	207	212	219	217	225	244	263	276
Uruguay	631	675	674	581	551	626	600	611	560	586
Venezuela	352	374	460	417	449	401	388	396	401	428
Costa Rica	310	307	315	313	335	330	323	327	334	334[a]
Dominican Republic	142	152	155	159	151	153	146	180	187	193
El Salvador	196	198	207	200	191	207	202	221	227	244
Guatemala	207	216	224	230	231	225	221	222	238	252
Haiti	75	75	73	76	71	75[a]	74[a]	77[a]	77[a]	77[a]
Honduras	139	141	150	152	146	142	146	146	150	149[a]
Mexico	361	377	400	410	401	424	424	428	441	473
Nicaragua	199	202	203	199	181	189	187	201	201	189[a]
Panama	280	290	323	337	352	340	350	359	377	403
TOTAL, LATIN AMERICA[b]	*286*	*284*	*299*	*307*	*298*	*306*	*311*	*313*	*312*	*328*

[a] Calculated for 1960 on the basis of geometrically-averaged purchasing power equivalents, using Latin American and United States weights.
[b] Excluding Cuba.

Nicaragua (all at the 200 dollars mark), Honduras and Bolivia (in the 100-150-dollar bracket) and Haiti (75 dollars) failed to reveal any noteworthy change. However, figures for some of these countries—notably Haiti, Bolivia and Nicaragua—which are largely estimated ought to be considered only as indicating orders of magnitude rather than absolute levels. In the same way, the marked irregularity which characterized expenditure levels in various countries suggests that this was due not only to economic factors but also to the method generally adopted of calculating private consumption expenditure as a residual (thus including the net errors of other sectors plus the global error in the gross domestic product).

3. Governmental consumption expenditure

Expenditure in the governmental sector increased at a slightly more rapid pace than that of the private sector, particularly in the 1959-1960 years when sudden increases for Brazil, Venezuela, Panama and Mexico (less so, Argentina and Chile) were reflected in an increase of over ten per cent in the regional total. Further increases took place in later years, but only in keeping with the demographic expansion. In consequence, the per capita level in 1960-64 remained fairly steady with a figure of 67-70 dollars, as against 59-62 dollars at the beginning of the period. (See table 14.)

Of the individual countries, Uruguay and Argentina with just over 150 dollars per head of population constituted the countries with the highest levels of governmental expenditure—the figure declining for Argentina in 1963-64 when it approximated only 140 dollars. The Chilean level remained relatively stable with a figure around 110 dollars. For Venezuela on the other hand, expenditure rose rapidly from 90 dollars in 1954-56 to roughly 110 dollars in subsequent years—a similar increase (from 77 to 100 dollars) being registered for Costa Rica and Panama. Governmental expenditure in remaining countries was generally about 30 to 50 dollars, the trend being an increasing one for Bolivia, Brazil, Ecuador, Peru, El Salvador, Mexico and the Dominican Republic; stable for Honduras, and declining for Paraguay and Haiti.

4. Fixed investment

On a purchasing power basis, fixed investment in most years represented about 18 per cent of the total Latin American gross domestic product, the figure being slightly lower in the 1959-61 period. The regional total was, however, influenced considerably by the fluctuation which applied to investment in Venezuela and to the conflicting trends displayed by Mexico, Argentina and Brazil, particularly during the 1962-64 years. (See table 15.)

The average per capita regional level (still measured in terms of geometrically-crossed purchasing power equivalents) fluctuated from 52 to 55 dollars. The variations for individual countries were, however, much greater. In Venezuela, for instance, it approximated 230-240 dollars in the 1955-59 years, fell to 143 dollars in 1961-63 but rose again to 166 dollars in 1964. For Argentina, it rose from 76 dollars in 1955 to 106 dollars in 1961, falling to 78 dollars in 1963 when the economic recession for that country was reflected in all sectors of expenditure. For Brazil, the per capita level rose from 26 dollars in 1955 to 36 dollars in 1961, declining to 30 dollars in 1964 when economic difficulties affected its investment also. In Mexico, on the other hand, the increase was sustained throughout the period, the level rising from 53 dollars in 1966 to 73 dollars nine years later. If some of the intervening years are ignored, an expansion in per capita investment can also be discerned for Chile and Panama. This was not the case for other countries—the per capita level being more or less stable for Colombia, Ecuador (until 1964), Paraguay (with certain exceptions), Costa Rica and Honduras. For the Dominican Republic, Nicaragua, Peru, El Salvador and Guatemala, an undulating pattern prevailed, with periods of expansion offset by a decline in the subsequent years. In the worst position was Uruguay where the trend was continually downwards—the level of 58 dollars per capita in 1964 being little more than half that of 110 dollars which applied in 1955. In consequence, while in 1955 Uruguay ranked as the country with the second highest per capita level of fixed investment (being exceeded only by Venezuela), it was by 1964 in eighth position, preceded by Venezuela, Argentina, Panama, Costa Rica, Chile, Mexico and Colombia. Haiti, with an estimated investment level of only 6 dollars per head in real terms, remained easily in last position, being exceeded (in ascending order) by Bolivia, Paraguay, Brazil, Honduras, El Salvador, Nicaragua, Guatemala, Ecuador, Peru and the Dominican Republic—the sequence of these countries being very little different in 1964 than in 1955.

E. HISTORICAL SERIES: 1955-1964 EXPENDITURE EXPRESSED IN DOLLARS OF CURRENT PURCHASING POWER

In the tables so far presented, all values have been expressed in dollars with the purchasing power equivalence which applied in the year 1960. The comparison of data over a period such as 1955-64 thus provided a quantitative series in which the distortions due to price changes were ostensibly removed.[15] For some purposes, it may not be convenient to use 1960 as the reference point, not to have data expressed uniquely at the prices of a selected year. Accordingly, an alternative set of data has been constructed in which the national accounts aggregates are expressed in dollars at the parity prevailing in each particular year.

Since both the dollar and the Latin American currencies changed in purchasing power from one year to the next, it is obvious that these data will differ from those at 1960 prices by factors which reflect the changes in prices of the United States relative to changes in the prices (converted at exchange rates prevailing in each year) of the Latin American country. Thus, when both prices and exchange rates were stable in a Latin American country (e.g. Panama) or when Latin American price movements were accompanied by a corresponding revaluation in the exchange rate, the only difference[16] between the dollar series at 1960 prices and the dollar series at current prices would result from the moderate inflation of the United States price level (and the consequent devaluation of the dollar) which applied in the period under review. More commonly, however, price changes in Latin American countries occurred without a compensatory modification to the exchange rate —any currency revaluation differing in extent and in timing from the movement of internal prices. Accordingly, an additional factor due to fluctuations in the external purchasing power of the Latin American currency was introduced, which had a consequent impact on dollar values when expressed in current (as distinct from constant) prices.

As price data were not available for the calculation of purchasing power equivalents in each year, the only practical expedient (given the resources available) was to rectify the 1960 (and 1962) equivalents to take account of overall price changes for each sector of expenditure. Price indexes were accordingly obtained for each group or sub-group (e.g. meat, fruit, transportation, governmental purchases, construction, etc.), and a revaluation was made of the 1960 (and 1962) market baskets. When these were compared with the corresponding basket in the United States, a series of purchasing power equivalents was obtained at the expenditure sector level for each year based on: (*a*) Latin American quantity weights; (*b*) United States quantity weights; and (*c*) a geometric average of the two. The dollar values based on the geometrically-crossed equivalents are presented as regional aggregates in table 16—figures at constant (1960) prices being at the same time shown in order to illustrate the relationship of the two series in the various years.

In terms of current prices, the regional total rose from 64 thousand million dollars in 1955 to 86 thousand million in 1960 and 112 thousand million in 1964. This meant an increase in per capita expenditure from 270 dollars in 1955 to 431 dollars in 1960 and 501 dollars in 1964.

The levels in current values, it will be observed, were slightly lower than those in constant values prior to 1960,[17] but slightly higher thereafter—a result to be expected because of the moderate price inflation in the United States during the period under review. There seemed nevertheless to be a tendency for Latin American prices in recent years to rise more rapidly than those of the United States—the price index implicit in the relationship of the current and constant value data suggesting that by 1964 the price level for Latin America had increased 9 per cent relative to 1960, as against a 5 per cent increase for the United States. (See table 17.) Too much significance cannot, however, be attached to these differences since the Latin American total is a composite in which countries had a varying importance in each year (e.g. in 1963, Argentina constituted a smaller proportion of the total, and Mexico a larger one than in any of the earlier years). Furthermore, different methods of calculation were used in the individual countries in order to obtain

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[15] Unfortunately this was not always true—particularly when values at base year prices were obtained by applying inappropriate price indexes to current value series—or *vice versa*.

[16] Differences due to statistical inaccuracies—or to the incompatibility of the national accounts data and the indicators used for extrapolation or deflation purposes—are ignored.

[17] The years 1958 and 1959 were an exception, due mainly to eccentricities in the data for Brazil.

Table 14

REAL GOVERNMENTAL CONSUMPTION EXPENDITURE, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
				(a) *Total* (million 1960 dollars)						
Argentina	2,651	2,946	2,834	2,912	2,946	3,223	3,304	3,170	3,076	3,046
Bolivia	98	100	101	103	104	115	127	139	150	156
Brazil	2,886	3,195	3,347	3,402	3,664	4,345	4,711	4,970	5,310	5,176
Chile	787	757	806	798	811	866	878	1,070	942	937
Colombia	589	569	508	530	538	594	626	679	718	827
Ecuador	233	235	239	239	259	300	327	334	332	364
Paraguay	72	74	64	76	68	67	67	68	69	69
Peru	492	533	528	536	542	595	685	717	751	839
Uruguay	366	365	374	372	363	372	379	397	392	396
Venezuela	543	534	570	788	718	824	828	844	929	904
Costa Rica	76	78	82	89	94	111	108	117	141	146*
Dominican Republic	114	130	146	168	173	164	159	202	209	204
El Salvador	78	82	103	106	108	110	120	125	127	128
Guatemala	94	108	117	122	136	137	144	132	127	136
Haiti	72	77	61	61	58	54*	53*	57*	58*	59*
Honduras	46	65	61	69	68	72	76	73	76	76*
Mexico	951	1,025	1,123	1,188	1,201	1,323	1,386	1,489	1,640	1,800
Nicaragua	43	45	47	48	47	48	51	53	56	66*
Panama	70	77	74	77	79	86	92	105	112	117
TOTAL, LATIN AMERICA[b]	*10,261*	*10,996*	*11,185*	*11,683*	*11,977*	*13,405*	*14,121*	*14,740*	*15,215*	*15,446*

	(b) Per capita (1960 dollars)									
Argentina	140	153	144	146	145	156	157	148	142	138
Bolivia	30	29	29	29	29	31	34	36	38	39
Brazil	48	53	52	51	54	62	65	67	69	66
Chile	114	107	111	108	107	111	110	131	113	109
Colombia	44	41	36	36	36	38	39	42	43	48
Ecuador	63	62	61	59	62	70	73	73	70	75
Paraguay	46	46	39	45	39	38	37	37	36	35
Peru	56	59	57	57	56	59	66	67	68	74
Uruguay	156	154	156	153	148	149	150	155	153	151
Venezuela	90	85	87	115	101	112	109	107	114	107
Costa Rica	77	76	77	80	81	92	86	90	104	103
Dominican Republic	44	49	53	59	59	54	51	62	62	59
El Salvador	36	37	45	45	45	44	47	47	45	45
Guatemala	29	32	34	34	37	36	37	33	31	32
Haiti	19	20	16	15	14	13[a]	13[a]	13[a]	13[a]	13[a]
Honduras	28	38	34	38	36	37	38	35	35	34[a]
Mexico	31	32	34	35	34	37	37	39	41	44
Nicaragua	35	35	35	34	33	32	34	33	34	39[a]
Panama	79	85	79	80	80	84	87	97	100	101
TOTAL, LATIN AMERICA[b]	*59*	*62*	*61*	*62*	*62*	*67*	*69*	*70*	*70*	*69*

[a] Calculated for 1960 on the basis of geometrically averaged purchasing power equivalents, using Latin American and United States weights.
[b] Excluding Cuba.

Table 15

REAL FIXED INVESTMENT, 1955-64, IN 1960 DOLLAR EQUIVALENTS[a]

Country	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
					(a) *Total* (million 1960 dollars)					
Argentina	1,441	1,499	1,623	1,799	1,422	1,968	2,225	2,012	1,702	1,791
Bolivia	73	50	48	49	58	65	54	78	85	86
Brazil	1,561	1,682	1,887	2,001	2,219	2,390	2,613	2,564	2,610	2,335
Chile	404	341	346	336	338	449	596	630	609	629
Colombia	1,074	1,049	896	849	937	995	1,084	1,122	1,056	1,102
Ecuador	139	141	140	134	156	170	177	168	169	219
Paraguay	32	30	53	52	47	53	56	53	53	57
Peru	439	543	576	510	390	419	527	596	559	599
Uruguay	259	239	241	197	200	217	218	203	173	153
Venezuela	1,382	1,510	1,595	1,578	1,617	1,272	1,080	1,121	1,173	1,401
Costa Rica	69	73	87	83	81	81	86	92	96	103
Dominican Republic	134	147	154	165	116	83	70	114	153	189
El Salvador	82	112	104	94	95	98	86	85	97	118
Guatemala	104	164	178	158	146	126	132	134	151	185
Haiti	28	30	22	26	23	25*	24*	26*	26*	27*
Honduras	63	62	67	59	58	62	58	75	81	80
Mexico	1,625	1,798	1,924	1,903	1,913	2,252	2,268	2,270	2,556	3,016
Nicaragua	57	54	59	49	45	43	48	66	71	79*
Panama	48	56	68	65	66	66	79	86	101	89
TOTAL, LATIN AMERICA[b]	*9,014*	*9,581*	*10,067*	*10,107*	*9,927*	*10,834*	*11,481*	*11,495*	*11,521*	*12,258*

				(b) *Per capita* (1960 dollars)						
Argentina	76	78	83	90	70	95	106	94	78	81
Bolivia	22	15	14	14	16	18	14	20	22	21
Brazil	26	27	29	30	32	34	36	34	34	30
Chile	59	48	48	45	44	58	75	77	73	73
Colombia	80	76	63	58	62	64	68	69	63	64
Ecuador	38	37	36	33	37	39	40	37	36	45
Paraguay	21	19	32	31	27	30	31	29	28	29
Peru	50	60	62	54	49	42	51	56	51	53
Uruguay	110	101	101	81	81	87	86	79	67	58
Venezuela	229	239	243	231	228	174	142	143	144	166
Costa Rica	70	71	81	75	70	67	69	70	71	73
Dominican Republic	52	55	56	58	39	27	22	35	46	55
El Salvador	38	51	46	40	40	39	33	32	36	42
Guatemala	32	49	52	45	40	33	34	34	37	44
Haiti	7	8	8	7	6	6*	6*	6*	6*	6*
Honduras	38	36	38	32	31	32	29	36	37	36*
Mexico	53	57	59	56	55	62	61	59	64	73
Nicaragua	46	42	44	36	32	29	32	42	44	47
Panama	54	62	72	68	67	65	75	79	90	77
TOTAL, LATIN AMERICA[b]	*52*	*54*	*55*	*54*	*51*	*54*	*56*	*55*	*53*	*55*

[a] Calculated for 1960 on the basis of geometrically-averaged purchasing power equivalents, using Latin American and United States weights.
[b] Excluding Cuba.

Table 16

LATIN AMERICA:[a] EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, 1955-64, IN CURRENT AND CONSTANT (1960) DOLLARS

Calculated with geometrically-crossed purchasing power equivalents[b]

Year	Total (million dollars)		Per capita (dollars)	
	In current dollars	*In 1960 dollars*	*In current dollars*	*In 1960 dollars*
1955	63,942	68,455	370	397
1956	69,377	70,972	391	400
1957	74,241	75,137	406	411
1958	79,817	78,864	425	420
1959	80,929	80,452	418	416
1960	85,850	85,850	431	431
1961	91,340	90,390	446	442
1962	98,376	93,584	467	444
1963	100,538	95,747	464	442
1964	111,676	102,461	501	460

[a] Excluding Cuba. Data for some countries were estimated in certain years.

[b] Obtained by crossing equivalents obtained with average Latin American and United States weights.

expenditure data in current and constant prices. As a result, the implicit price deflator has a rather erratic movement which limits its usefulness in measuring temporal price changes.

For individual countries, the trends of expenditure in current and constant (1960) prices were for the most part so similar that no useful purpose would be served by analysing them in detail. The data are therefore presented in table 18 and figure VIII without comment. In table 19, however, the per capita expenditure level in each year is related to that prevailing in the United States.

It will be seen that expenditure in Latin America progressed at the same rate as in the United States—regional expenditure being between 15 and 16 per cent of the United States per capita level in virtually all years. There were however notable exceptions—countries with faster growth rates being Paraguay, Peru, Mexico and Panama—those with a slower growth, Argentina, Brazil (particularly in 1962-64), Costa Rica, Guatemala and (from 1957) Venezuela. For Uruguay, despite the economic difficulties of that country, the level was surprisingly stable and even rose in 1964 (though this may be due to problems of measurement). In this connexion, it must be emphasized that, as with the constant value series, many of the apparent anomalies result from inadequate estimation methods, especially when current and constant values are derived one from the other with the aid of inadequate price or quantum indexes.

Table 17

LATIN AMERICA:[a] INDEXES OF EXPENDITURE ON THE GROSS DOMESTIC PRODUCT, IN DOLLARS, 1955-64

Expressed at current and constant (1960) prices[b] *(1960 = 100)*

Year	Value (Based on current dollars)	Quantum (Based on 1960 dollars)	Price indexes	
			Implicit price deflator[c]	*U.S.A. consumer price index*[d]
1955	74.5	79.7	93.4	91.2
1956	80.8	82.7	97.8	92.2
1957	86.5	87.5	98.8	95.5
1958	93.0	91.9	101.2	98.0
1959	94.3	93.7	100.6	99.0
1960	100.0	100.0	100.0	100.0
1961	106.4	105.3	101.0	101.0
1962	114.6	109.0	105.1	102.9
1963	117.1	111.5	105.0	103.9
1964	130.1	119.3	109.0	104.9

[a] Excluding Cuba.

[b] Obtained with geometrically-averaged purchasing power equivalents, using Latin American and United States weights.

[c] Obtained by dividing the regional total in current dollars by the corresponding total in 1960 dollars.

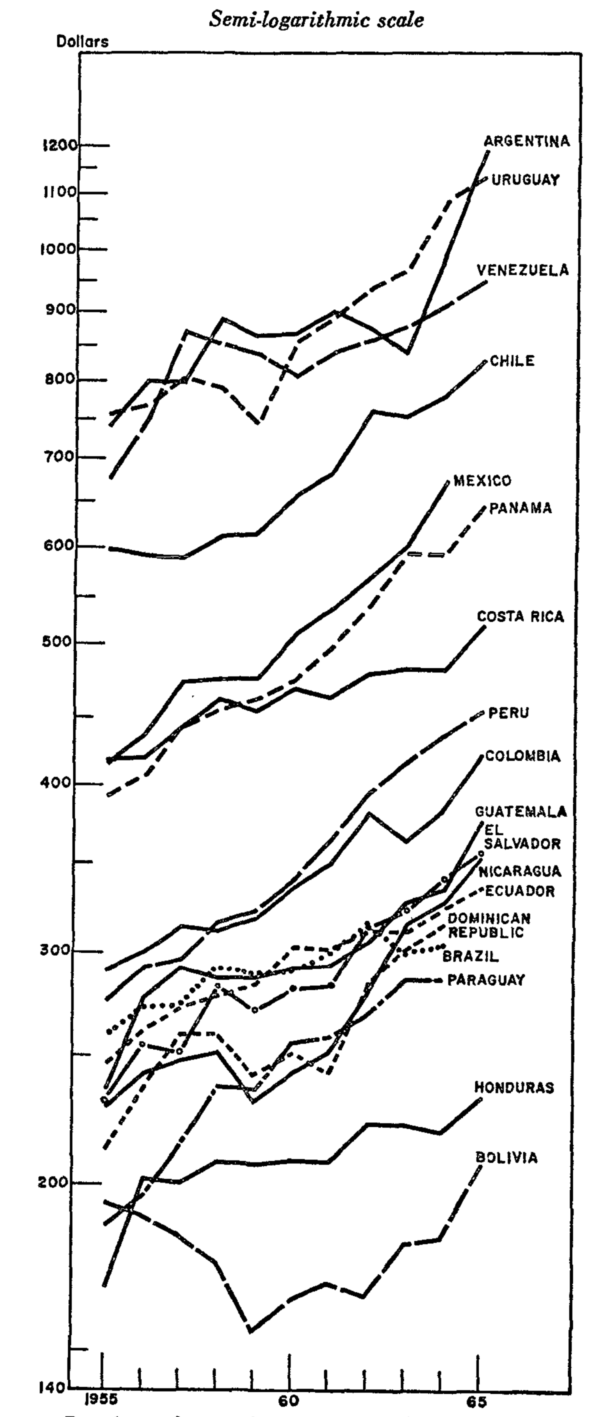
[d] SOURCE: *International Financial Statistics*, I.M.F. (Washington, D.C.).

Figure VIII

LATIN AMERICA: REAL PER CAPITA GROSS DOMESTIC PRODUCT, 1955-65[a]

(DOLLARS AT EACH YEAR'S PURCHASING POWER)

Semi-logarithmic scale



[a] Based on figures from table 18 (*b*).

Table 18

REAL EXPENDITURE ON THE GROSS DOMESTIC PRODUCTS, 1955-64, IN CURRENT DOLLAR EQUIVALENTS[a]

Expressed at parities prevailing in each year

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
(a) *Total* (million dollars)										
Argentina	13,974	15,304	15,793	17,788	17,533	17,947	18,896	18,734	18,230	22,111
Bolivia	643*	642*	632*	619	561	608	633	641	712	734
Brazil	15,621	16,906	17,443	19,402	19,636	20,305	21,406	23,647	22,964	23,845
Chile	4,112	4,169	4,262	4,545	4,682	5,128	5,484	6,233	6,321	6,701
Colombia	3,898	4,144	4,452	4,547	4,790	5,203	5,544	6,239	6,110	6,616
Ecuador	912	998	1,070	1,114	1,179	1,312	1,347	1,429	1,472	1,566
Paraguay	290	317	353	400	407	450	466	499	544	557
Peru	2,437	2,621	2,740	2,963	3,122	3,387	3,767	4,170	4,524	4,933
Uruguay	1,774	1,824	1,935	1,934	1,834	2,124	2,308	2,400	2,523	2,852
Venezuela	4,113	4,731	5,728	5,823	5,945	5,933	6,399	6,756	7,158	7,712
Costa Rica	409	428	472	513	529	568	586	630	660	686
Dominican Republic	548	632	712	741	711	766	772	917	1,004	1,093
El Salvador	498*	567*	576*	661	653	698	728	827	877	959
Guatemala	766	924	1,006	1,019	1,049	1,094	1,134	1,217	1,340	1,420
Haiti*	317	382	340	368	361	390	380	431	425	395
Honduras	279	344	354	380	391	406	419	463	480	493
Mexico	12,717	13,765	15,629	16,215	16,757	18,688	20,149	22,109	24,017	27,769
Nicaragua*	285	311	330	347	329	359	387	442	511	548
Panama	348	368	414	438	460	484	535	592	666	686

Latin America[b]	*63,942*	*69,377*	*74,241*	*79,817*	*80,929*	*85,850*	*91,340*	*98,376*	*100,538*	*111,676*
				(b) *Per capita* (dollars)						
Argentina	740	795	805	890	863	868	899	877	840	1,004
Bolivia	193[a]	189[a]	183[a]	175	155	165	168	166	180	182
Brazil	258	271	272	293	288	289	298	317	299	303
Chile	599	591	589	613	616	658	687	762	755	782
Colombia	290	300	313	311	318	336	348	381	363	382
Ecuador	247	263	272	275	282	304	302	312	311	321
Paraguay	186	196	214	237	236	255	259	268	285	285
Peru	277	291	297	313	320	338	365	392	413	437
Uruguay	755	768	806	796	746	853	897	939	976	1,090
Venezuela	680	750	872	853	840	809	841	860	880	916
Costa Rica	416	418	442	461	457	471	467	482	486	486
Dominican Republic	212	237	259	261	242	253	246	283	300	315
El Salvador	232[a]	257[a]	253[a]	282	270	280	284	312	321	340
Guatemala	235	276	292	287	287	291	293	306	327	337
Haiti[a]	85	100	88	93	89	94	90	99	96	87
Honduras	168	201	200	208	207	208	208	222	222	220
Mexico	414	434	478	480	480	518	541	574	602	673
Nicaragua[a]	229	242	248	252	231	243	253	279	312	323
Panama	393	405	442	455	464	474	508	545	595	595
Latin America[b]	*370*	*391*	*406*	*425*	*418*	*431*	*446*	*467*	*464*	*501*

[a] Calculated with geometrically-crossed equivalents of purchasing power obtained with Latin American and United States weights.
[b] Excluding Cuba.

Table 19

PER CAPITA EXPENDITURE IN LATIN AMERICA COMPARED WITH THAT OF THE UNITED STATES, 1955-64

CALCULATED IN CURRENT DOLLARS IN ACCORDANCE WITH THE PARITY[a] PREVAILING IN EACH YEAR

(Indexes: USA = 100)

Country	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*
United States	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Argentina	30.9	32.0	31.3	34.7	31.7	31.2	31.8	29.4	27.2	31.0
Bolivia	8.1*	7.6*	7.1*	6.8	5.7	5.9	5.9	5.6	5.8	5.6
Brazil	10.8	10.9	10.6	11.4	10.6	10.4	10.6	10.6	9.7	9.3
Chile	25.0	23.8	22.9	23.9	22.6	23.7	24.3	25.6	24.5	24.1
Colombia	12.1	12.1	12.2	12.1	11.7	12.1	12.3	12.8	11.8	11.8
Ecuador	10.3	10.6	10.6	10.7	10.4	10.9	10.7	10.5	10.1	9.9
Paraguay	7.8	7.9	8.3	9.2	8.7	9.2	9.2	9.0	9.2	8.8
Peru	11.6	11.7	11.5	12.2	11.8	12.2	12.9	13.2	13.4	13.5
Uruguay	31.5	30.9	31.3	31.0	27.4	30.7	31.8	31.5	31.6	33.6
Venezuela	28.4	30.2	33.9	33.3	30.8	29.2	29.8	28.8	28.5	28.3
Costa Rica	18.2	17.3	18.0	18.2	16.7	16.9	16.5	16.2	15.8	15.0
Dominican Republic	8.8	9.5	10.1	10.2	8.9	9.1	8.7	9.5	9.7	9.7
El Salvador	9.7*	10.4*	9.8*	11.0	9.9	10.1	10.1	10.5	10.4	10.5
Guatemala	9.8	11.1	11.3	11.2	10.5	10.5	10.4	10.3	10.6	10.4
Haiti*	3.5	4.0	3.4	3.6	3.3	3.4	3.2	3.3	3.1	2.7
Honduras	7.0	8.1	7.8	8.1	7.6	7.5	7.4	7.4	7.2	6.8
Mexico	17.3	17.5	18.6	18.7	17.6	18.7	19.2	19.3	19.5	20.8
Nicaragua*	9.6	9.8	9.6	9.8	8.5	8.8	9.0	9.4	10.1	10.0
Panama	16.4	16.3	17.2	17.7	17.0	17.0	18.0	18.2	19.3	18.3
LATIN AMERICA[b]	*15.5*	*15.7*	*15.9*	*16.6*	*15.3*	*15.5*	*15.8*	*15.7*	*15.0*	*15.4*

[a] Obtained by geometrically crossing purchasing power equivalents for each expenditure sector, using average Latin America and United States weights.

[b] *Excluding* Cuba.

RECENT ACTIVITIES OF ECLA

Twelfth session of the Economic Commission for Latin America[1]

The twelfth session of the Economic Commission for Latin America was held at Caracas from 2 to 13 May 1967 at a time when Venezuela was celebrating the four hundredth anniversary of the founding of its capital. The session was attended by delegations from twenty-eight Member States of the United Nations also members of the Commission[2] and eight other States not members of the Commission.[3] An associate member of the Commission,[4] a State not a member of the United Nations,[5] a number of specialized and other agencies of the United Nations and of inter-governmental and non-governmental organizations were also represented at the session.

At the opening meeting, statements were made by Mr. Raúl Leoni, President of the Republic of Venezuela; Mr. Philippe de Seynes, Under-Secretary for Economic and Social Affairs of the United Nations, who also read out a message from the Secretary-General; Mr. Luis Hernández Solís, Minister for Development of Venezuela, in his capacity as Chairman of the twelfth session; and Mr. Guillermo Hoyos Osores, Ambassador of Peru to Venezuela, on behalf of the delegations attending the session. At the closing meeting, statements were made by Mr. Luis Pereira Souto-Maior, representative of Brazil, on behalf of the delegations; Mr. Carlos Quintana, Executive Secretary of the Commission; and Mr. Luis Hernándes Solís, Minister for Development of Venezuela, in his capacity as Chairman of the Commission.

The bureau consisted of Mr. Luis Hernández Solís (Venezuela), Chairman; Mr. Plácido García Reynoso (Mexico) and Mr. Ashton Wright (Jamaica), Vice-Chairmen; and Mr. Jorge Méndez Munévar (Colombia), Rapporteur.

The Commission discussed the item dealing with the position of the Latin American economy in plenary meeting. A statement (E/CN.12/771), by the Executive Secretary of the Commission, Mr. Carlos Quintana, led off the discussion. The remaining items of the agenda were discussed in two committees established for the purpose, one dealing with items relating to development planning and the other with those referring to trade policy and integration. Mr. Rolando Pardo (Bolivia) was Chairman of Committee I and Mr. Armando González Campo (Guatemala) was its Rapporteur. Mr. Gabriel Martínez (Argentina) was Chairman-Rapporteur of Committee II. A special working group chaired by Mr. Manlio Martínez (Honduras) considered the programme of work and priorities for the period 1967-69 by which the secretariat was to be guided.

There follows a summary of some of the principal items discussed[6] together with the resolutions adopted and a general appraisal of the results of the twelfth session.

The position of the Latin American economy

The reports of the secretariat (E/CN.12/767 and Add.1-3 and E/CN.12/768) show that the principal causes of the recent decline in the rate of economic growth are the persistence of long-term structural obstacles and the influence of conjunctural factors. Although in the present decade there are considerable differences between the various Latin American countries, the average growth rate has been extremely unsatisfactory and the implementation of development plans has been greatly hampered by internal and external factors in nearly all countries. As a result, there were frequent references in the Commission's discussions to development policy and its potentialities as an instrument for

[1] See the report of the twelfth session (E/4359) and the programme of work adopted (E/4359/Add.1).

[2] Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Guyana, Honduras, Jamaica, Mexico, Netherlands, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay and Venezuela.

[3] Czechoslovakia, Hungary, Japan, Poland, Romania, Spain, Union of Soviet Socialist Republics and Yugoslavia.

[4] British Honduras (Belize).

[5] Federal Republic of Germany.

[6] See above, pp. 33-37, the debate on development planning and the relevant resolution adopted.

exploring substantive solutions. Emphasis was laid on the progress that had been made in that respect. For example, most delegations considered that the signing of the Charter of Punta del Este 1961 had encouraged the establishment of multilateral institutions and produced new strategies for releasing new dynamic forces within the region. There was a recognition of the need for a vigorous mobilization of national resources and for substantial changes in economic and social structures, as well as in the policies of the industrialized countries and the international financial agencies. On the other hand, the work being done in the United Nations in accordance with guidelines established in its programme for the Development Decade and the recommendations of the first session of the United Nations Conference on Trade and Development were seen as extremely significant developments. In addition to clarifying the nature of the problems of the developing countries at the international level, the majority of delegations took the view that the work of the United Nations would represent a truly effective contribution to the solution of those problems if United Nations recommendations were translated into specific decisions by the industrialized countries.

The combined effect of these and other factors has aroused great expectations and legitimate aspirations for economic and social progress in the Latin American countries. Development plans have been drawn up and structural and institutional reforms discussed. Progress has been made in many countries in carrying out administrative reforms and in organizing planning systems. Tax revenue has been increased and the influx of external public funds has made it possible to step up investment in social and infrastructure projects, although this reaction has not been uniform in all countries. Land settlement and land reform programmes have been started, although the extent to which they have been applied and the means used have varied. Progress has been made in reforming the tax structure and anti-inflationary policies have been more strictly enforced. More attention has been paid to the social aspects of development, and programmes in education, vocational training, housing and public health have been studied and put into practice. Progress has also been made in the movement towards economic integration and in many countries specific measures have been taken to expand and diversify exports.

This progress was not sufficient to offset the effects of the traditional factors which continue to hamper development. Development plans are only being partially implemented. Anti-inflationary policies led to positive results in so far as they were successful in checking inflation and correcting imbalances with a view to greater financial stability. However, action in this field cannot be really effective unless it is linked more systematically with a determination to attack the root causes of the showdown in economic development. Much can be done if more effort is made to mobilize national resources by restricting luxury consumption, increasing employment, stimulating personal saving and applying equitable solutions to social problems, in an attempt to correct the unfavourable effects of the extreme inequality of income distribution.

In the course of the debate, several delegations supplied new information on recent economic developments in their respective countries. While these data generally confirmed the main points made in the secretariat documents, they highlighted the diversity of the situations prevailing in the different countries; in some cases that situation depended on the extent to which the economy was influenced by long-term structural factors, while in others, it had been produced by conjunctural factors.

In addition to discussing the characteristics and rate of economic growth in the region or in specific countries, the Commission also showed interest in basic aspects of development policies, as regards measures for strengthening the domestic structure of production and the direct and more complete incorporation of social objectives in development strategy. In this last connexion, numerous references were made to the subject of income distribution, one of the most important elements in the whole complex of problems requiring action now and in the future.

It was pointed out that the problem of employment, was one of those most urgently requiring solution and most clearly justifying a general reorientation of development policy. It is essential to achieve a labour absorption capacity commensurate with the increase in the population of working age, the rate of rural-urban migration and the general desire of the population for an improvement in the living standards, through an effective policy of industrialization, assimilation of technology, choice of techniques and allocation of resources. Stress was also laid on the need to strengthen research and formulate specific guidelines on human resources covering the aspects mentioned above as well as education and training. In a more general way, mention was made of the value of analyses as a basis for consideration of the problems implicit in population growth.

Several delegations referred to the sluggishness of the industrialization process, and the factors which in many countries prevent the industrial sector from becoming more competitive in world markets. In evaluating the efforts of various Governments and regional institutions to increase productivity and promote exports of industrial products, it was recognized that such activities should become more widespread and of broader scope, taking advantage of the possibilities offered by regional integration schemes and the increased volume of technical assistance to be expected from the recently established United Nations Industrial Development Organization (UNIDO).

The Commission took note of the progress made in some countries in land settlement and land reform and in programmes for technical improvements and diversification of agricultural production. However, it had to be recognized that in Latin America as a whole the agricultural sector was still lagging behind, thus seriously affecting the supply of staple food-stuffs and hampering efforts to improve the level of consumption of the population. In view of these circumstances, there was general agreement on the need to intensify the process of structural change and to put greater emphasis on other agricultural development programmes, which would solve the problems of supply and have the further advantage of ensuring greater absorption of manpower and import substitution.

The consensus of the debate was that it was possible to accelerate the implementation of a development policy capable of dealing effectively with current problems and stimulating the region's economic and social progress. But one delegation expressed the opinion that such efforts would be fruitless without far-reaching and revolutionary changes which would radically transform existing structures.

In connexion with the effect of foreign trade on the growth of the Latin American economies, it was pointed out that the persistent decline in Latin America's share in world trade flows was determined not only by internal factors but by external obstacles and difficulties which had not been eliminated despite the commitments assumed by the industrialized countries at the first session of the United Nations Conference on Trade and Development. It was hoped that at the second session specific decisions and agreements would be reached, and stress was laid on the need for the Latin American countries to make appropriate preparations for their participation in it and on the technical co-operation which could be offered by the ECLA secretariat.

Several delegations suggested that trade with the socialist countries might offer opportunities for the diversification of Latin American exports.

With regard to external financing, concern was expressed at the reduction in net inflows resulting from the increase in external debt service payments and the slow growth of gross inflows of capital from abroad. It was considered essential that external contributions should increase faster than debt servicing, or that some way should be found to reduce future external debt service payments in order to prevent a further deterioration of the situation. The supplementary financing procedure being studied by UNCTAD should produce more resources and not merely spread out existing funds. It was pointed out that the real impact of external financial assistance should not be evaluated solely in terms of its direct effects on the balance of payments, but also in terms of its contribution towards improving over-all levels of development, employment, and prospective foreign exchange income.

In that connexion, the Secretary General of UNCTAD stated that ways and means of expanding the volume of international transfers of funds would be studied at the second session of UNCTAD. He added that the matter should be discussed in conjunction with a possible reform of the international monetary system, since the balance-of-payments problems of some of the industrialized countries often made it difficult for them to offer more financial aid.

In connexion with the financial implications of integration, the view was expressed that the formation of the common market should be carried out mainly by the entrepreneurs of the region. For that purpose they would require external financial assitance in order to prevent direct foreign investment from exploiting a disproportionate share of the oportunities afforded by integration.

Trade policy

The secretariat document describes the external trade problems which confront Latin America and the trade policy factors which have influenced its development. It draws attention to the circumstantial nature of the factors responsible for the favourable trend in Latin American exports in recent years and to the discouraging prospects created by the policies being followed by the major industrialized countries or groups. It suggests that concrete progress should be sought through negotiations on specific aspects of trade policy during the second session of UNCTAD, and points to the need for action by the Latin American countries to harmonize and co-ordinate the positions they will adopt at that Conference.

The delegations of most developing countries expressed complete agreement with the content and conclusions of the document, although they recognized that it had to be brought up to date and supplemented in some respects. They laid particular stress on the problems affecting the commodity trade of the region, particularly access to markets, prices, financing, internal taxation and anti-economic production of those commodities in the developed countries.

On the subject of access to markets, they agreed that limited progress had been made in the case of a few primary commodities, but that there had been serious setbacks in others which had been subject to more and more restrictions since the first session of UNCTAD.

Emphasis was placed on the need to create effective machinery to stabilize the prices of primary commodities on international markets at fair and remunerative levels for the exporting countries. They noted the lack of progress in concluding commodity agreements and in laying the foundations for the organization of world markets.

Some delegations pointed out that the financing of buffer stocks should be included in the agenda of the second session of UNCTAD, and that it should consider methods of financing for the purpose of eliminating surpluses and the changes they would entail in the structure of production. They further emphasized the need to assess the effect of internal taxation in limiting demand for certain primary commodities and the possibility of stimulating larger purchases by the countries with centrally planned economies by reducing the marketing margins of State enterprises in those countries.

Some delegations of the developed countries said that they could not endorse some of the judgements and findings in the secretariat document and questioned the accuracy of some of the figures and data presented. They disagreed with the references to non-compliance with the principles and recommendations of UNCTAD and commitments adopted in GATT, and states that it was their intention to continue studying the problem raised by the developing countries and to seek satisfactory solutions within the framework of commodity agreements, market organization and other types of arrangements they considered appropriate.

Most of the delegations of the developing countries having stressed the need to abolish discriminatory preferences in respect of primary commodities, some delegations of Latin American countries which enjoyed such advantages pointed out that they should be considered separately from the establishment of any system of general non-discriminatory preferences for manufactures and semi-manufactures of the developing countries. Any action taken to eliminate such preferences should be gradual, and should be accompanied by compensatory measures.

A significant exchange of views took place on such aspects of the problem of trade in manufactured and semi-manufactured products as the establishment of systems of general preferences and problems of supply and demand in relation to exports from the developing countries. The delegations taking part in the discussion were definitely inclined to favour the establishment of general non-discriminatory preferences, on a non-reciprocal basis, for exports of manufactures and semi-manufactures from developing to developed countries. Some of them, however, suggested that a possibility to be kept in reserve was the extension of non-general preferences granted by any developed countries which wished to join the system to those developing countries which did not already enjoy such discriminatory preferences. Most of the delegations of industrialized countries said that they favoured systems of general preferences.

Some delegations stressed the importance to the developing countries of promoting their exports of manufactures and semi-manufactures. Several delegations urged that such efforts should be supplemented by more favourable treatment in the consumer markets of the industrialized countries, not only through the elimination of quantitative restrictions or the reduction of duties, but also through efforts on the part of the industrialized countries to introduce the structural changes required to facilitate the access of products which the developing countries were particularly well equipped to manufacture. They also stressed the need to ensure the continuity of that type of trade, and to prevent the unilateral application of safeguard clauses, as in the case of restrictions based on the concept of "market disruption" which created uncertainties for the export trade of developing countries and discouraged productive investment.

With regard to financing, several delegations emphasized the need for an increase in the net inflow of external resources and for financing to be granted on terms compatible with the financial resources of the recipient countries. They also stressed that supplementary financing should not only be subject to specific conditions and requirements, but that the resources earmarked for that purpose should really supplement the funds for basic financing now available to the countries of the region and other developing countries.

In connexion with the preparatory work for the second session of UNCTAD, several delegations insisted that UNCTAD should constitute a true forum for negotiation, for considering specific resolutions on problems which had been sufficiently elucidated by the time it convenes. Other delegations said that in addition to that fundamental condition, at its second session the Conference should evaluate compliance with the agreements and principles defined at the first session and explore possibilities of future agreement on problems which had not yet been properly defined or clarified. Most delegations agreed that the agenda should be limited to items which were of particular concern to Latin America and other developing countries rather than waste effort on issues on which the area of agreement was too narrow to warrant a move to the negotiating stage or to permit any real progress in exploring new fields of action.

There was also a general desire on the part of the Latin American countries to develop a concerted position before the second session of UNCTAD. Several delegations referred to the part which the ECLA secretariat should play in that effort and some stressed the importance of achieving such co-ordination. To that end, the ECLA secretariat should revise document E/CN.12/773.

Several delegations of developing countries mentioned other points which the secretariat should take into account. They included the problem of higher import duties as the products manufactured by developing countries from their own raw materials became more sophisticated, the continuance in developed countries of uneconomic production of many primary products of special interest for the developing countries, and the possibility of giving the latter a larger share of the developed countries' markets. Other points mentioned were the special position of the economically relatively less developed countries, and possible preferential treatment for those countries in respect of primary commodities, manufactures and semi-manufactures, *inter alia*, appraisal of the results of the Kennedy Round from the viewpoint of Latin American countries, and alternative or additional measures which might be used in tariff negotiations in order to meet the requirements of those countries. Suggestions were made for a survey of new ways of expanding trade with the countries with centrally planned economies, with a view to developing practical methods of exploiting that trade; and for a study of various measures to expand trade and economic relations among developing countries.

The delegation of one developed country observed that the developing countries could and should do a great deal to help themselves, particularly by expanding and diversifying their production, and by promoting their exports and removing existing disincentives to the expansion of exports.

Latin American economic integration

In taking note of the secretariat report entitled "The economically relatively less developed countries and Latin American integration" (E/CN.12/774 and Add.1-2), some delegations said that the report, when submitted in its final form to the meeting of relatively less developed countries which was to be convened to consider it, should contain constructive and specific suggestions on various questions. They included, *inter alia*, financial and technical assistance, development of infrastructure, identification of potential regional industries, and systems for granting preferences and advantages to the relatively less developed countries within the framework of existing integration machinery. Several delegations referred to the effectiveness of sub-regional integration agreements as instruments for accelerating the movement towards a Latin American common market and promoting the region's smooth and balanced growth, since they ensured the participation of relatively less developed countries and focused attention on the special problems of countries with insufficient markets. The value of sectoral agreements for integration purposes was also noted.

Most of the delegations referred to the Declaration of the Presidents of America, stressed its political implications and the need for decisions by the Governments and regional integration bodies to give it effect. Other technical organs like ECLA could contribute advice and assistance to promote a concerted effort to merge the existing integration systems and induce non-member countries to join them, with a view to substantially completing the integration of the Latin American common market by 1985. However, one delegation considered that, unless the conditions generally prevailing in Latin America were radically changed, genuine integration of the region's economies would be impossible.

Reference was made, in particular, to the position of the relatively less developed countries and countries with insufficient markets and attention was drawn to the need to find ways of enabling those countries to share in the benefits of integration, and to take the steps to counteract possible adverse effects on their development.

As a result of its deliberations on trade policy and external trade, the Commission approved various draft resolutions, in particular resolution 264 (XII), entitled "Latin America and the second session of the United Nations Conference on Trade and Development" which recommends that the secretariat should revise and update document E/CN.12/773 after consulting the Governments of the developing countries with a view to convening a meeting of government experts. In the revision and updating of the document, the secretariat is to take into account the comments, statements and recommendations made during the twelfth session and to propose operational formulae and machinery for ensuring full implementation of the principles and recommendations of UNCTAD in connexion with various points of special interest to the developing countries. It should also make an evaluation of the results of the Kennedy Round from the standpoint of the Latin American countries; an analysis of various measures for expanding trade and economic relations between the Latin American countries and the countries with centrally planned economies, and with other developing countries and regions; and a list of specific cases of non-compliance with recommendations and commitments accepted by the developed countries. It is further requested to keep in touch with the secretariats of the Economic Commission for Africa and the Economic Commission for Asia and the Far East, and to collaborate with and advise the Latin American group at the meeting of the seventy-seven developing countries to be held at Algiers, and at the second session of UNCTAD. After the Conference, the secretariat is to convene the Trade Committee of ECLA, which will analyse and evaluate the results and, in the light of its conclusions, work out a plan of action with respect to foreign trade.

With reference to the Declaration of the Presidents of America, the Commission adopted resolution 273 (XII) which recommends that the secretariat, in consultation and in co-ordination with the regional integration bodies, should co-operate in carrying out studies to facilitate government decisions in relation to Latin American integration.

Some delegations disagreed with the evaluation of the policy followed by their countries in the negotiations concerning international cocoa and sugar agreements and with the accusations that the developed countries had not adhered strictly to the principles and recommendations of the first session of UNCTAD and had failed to fulfil the commitments assumed in GATT.

In connexion with these issues, the following resolutions were also adopted: resolution 265 (XII) on Latin American economic integration; resolution 266 (XII) on objectives of the second session of UNCTAD; resolution 267 (XII) and 271 (XII) on costs and prices; resolution 268 (XII) on financing; resolution 269 (XII) on the United Nations programme for the promotion of exports of manufactures and semi-manufactures from developing countries; resolutions 270 (XII) and 274 (XII) on access to markets and resolution 272 (XII) on trade restrictions on grounds of market disruptions.

Latin American Institute for Economic and Social Planning

The Commission discussed the activities of the Latin American Institute for Economic and Social Planning and took note with satisfaction of the results of the action taken by the Executive Secretary of ECLA and the Director-General of the Institute with a view to ensuring the continuity and development of the Institute's activities.

The Institute had concentrated on major Latin American problems, to which it had applied the fruits of national and international planning experience, and had strongly supported planning in individual countries in the formulation and the implementation phases. It was agreed, in that connexion, that the Institute's study of a close link between planning and economic integration was in line with the current movement towards integration in Latin America.

It was pointed out that the Institute had, in its first five years of operation, trained 3,984 professionals throughout Latin America: the Commission also took note of the changes in the basic course, held at Santiago, in order to keep pace with planning developments in Latin

America and to take into account the results of the Institute's economic and social research and the practical and direct experience acquired in advising countries. In the intensive courses, increasing emphasis is being placed on specific projects in agriculture, infrastructure and other areas. Prominent among the special courses given in 1966, which included the usual courses on health, educational and housing planning, was a new course for trade union leaders in Latin America, organized with the co-operation of ECLA and the ILO. The Commission considered that this course, together with those scheduled by the Institute for other private sector groups, would increase the active participation of that sector in planning.

Advisory activities had been spurred on in 1966 by a supplementary project of the Special Fund component of the UNDP to set up a special advisory division in the Institute. It was therefore possible for advisory services to be provided to fourteen Latin American countries during 1966 and for advisory work to be concentrated on two aspects: (*a*) strengthening the links between planning agencies and policy-makers and administrators responsible for adopting and implementing decisions, by formulating development strategies; and (*b*) developing methods for making plans more operational and for establishing annual operational planning systems in each country. Moreover, with the help of IDB and FAO, strategic projects for plan preparation and execution in various countries and various economic sectors are being worked out.

The Institute is conducting research on Latin American economic development, with a view to gaining a deeper understanding of that process, on external sector problems as a handicap to development and on the possible contribution that a regional import substitution programme might make in eliminating the external bottleneck.

The first printed publications of the Institute began to appear at the end of 1966. The issuance of those publications and their wide distribution are helping to publicize the Institute's work and research.

The Commission agreed that the work of the Institute reflected scientific and technical competence in its three major fields of activity. A number of delegations expressed the hope that the Institute would be provided with the funds necessary for its continued operation. In that connexion, two Latin American delegations announced that their Governments had decided to sign the Plan of Operations for the Institute's second phase and the Plan of Operations for the Advisory Services Division.

One representative stressed that the Institute's co-operation had made it possible to develop and organize his country's present planning system. Another representative said that the Institute's assistance in several national projects had been most valuable, particularly in the case of one project recently started in one of the most backward regions of his country.

A spokesman for the States members of the Central American Common Market thanked the Institute for co-operating with SIECA and other Central American integration bodies and said that the four intensive courses that had been organized at the regional level had provided technical training for a large number of government officials of the five countries concerned.

The representative of a European State member of the Commission observed that the Institute had not only intensified and extended the scope of the activities in its fields of competence but had achieved a soundly balanced work programme, so that its training, research and advisory services were not provided as separate activities, because research and training were the basis of the advisory services and they, in turn, provided new subjects for research and training. He also expressed its appreciation of the Institute's policy of availing itself wherever possible of external co-operation and of increasing the volume of research and projects undertaken in conjunction with other national and international bodies.

The Commission elected the following persons to serve as members of the Governing Council of the Institute in addition to the members appointed by ECLA, IDB and OAS: Helio Beltrao (Brazil); Alberto Fuentes Mohr (Guatemala); Plácido García Reynoso (Mexico); Gustavo Guerrero (Nicaragua); Enrique Iglesias (Uruguay); José Antonio Mayobre (Venezuela); Sergio Molina (Chile); and Manuel San Miguel (Argentina). The new Council will remain in office until new elections are held at the next session of the Commission.

Programme of work and other matters

In approving resolution 280 (XII) and consequently the programme of work for 1967-69 (E/4359/Add.1), the Commission expressed its satisfaction at the changes in the presentation of the programme and at the greater use of the performance budgeting technique.

Several delegations commended the co-ordination of ECLA's activities with those of other bodies within the United Nations system, particularly UNCTAD and FAO. The joint activities of ECLA and FAO were an example of the type of co-operation that should exist between the regional economic commissions and specialized agencies. The hope was expressed that such co-operation would be extended to the recently established United Nations Industrial Development Organization (UNIDO).

This willingness to co-operate was expressed in resolution 277 (XII) on co-operation with the ILO and other agencies in the study of manpower planning and employment policy within the framework of over-all development planning, and in resolution 279 (XII) and 281 (XII) on the future relations of ECLA with UNIDO and its continuing relations with FAO.

The representative of British Honduras (Belize) expressed his Government's great interest in the study on the possibilities of economic co-operation between his country and the Central American countries, to be completed within the next few months.

The Commission also adopted resolution 275 (XII), concerning the study of foreign investment in the under-developed countries of the region, and resolution 276 (XII), requesting the secretariat to pursue its activities in preparation for the forthcoming International Symposium on Industrial Development and inviting Governments to participate in the Symposium and to enlist the participation of all groups interested in the promotion of industrial development.

In commemoration of the twentieth anniversary of the establishment of ECLA, which falls on 25 February 1968, the Commission, by its resolution 278 (XII), recommended to postal administrations of the States members that they issue a commemorative postage stamp.

Under resolution 282 (XII), the Commission decided to hold its next session in April or May 1969 at Lima, Peru.

General appraisal

Economic and social development, the state of planning, regional economic integration and problems of trade and external financing in the Latin American countries were the major items of discussion at the twelfth session of ECLA. Emphasis was placed on those subjects in the light of the various developments, some unfavourable and others very favourable, which have affected the present position of the Latin American economies. Among those developments, special attention was given to the agreements adopted at the Meeting of American Chiefs of State held at Punta del Este, Uruguay, from 12 to 14 April 1967. The burden of the Commission's discussion was that the secretariat's future activities should help to implement the decisions adopted at the Meeting. One delegation, however, considered that, since the Meeting of American Chiefs of State did not represent the unanimous views of the Latin American countries, the secretariat of the Commission should adopt in its work an approach which covered the problems common to all countries of the region.

During the discussion of recent economic trends, serious concern was expressed regarding the decline in the growth rate for the region as a whole, although it was recognized that it had not occurred in a uniform way to all the Latin American countries. In the past year, per capita income had remained at exactly the same level, in contrast to the favourable evolution in the two pervious years. Consequently, sluggishness and instability were still regarded as the predominant features of the development process; the lack of dynamism of the Latin American economies, and the maintenance of traditional growth patterns, had kept productivity low, increased unemployment and aggravated social tensions.

The persistence of those conditions made it more urgent to implement the measures and objectives that were being formulated at the inter-American level, and to frame an effective development policy with due regard to the changes that were taking shape at this stage of the economic evolution of these countries. It would be illusory to expect to attain development targets—particularly, in fulfilment of integration objectives—without altering some of the fundamental factors which were adversely affecting the behaviour of the Latin American economies. The prospects of neutralizing those factors depend primarily on the possibility of intensifying and giving continuity to the efforts being made within each country. That point was repeatedly stressed during the discussion of subjects relating to planning, industrialization and agricultural development.

However, the discussions once again confirmed that the external sector bottle-neck was one of the major impediments to Latin American development. Although export earnings had increased to some extent in the last few years, it was pointed out that the increase was temporary in nature and did not reflect changes in the structure of foreign trade or in the policy of the industrialized countries.

Further concern was expressed because the heavy burden of external debt servicing had greatly reduced the purchasing power of the Latin American countries, notwithstanding the increase in their export earning and in gross inflows of capital.

In the circumstances, the prospects of accelerating the growth rate in order to attain minimum targets of employment and increased productivity and the implementation of economic and social reforms were extremely unfavourable unless there were substantial changes in foreign trade trends and in the volume and terms of external financing.

It was further pointed out that the dynamism of intra-regional trade flows had recently declined sharply as compared with previous years, in contrast with the many potential opportunities created by integration schemes. In some cases, that decline reflected the limitations of increasing trade only on the basis of the main traditional trade flows, and in others, it showed that the economic activities of the various countries were not sufficiently complementary.

In that connexion, it should be noted that, in the view of most delegations, the desire to give renewed vigour to the establishment of a Latin American common market had been fully reflected in the agreements concluded at the Punta del Este Meeting of American Chiefs of State. It has been agreed to create the common market, to establish a legal and institutional framework for the gradual amalgamation of the two integration systems, to incorporate other countries in those systems and to create sub-regional groupings. However, action formulae and procedures still have to be worked out and adopted to enable Latin America finally to emerge from the initial stage and overcome the obstacles to its economic integration on a basis of equity and reciprocity, with one regard to the special needs of countries with relatively less developed economies and those with insufficient markets.

The need to stimulate internal development and co-ordinate its aims with regional integration objectives shows how important it is to strengthen planning efforts in each country and extend them to regional activities as well. That is also a prerequisite for a more rapid improvement in levels of living.

In considering the problems described above, the Commission expressed great satisfaction at the efforts which the secretariat had been making to broaden the scope of its activities. In that connexion it welcomed the establishment of an office at Bogotá which would have competence in Colombia, Venezuela and Ecuador, and another at Trinidad, which would deal with the affairs of the Caribbean countries.