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SUMMARY
OF THE ECONOMIC SURVEY OF LATIN AMERICA, 1951-52

necessary to establish import restrictions. Apart from this familiar expedient, these symptoms of disequilibrium also redirect attention to the outstanding role which foreign trade plays in Latin-American growth. With experience, more light is being shed upon this problem. Countries which have been subject to continual fluctuations, caused by external forces, must logically seek to diminish their vulnerability: hence, generally speaking, Latin-American economies are to-day more stable than previously. In addition, the rate of development must be maintained and even accelerated, and the soundest basis for this process is in foreign trade. Although at one time the aims of Latin-American economic development were assumed to include liberation from the burden of imports, the facts show that this objective is very far from being achieved. While some imports decline, appropriately substituted by domestic output, others increase, sometimes at a comparatively higher rate, particularly those of raw materials, fuels and capital goods. Development, therefore, requires that the structure of imports be altered in accordance with certain basic changes in the domestic economy. These, in turn, must be compatible with the dual purpose of decreasing vulnerability and permitting growth to continue, unhampered by periodic disequilibrium.

Such disequilibrium indicates that readjustments in the composition of imports have neither been effected in the manner nor to the extent required by the growth of the gross geographic product, perhaps owing to the intensity of its expansion. In some cases, however, it reflects a decline in /exports.

should not be forgotten that Brazil was once obliged to destroy large unsaleable stocks of this commodity. For similar reasons, during the war, Argentina accumulated several grain harvests which had later to be wasted as emergency fuel. In contrast, the prospects on the domestic market are generally more stable, above all, in manufacturing activities. Industry, however, requires certain exports which provide it with essential goods.

3. The Capacity of External Payments and the Pressure of Imports

These are the underlying facts which have come to light as a result of the recent disequilibrium. It is well known that maladjustments of this kind have occurred periodically in Latin America, each with its own characteristic features. Usually, the tension of the balance of payments would arise from a contraction in a country's capacity for external payments, subsequent to a period of expansion. Now disequilibrium sets in even when that capacity remains at a high level. Excluding Argentina, whose statistics reflect very unfavourable harvests, this capacity may be estimated at some 5,600 million dollars^{1/} in 1952; that is to say, the figure is appreciably higher than that of preceding years, with the exception of 1951, when it reached a total of 5,900 million, as a result of the war in Korea.

This points to the strong pressure which growing demand

^{1/} These are dollars at 1950 prices, as in all the tables contained in the first part of the Economic Survey; the reason for the adoption of this method will be explained in due time. In view of the foregoing, Argentina will continue to be excluded in making these comparisons. Subsequently, when these reasons have been set forth, the figures for the whole of Latin America, including Argentina, will be shown in a footnote.

/for imports

This improvement of the gross product, due to the rising trend of the terms of foreign trade, was clearly reflected in the capacity for external payments. In 1950, about 40 per cent of this capacity was represented by the effect of an improvement obtained since 1945 in these terms, and which became firmer after the beginning of the war in Korea. However, by 1952, their effect had declined to only 28 per cent of that capacity, due largely to their deterioration.^{2/}

This weakening should not obscure the fact that after 1945 Latin America was able to recover, and for the first time even exceed, the level of the terms of foreign trade prevailing prior to the world crisis. Thus, despite a decline of 8 per cent between 1950 and 1952, in the latter year they were 39 per cent above the average for the five-year period 1925-29.

This higher relative level in the terms of trade, in addition to the direct effects, considerably influenced Latin-American investments. The coefficient of investment, that is, as a percentage of the gross product, reached a maximum of 18 per cent in 1951, dropping to 16.2 per cent in 1952, as compared with 13.2 per cent for the period 1925-29, that is, prior to the world economic crisis. From a study of the data contained in the present Survey and another report which will also be submitted to the Fifth Session,^{3/} there can be no doubt that the

^{2/} Including Argentina, the effect of the terms of trade was 35 per cent in 1950 and 26 per cent in 1952.

^{3/} Technique of Programming Economic Development, United Nations Economic Commission for Latin America (document E/CN.12/292).

differ appreciably from those obtained when considering only the absolute figures. Indeed, whereas in 1937-39 total monetary reserves in Latin America represented 69 per cent of the value of imports, by the end of 1952 this proportion had declined to 58 per cent, the average for 1946-52 being 79 per cent. It should be recalled that countries such as Argentina and Brazil, in addition to using their monetary reserves to relieve the pressure on the balance of payments, also obtained substantial external short-term credits which, if they were to be included in these calculations, would substantially reduce the 1952 ratio.

Not only is the present level comparable with that of the pre-war period, as far as the real purchasing power of monetary reserves is concerned, but similarly, a substantial proportion of trade is transacted in inconvertible or compensation currency, thus reducing the efficiency of total reserves, owing to the fact that they are not freely convertible.

6. The Role of Foreign Investment

The co-operation of foreign capital would still be essential in order to accelerate the rate of Latin-American growth, without lowering the present volume of consumption of the population, even though it were possible in the future to maintain the 1952 level of the terms of foreign trade and even more so if there were a further deterioration. More capital is required than before to achieve a given increment to the gross product, since the output-capital ratio is now lower, for a variety of reasons.

/This is

since investments corresponding to these rates of expansion of consumption have been delayed or were not planned on a sufficiently large scale. In some countries, national electrification programmes have been formulated, the majority of which make provision for private enterprise. However, no such plans were made elsewhere, or projects are isolated or the necessary studies are only now being completed. Inasmuch as the generating of electric power in several of these countries depends in turn upon foreign supplies of fuel, which constitute a heavy burden on the balance of payments, the problem of energy also includes the question of liquid fuels. Although Latin America is a net exporter of petroleum, the total output of which has expanded, various countries are heavy net importers and, therefore, must invest much larger sums in the development of their petroleum resources than heretofore, in order to avoid using a substantial proportion of their foreign exchange availabilities for fuel imports.

8. The Reciprocal Compatibility of Agriculture and Industry

Agriculture is another of the critical sectors of the Latin-American economy. Its growth has been slow as compared with industry, creating difficulties both for exports, as indicated above, and for domestic consumption. More than one concrete example could be cited in which manufacturing activities have proved detrimental to agriculture. It should be recalled that there are two ways in which industry can exert an adverse pressure upon agriculture. By one, labour is withdrawn from agriculture, although the necessary resources for introducing

/an offsetting

9. Inflation and Investment

It is thus necessary to make extraordinary investments, in addition to those required by the current level of economic activity in Latin America. Even though the prevailing terms of foreign trade were to persist, it would be very difficult to effect such investments with domestic resources, to an extent that would at least ensure that the 1946-1952 rate of growth of the gross product would not be weakened. It would not only be a matter of reducing present consumption in order to increase savings, which, in itself, is not at all easy, since this increment in savings would have to be used to raise the level of imports of capital goods. The tensions in the balance of payments, referred to at the beginning of this introduction, appear to indicate that this possibility could not be carried out to any significant degree, except in a few countries. Under the circumstances, positive effects should not be expected from inflation either. Undoubtedly, by modifying external distribution of the gross product, inflation could increase savings, although it would do so at a rising social cost. However, for these savings to be transformed into imports of capital goods, there would have to be an idle margin to the capacity for external payments. Broadly speaking, it would appear that this margin has been exhausted in Latin America and, in fact, its limits have been exceeded in some cases. It may, therefore, be concluded that whatever incentives for investment may be provided by inflation, when an idle margin of the capacity for external payments is

/available, it

In the second part of the Survey, recent trends in world economy are examined (1950-52), together with their effect upon the Latin-American situation through foreign trade, the supply of imports and price fluctuations on the world market. Part II also includes an analysis of the role of foreign investments. Part. III consists of a detailed analysis of recent tendencies and problems in agriculture, manufacturing, mining, electric power and fuels, for the majority of the Latin-American countries.

satisfactory although it is not sufficient to stimulate economic development as much as might be desirable. On the other hand, although external factors continue to influence Latin-American economy, its vulnerability to these forces has declined, to judge from the greater internal stability achieved during the past quarter-century.

2. During the period 1946-52, output expanded at an average of 4.2 per cent annually while the gross product rose at an annual average of 4.8 per cent. This rate of growth is found to be even greater if Argentina is excluded from the estimates, since that country weighs heavily in the aggregate figure and its output has declined during the past two years, for fortuitous reasons. When the Argentine figures are excluded from the total, annual rates of increase are 4.7 per cent and 5.5 per cent, respectively. Since the rate of expansion of output is almost similar to that observed since the middle of the thirties (4.8 per cent), the higher rate of the gross product reflects the direct influence of the terms of trade exclusively. In absolute terms the effect of the terms of trade represented an average of 4.3 per cent of the gross product during the period under review.

The terms of trade also affected the gross product indirectly by favouring the raising of the coefficient of investments. It should be observed that if exports continue to expand less intensively than the gross product, although the terms of trade /remain constant,

cause an increase in the output-capital ratio. If Argentina is included in these figures, the net disparity between capital accumulation and output is increased, namely, 5.9 per cent and 4.2 per cent, respectively. At the same time, the output per worker has risen continuously.

4. The gross product does not represent the total volume of available goods and services for consumption and investment. In fact, a part is transferred abroad in the form of remittances of profits and interest accruing from foreign capital investment. The part that remains constitutes the volume of available goods and services. The repurchase of foreign-owned capital, the accumulation of gold and foreign exchange abroad and the use of foreign loans, increase the volume of available goods and services.

Although the inflow of foreign capital to Latin America was quite substantial (2,090 million dollars in 1946-52), it was less than the remittance of profits and interest (5,830 millions) without taking into account repurchases of foreign-owned investments (1,310 millions). In order to cover the surplus, Latin America has had to export more than it imported, with the exception of two years -- particularly 1952 -- when Argentina and Brazil were compelled to employ their monetary resources and foreign loans to cover the excess of imports and to compensate the effect of abnormally low exports.

/The distribution

terms of trade have tended to weaken and there does not seem any likelihood that the determining factors which brought about a decrease in the excess of exports will persist. Therefore, the maintenance of the rates of growth attained in 1946-52, depends on the degree to which Latin America is able to increment its own investment efforts and also on the inflow of foreign capital and the improvements of productivity which may be effected by wise distribution of available investment and better utilization of the stock of capital.

Per capita consumption -- 205 dollars in 1952 -- has risen although it is still low as compared with other regions which socially and economically are more highly developed.

6. Since external factors determine the increase of the gross product in Latin America (fundamentally through the terms of trade), their influence on investments is proportionately greater, since they raise the capacity to save and create the resources necessary to import capital goods.

Their effects may be observed in the capacity for external payments, which has grown sharply since 1945 (from 3,755 million dollars to 6,246 millions in 1952). The total increase accumulated in the seven-year period amounts to 17,076 millions (11,028 millions representing the improvement in the terms of trade, 3,958 millions being the increase of exports and 2,090 of foreign capital).

The increase in the capacity for external payments, after

/a slight

while in the former case, these reserves and short-term credits must be employed, as occurred in 1952.

Despite the high proportion of the gross product absorbed by investment, relatively speaking, imports of capital goods did not increase as might have been expected. On the contrary, the high proportion of imported consumer goods, in a period of intense investment, is a typical phenomenon of Latin-American development, stemming from the greater amount of raw materials and fuel imports required by the growth of manufacturing activities and the expansion of certain types of consumption, created by the increase of per capita income.

The pressure of these imports is greater than that exercised by imports of capital goods, although the latter are relatively high for Latin America. In relation to total investments, the coefficient of capital imports rose from 27.4 per cent in 1945 to 32.9 per cent in 1952. As compared with total consumer goods, the coefficient of imports rose even more sharply—from 6 to 11.6 per cent over the same period. The rise of both coefficients and, therefore, of total imports, indicates the manner in which the gross product influences the capacity for external payments and emphasizes one of the main obstacles in accelerating the rate of growth in Latin America. This phenomenon indeed is by no means new in the history of the region's development. The pressure sharpens the need for substituting imports by domestic production. The most practical substitutions have already been /effected but

increase of productivity which more than compensated for the recent deterioration of those terms. Secondly, by virtue of this process, industry was able to transfer to other sectors a part of the benefits of its technical progress. This transfer was strengthened by the improvement in the terms of foreign trade, the effects of which were distributed between agriculture and other activities.

Agricultural terms of trade,^{1/} in turn, improved until 1950, but deteriorated again in 1951-52 so that this activity lost all ground gained previously, with the exception of Argentina. (The position becomes even worse when that country is included.)

Thus, on the whole, agriculture's relative position did not change throughout the whole period, that is to say, the increase of average output was equivalent to the increase of the gross product accruing from this activity.

That being so it is necessary to determine what sectors have derived advantages from the transfer of a part of the benefits of the technical progress made in industry. On the basis of the data available, no definite indication can be given. However, using residual figures with due reserve, it may be assumed that the transfer proved to the advantage of the remaining activities (transport and commerce, building, mining,

^{1/} Excluding Argentina, the improvement is slighter, despite the policy of paying farmers lower prices than those prevailing for exports. It is not surprising because Argentine statistics used export prices in calculating the gross product; although this is technically correct, it does not reflect the actual amount of the product which remains in the agricultural sector.

have developed far more extensively.

10. Remarkable differences between the gross product per worker in different activities are observed. In 1950, the product per worker was equivalent to about 285 dollars in agriculture, 1,152 dollars in manufacturing and building, 1,277 in transport and public services, 1,203 dollars in commerce, government services and other services and 3,064 dollars in mining in which a relatively low number of workers are engaged. These figures do not reflect relative productivity, being influenced by the terms of domestic trade. However, they give an approximate indication, which in itself is satisfactory. Agriculture absorbs the greatest proportion of labour (57.9 per cent of the whole), although it gives rise to only 24.2 per cent of the gross product. Industry and building come next, employing 16.6 per cent of the labour force and giving rise to 28 per cent of the gross product. These are followed by commerce, government services and other services.

11. The analysis has a dual objective, namely, the consideration of the general phenomena of recent growth in Latin America, without which the significance of partial events mentioned elsewhere in this report could not be evaluated and also the establishment of appropriate instruments of methodology, adapted to the nature of Latin America's economic phenomena, particularly

/insofar as

the capacity to import and introduce structural changes which will support a higher gross product with a lower capacity to import. This creates a new vicious circle, for, if such changes were to take place, the capacity must be raised previously to the extent required to enable substantial imports of capital goods to be made while other imports must not be restricted.

The supporting basis for manufacturing is thus narrowed by the decline of agriculture and expansion of consumption, to the detriment of the exports. In addition, the growing pressure of demand for energy must be taken into account.

Agricultural regression is no new phenomenon and springs from a tendency observed since 1940, sharpened by the poor harvest of 1951-52. The improvement in the terms of trade observed when averaging the figures for the decade and the recovery of the market since the war, have not, however, proved to be sufficiently strong incentives for agricultural activity, priority having been granted to other requirements. The new government plan proposes, by means of loans and investment, to re-establish the supporting basis of agriculture for development purposes. This policy and satisfactory meteorologic conditions resulted in the excellent harvest of 1953.

The labour force transferred from agriculture to industry and other activities could be substituted by mechanical means. To the extent that this process takes
/place, compatibility

The rate is moderate, but it is comparable with that of 4 per cent for the period 1935-45. The fulfilment of the 5-year plan presupposes a rate of growth of 3.6 per cent until 1957.

3. During the period in which output expands, a higher rate of capital accumulation coincides with an increment in the output-capital ratio. During the recession both are weaker.

In 1946-48 a higher rate of capital accumulation (7.6 per cent annully) was observed, although it dropped to 3.1 per cent in 1952. The amount of capital invested per worker was 20,000 pesos in 1950, as compared with 15,200 in 1945. Until 1948, the output capital ratio rose steadily, owing to full Employment of equipment, but dropped later, due to a contraction of demand and decreasing utilization of the productive capacity, in addition to other factors.

4. At the beginning of the period, the volume of available goods and services was somewhat lower than the gross product, but soon afterwards exceeded it. In 1946-48 substantial repurchases of foreign-owned capital began. Remittances abroad were practically eliminated, thus attenuating the burden on the balance of payments. This, together with intensive use of reserve and compensatory credits in 1951-52 enabled an excess of imports to be obtained. Similarly, consumption was able to remain almost at the same level, although this proved to the detriment
/of investments.

owing to the repurchase of foreign-owned capital and the employment of monetary reserves and credit.

Imports were greater than the capacity to import (which, for the reasons given, is almost equivalent for the capacity for external payments). This, however, did not occur in 1946 and 1950 due to the employment of monetary reserves and credits. Thus, in that year the coefficient of imports was maintained at 12 per cent of the volume of available goods and services.

7. Imports of capital goods maintained a high coefficient both in relation to total investments and total imports. Imports of other goods, in turn, retained a moderate coefficient in relation to consumption and total imports, indicating a healthy process of substitution of imports of such goods, which trend, however, was not observed in connexion with capital goods.

8. Despite the depressive factors noted, it should be observed that manufacturing activities retained the high level reached in 1948. In 1949-52 output decreased by only 1.3 per cent annually. Agriculture rose slightly in 1946-48, but then declined at an annual rate of 8 per cent. Remaining activities showed a remarkable increase of 18.3 per cent in 1946-48, due largely to the influence of substantial public works, dropping afterwards, however, to 4.3 per cent annually.

/The relative

the capacity to import. The transport system has not been adequately renewed, so that it is unable to bear the pressure of the growing overload. These facts serve to emphasize the critical points of development and have stimulated efforts to direct domestic savings towards investments in petroleum transport, energy and basic industry. The establishment of the Economic Development Bank reflects these trends. This institution was created when circumstances were most propitious for making use of the experience accumulated in the dynamics of growth toward the centre.

2. Under the influence of the terms of trade - mainly affected by coffee - the gross product rose in 1947-52 to a higher rate, namely, 8.2 per cent annually. The anticipated revival of coffee exports accounted largely for the fact that the gross product in 1952 attained a level of 294 thousand million cruzeiros at 1950 prices, which was somewhat higher than the figure for output.

3. The growth of production at an annual rate of 7.3 per cent, for the period 1948-52, was due both to the accumulation of capital and the improvement of the output-capital ratio so that the increase of investment per worker was entirely reflected in the expansion of output. The rate of that expansion, namely, 2.8 per cent annually, indicates the extent to which productivity can be improved by increasing the density of capital.

4. Available goods and services in 1952 amounted to 308,100
/million cruzeiros

largely by the liquidation of coffee and cotton stocks, together with the improvement in the terms of trade, led to an improvement in the capacity for external payments. This capacity, after attaining a maximum in 1951, dropped in 1952 to the level prevailing in 1947. The recent decline can be ascribed to the fall of cotton exports and partly to over-valuation of the cruzeiro. With the exception of 1952, there has been little inflow of foreign capital.

The coefficient of investments in relation to the gross product, remained higher than the capacity for external payments, owing to the fact that Brazil made use of its monetary reserves and credits, thus enabling a higher rate of imports to prevail. In order to maintain the level of investments, and since there appears to be no indication of further improvement in the terms of trade, the country should increase exports and attempt to obtain foreign capital.

7. The capacity to import has followed the tendency of the capacity for external payments while imports exceeded the former capacity. The coefficient of imports in relation to the gross product is high and, contrary to what might be expected, was not determined by a higher proportion of imported capital goods required for expansion purposes, thus indicating that Brazil has effected advantageous substitutions; in fact, the high coefficient of imports is due rather more to imports of other goods, especially fuel

/and certain

growth of the gross product than that indicated. The estimates should therefore be considered with reserve and the analysis of certain aspects must be left pending.

3. If the effects of the terms of trade, which improved substantially, are deducted from the rate of the gross product, the latter's growth would diminish to 0.2 per cent annually, which is incompatible with the rate of expansion of output of the important group of activities indicated above. Assuming that the gross product developed proportionately with the agricultural, manufacturing and mining output, and adding to it the effects of the terms of trade, the gross product will be seen to have developed at an annual rate of at least 4 per cent.

The improvement in the terms of trade did not exercise the same influence as in other countries; although substantial it is lower than the average for the period 1925-29. Similarly, investments have not recovered to the level prevailing in those years of prosperity.

4. Despite the favourable effects of the terms of trade, and since remittances of profits and interest exceeded the net inflow of foreign capital, Chile was compelled to export a higher volume than it had imported. Thus the volume of available goods and services was lower than that of the gross product. According to the data used in this connexion (considered unreliable), consumption increased at an annual rate of only 1 per cent, while per capita consumption

/declined 0.4

utilized and the output-capital ratio has also declined.

Output per worker rose in all three activities. Comparing these activities, output rose more in manufacturing than in agriculture and declined slightly in mining. These estimates are based on residual figures and data which, it is emphasized, must be considered with reserve.

6. Despite the reduction of exports, the capacity for external payments rose during the period under consideration, by virtue of favourable developments in the terms of trade and, to a lesser extent, owing to the inflow of foreign capital which exercised considerable influence on investment. The capacity to import has varied proportionately with the capacity for external payments and is slightly lower than the latter in view of the remittance of profits and interest and the repurchase of foreign-owned-capital. Broadly speaking, exports exceeded the capacity to import, so that monetary reserves and compensatory short-term credits had to be used.

7. In view of the low estimate for the growth of the gross product, the coefficient of imports appears to be higher than what it probably was in fact. The figures for investment are more reliable and offer a firm basis for calculating the coefficient of capital imports; the latter rose sharply, that is, to 48.2 per cent in 1952, as compared with 34.3 per cent in 1945, although higher levels were reached in the intervening years. The share of imports of capital goods also

/rose in

which had been incremented by substantial earlier investments that now began to prove profitable. A high output per capita ratio was thus obtained. Since 1946, output had tended to decline owing to the fact that more substantial investments created an idle margin of capacity. Output was always influenced by foreign competition, apart from the fact that certain investments, such as those for irrigation, transport and energy, in the early period show a low output per capita ratio. There is still a wide field for investments of this kind in Mexico.

For this type of investment and in order to maintain those normally required for development purposes, Mexico must raise its investment coefficient, especially by means of foreign capital inflow, which thus far has not been very substantial. Indeed, domestic savings have been the predominant source of investments. External factors have influenced domestic savings, although the effect of the terms of trade was weaker than in other countries. The most decisive influence on domestic savings was the remarkable change in domestic distribution of the gross product. As the gross product of the groups receiving profits, interest and rent rose proportionately, greater savings could be effected. Although all these savings have increased in absolute terms, their rate of growth was higher and the above-mentioned groups simultaneously raised the level of consumption at an annual rate of 10 per cent for the period /1939-52, while

annual rates of per capita growth in Mexico, 1947-52
(as a percentage)

Output	2.4
Gross product	2.4
Available goods and services	1.7
Consumption	0.7
Investment	8.4

3. The capacity for external payments exercised greater influence on the net inflow of capital than the weak effects of the terms of trade. However, even greater pressure was exerted by the expenditure of foreign tourists; in 1952 this item provided 32.9 per cent of the capacity for external payments and 5.7 per cent of the gross product.

The ratio of the capacity for external payments to investments is not as low as in other cases. The coefficient of investment is more stable owing largely to substantial public investments and, particularly, to phenomena of redistribution of income, which has caused an increase of domestic savings.

4. The expansion of the total capacity for external payments, while the remittance of profits and interest remained constant, enabled the capacity to import to rise both in absolute and relative terms. Imports, in turn, exceeded the capacity to import at least until 1949, when they were equivalent to the capacity, owing to monetary devaluation and other restrictive measures which, having been fortuitous, caused certain structural changes that should be studied

/separately. Meanwhile;

The problem of expansion of domestic savings to the extent required to finance increased investments touches upon one of the main points in the theory of Latin-American development. This expansion can be explained in two ways: on the one hand, the rapid increase of the gross product, brought about by external factors, which have not had sufficient time to alter spending habits, tend to raise savings more than consumption. On the other hand, greater savings may lead to a distribution of income which will prove more favourable to groups with a higher propensity to save without there being any need for an increase of the total product.

In Mexico there would appear to be a combination of both these phenomena. Limiting the discussion to the second, it was found that the higher income levels of the groups receiving profits, interest and rent, raised their share in the total product to 51 per cent, thereby correspondingly reducing that of the remaining groups. There can be no doubt that such redistribution is the result of inflation, as can be seen from the resemblance between the trend of the product of those groups and retail prices. However, as has been pointed out, the savings in these groups over the period 1939-52, did not increase in relative terms. On the contrary, after revealing a downward tendency, it was only in 1950-51 that the coefficient of savings recovered to the level prevailing in the initial period and consumption

/continued to

give rise, and with the European and North-American consumption habits.

The sudden rise of international prices in July 1950 caused instability and uncertainty in Latin America, these fears being strengthened by the area's close association with the United States and by the influence of foreign exchange reserves on its policies and expectations.

Once the rising price trend originating in the hostilities in Korea had come to a standstill, there were clear indications during the second half of 1952 of a decline in the rate of the industrial output, both in the United States and Europe, owing to reduced expenditure on military defence, which had been one of the determining factors of the earlier expansion and which, even in 1951, was lower than had been expected, the United States having chosen to emphasize to increase its manufacturing capacity rather than to pursue a rearmament policy. This capacity was 50 per cent higher at the close of the war and the moderate rate of increase of military expenditure foreseen for 1953 suggests that defence programmes will not exercise so strong an influence on the consumer sector, nor on the volume of exports. By the close of 1952, the Government of the United States had announced the suppression of a number of controls and new projects of basic industrial expansion principally concerned with the manufacture of steel.

/By the

In 1951, United States exports to Latin America rose by 22 per cent, this tendency prevailing until the middle of 1952, when foreign exchange problems became more serious in certain countries. Broadly speaking, Latin-American supplies were satisfactory, with the exception of certain products, such as sulphate, copper, aluminium and nickel, owing to the shortage or pressure of demand. The United States was able to satisfy Latin-American demand for steel and exports from that country to Latin America in 1951-52 were greater than the expansion of the gross national product.

Imports from Europe, on the other hand, did not rise in 1951 at the same rate as in 1950, and, in fact, this rate was even lower in 1952. Moreover, there were changes in the origin of these goods; for instance, the United States and, to a lesser extent, France, Belgium and Italy, decreased their relative share in the whole, whereas Germany - the most remarkable exception to the tendency - increased its exports substantially in 1950 and 1951, their level remaining stable in 1952 by means of full employment of the productive capacity and by credit arrangements with the Latin-American countries.

Japan's exports to Latin America also increased between 1950-51, particularly to Argentina and Brazil; they, however, declined sharply in 1952.

The change in the tendency in 1952 was generally due to the shortage of foreign exchange in Latin America and to the restrictive measures adopted subsequently. In some cases

/from the

from European countries. The poor cacao harvests raised the price level, in addition to which demand increased, so that the price rose and then fell. Edible oils and fats declined between 1950-51 owing to the expansion of production.

The prices of textile fibres and hides, following rearmament programmes, declined to such an extent that in 1952 they were lower than before the Korean war. In some cases this was due to the influence of accumulated stocks and to the competition of substitutes, such as rayon and plastics, whilst in other cases (vide cotton) it was caused by the good United States harvests in 1952 and the crisis which generally affected the textile industry.

A similar trend, though not so sharp, occurred in the case of inedible oils and fats used for industrial purposes.

In brief, the factor of instability lies in United States purchasing and stocks policies, since European purchases were on the whole for emergency purposes. Thus, Latin America continues to depend on the United States, either on its stocks policies and the levels of activity and of its gross product, which determine its purchases in the southern area, thereby establishing the capacity to import of the Latin-American countries.

4. The improvement in the terms of trade in 1950-1951 ceased towards the end of the latter year, this downward tendency prevailing throughout 1952. However, in relation to the United States, and despite the decline in prices of certain

/raw materials

smaller improvements of exports to that country; taken in conjunction with increased servicing charges these trends brought about a deficit of 1,000 million dollars - that is three times more than in the preceding year. During the first half of 1952, the same tendency prevailed and a change was observed only as from the third quarter and at the cost of severe import restrictions. The surplus balance with Europe in 1951, led to substantial transfers of gold and dollars to several Latin-American countries. However, for the first time in the post-war period, there was a deficit in 1952 resulting from the decline in demand for Latin-American products, so that this surplus could no longer be used, as had been the case previously, as a means of covering the deficit with the United States. This was the cause of the exchange difficulties of certain countries such as Argentina and Brazil and the loss of reserves, despite transfers in the capital account. The 1951 surplus with Japan, practically disappeared by 1952.

3. Despite the special conditions of the different Latin-American countries, there was a substantial expansion of imports in nearly all the area during 1951 and 1952, owing to the influence exercised by the increased volume of goods and services available for consumption, the supply policy for raw materials which it was feared might be in short supply and the preference which continued to be shown for imports of capital goods. Export price levels declined and although

/these trends

Slightly different tendencies were observed in 1952.

Preliminary figures indicate new net United States private investments amounting from 250 to 300 dollars, in addition to which there were loans authorized by the Export Import Bank and International Bank for Reconstruction and Development.

The role of foreign capital in Latin America cannot be judged only from the standpoint of the net inflow of funds; it is also necessary to take into account the reinvestment of profits which in some cases, such as that of Venezuela, represent an appreciable sum.

During the past few years, the principal increments in United States investment were those in Venezuela, Brazil, Chile, Cuba and Mexico. However, since 1950, net investment - excluding reinvestment - was negative in Venezuela and tended to decline in the remaining countries.

The United States Government granted Latin America loans through the Export-Import Bank for the purpose of making basic investments, particularly in energy and transport. The International Bank for Reconstruction and Development granted similar loans, amounting in 1952 to 355 million dollars, or in other words to one quarter that of the Bank's total operations since its establishment in 1946.

6. From the above, it will be seen that the impact of sharp disequilibrium in the balance of Latin-American payments tends to fall, as it did in 1951-52, on monetary reserves and short-

short-term

developmental tendencies, together with the uncertainties concerning future supplies, enabled imports, to attain an unprecedented quantum in 1951, despite a slight deterioration in the terms of trade. Although volume of exports remained stationary this deterioration on the whole brought about a reduction of 2.7 per cent in the capacity to import. The decline of imports in 1952 counteracted the upward tendency.

There are sharp differences in the aggregate figures arising from the different individual positions of the specific Latin-American countries. The increment of imports in 1951 can be ascribed mainly to Brazil, Cuba, Mexico, Uruguay and, to a lesser extent, Peru, Ecuador, Chile, the Central-American Republics, Panama, the Dominican Republics, Panama, the Dominican Republic and Haiti. In Argentina, Venezuela and Bolivia, on the other hand, imports decreased.

Meanwhile there was a slight decline of exports in 1951, caused mainly by Argentina, and Mexico. In fact, in several countries, the figures were higher than the average for the period 1947-49 and in some cases - such as Venezuela, Peru, the Dominican Republic and Nicaragua, - substantial improvements were observed. Broadly speaking, countries exporting mining products showed an upward tendency in contrast with the decline of agricultural exports.

The terms of trade followed different trends in these countries; whereas in Argentina they declined 20 per cent in 1951 and almost 50 per cent in 1952, they improved for the

/majority of

earlier period, despite an rise in absolute terms of 13.6 per cent and a per capita increment of 5 per cent. Attention should be drawn to the increase of imports in agricultural machinery.

2. In certain countries, the changes in the composition of imports present special characteristics. Whereas in Argentina, Brazil, Colombia and Venezuela there is a relative decline in imports of capital goods, in Mexico and Chile the opposite tendency was observed. In the former, these goods represented 50 per cent of total imports. In Argentina, Colombia and Venezuela, raw materials have become increasingly important, although in other countries they are less outstanding. An increase of fuel imports was observed in Argentina and Chile.

3. Latin-American export trade continues to be dominated by a few products, 14 of which represent 70 per cent of the total. However, important changes have recently occurred within the group.

In 1951 the share of petroleum in relation to the total was 24.3 per cent of the quantum, due to the influence of exports of this product from Venezuela (91 per cent)..Exports also increased from Colombia, Mexico and Ecuador.

Wheat and wheat-flour exports rose in 1950-51 but practically disappeared in 1952 owing to the intensive drought in Argentina in the preceding year. For similar reasons, maize exports declined sharply in 1950 and 1951. There was also a substantial decrease in beef exports, both in 1951 and 1952,

/ due to

wheat. Zinc and tin declined less sharply. On the other hand, coffee and banana prices remained stable. Since import prices rose slightly in 1952, the terms of trade deteriorated by 9 per cent. In 1951 the level was 4.5 per cent below that for 1950, which was the highest in the post-war period, despite rising export prices, which were caused by the sharp increase of imports.

PART THREE

TENDENCIES IN THE PRINCIPAL SECTORS OF PRODUCTION

CHAPTER I. AGRICULTURE

1. Despite certain favourable factors - some of external origin, such as attractive international prices and others of domestic origin, for instance development programmes which increase demand - there has been no progress in Latin-American agriculture. Although some countries have expanded output, others have been subject to the influence of adverse factors, (Argentina). A prolonged drought and a policy of buying up stocks at lower prices than those prevailing in the international market, caused that country's output to decline to such an extent that Latin-American output as a whole was reduced by 2 per cent in 1952, as compared with 1951, instead of showing an increase of 7 per cent, as would occur if Argentina were excluded from the calculation. This indicates, at the same time, the influence which Argentina figures bear on the totals for the area. Certain

/decreases in

and development etc. It should be borne in mind that the obtaining of exportable services calls for a greater effort now before, since domestic consumption, stimulated by higher returns, absorbs an increasing proportion of output.

2. The downward tendency of agricultural output is due mainly to the influence of Argentine cereals and Brazilian coffee. With the rate of growth of the population, per capita output declined continuously and in 1952 was 4 per cent lower than in 1951 and 1948, whilst, as compared with the pre-war period, the decline was equivalent to 10 percent. The influence of this phenomenon was felt on exportable balances, despite the increase of export prices and of the real gross product in the United States and the United Kingdom, who were Latin-America's traditional customers. The quantum of agricultural exports from Latin-America in 1951 was equivalent to only 88 per cent of the 1948 figure while in 1952 practically no wheat and very little maize, linseed and meat were exported. Cotton and banana exports improved slightly, whilst those of wool and sugar rose substantially.

In the majority of countries the increment of consumption could not be covered by domestic output, so that imports were expanded. As a result, countries which formerly bought from Argentina, had to obtain their imports elsewhere, using dollars for this purpose. Excluding Argentina, per capita output in the rest of Latin America

be sown in addition to the maximum attained earlier. The incentives provided consist in minimum prices, imports of agricultural machinery, labour and crop transport facilities and planned credit systems.

Brazil has laid stress on the expansion of wheat growing, formulating a programme covering the building of silos and refrigerated warehouses, mechanization and increase of the yield of the coffee plantations.

A technical mission sent by the Bank for Reconstruction and Development and the United Nations Food and Agriculture Organization co-operated with the Chilean Government, As a result measures were taken to promote cattle and dairy activities by granting credit facilities and promoting sanitary campaigns, as well as offering technical advice, collaboration in the building of silos and stables etc., and also in the effort to expand and improve wheat production.

Mexico emphasizes the importance of an irrigation programme as well as genetic improvement of crops and particularly of maize, wheat, beans ajónjoli and rice. A short-term plan to improve maize and bean supplies was recently announced. It should be borne in mind that these are the basic products in Mexican diet.

Paraguay has established goals for the cultivated area in 1953, including 12 products, particularly rice and potatoes, with which it is hoped to increase the cultivated area by 47 per cent, as

to the 118 thousand which it was believed are at present in use. Most of this progress was limited to Brazil, Uruguay and Venezuela. In Argentina, however, where replacement requirements are more acute, the foreign exchange necessary for such imports was not available.

Chilean nitrate exports made Latin America a net exporter of fertilizers, but, of course, there is a deficit in phosphates and potassium. It should be pointed out that Argentina, Brazil, Chile, Colombia, Mexico and Uruguay are already manufacturing phosphated chemicals, the main producer being Mexico.

CHAPTER II. INDUSTRY

1. After the post-war readjustment, the process of industrialization was again stimulated in different countries. In Brazil, Mexico, Venezuela, Colombia and Chile, the rate of industrial investment rose again during the past three years, in some cases with financial or technical cooperation from United States or European capital or that of other origin. In Peru, Uruguay, Ecuador and other countries where consumer industries predominate, there have been several difficulties. In Argentina where industry is developing, output did not recover its post-war levels and, in fact, sharp declines were noted during several months of 1952.

Taken ~~as a whole~~ ^{as a whole} during the past 15 years, the volume of industrial output expanded at a higher rate than the gross of /the population

when it has fallen at an even sharper rate.

Consumer industries have encountered domestic obstacles such as the structure of the gross national product which limits the possibilities of consumption of a substantial proportion of output. Other hindrances consist in poor harvests which by lowering the gross product accruing from agricultural activity, have at the same time lowered demand; there have likewise been difficulties of external origin, such as competition from imports. The case of the textile industry amply illustrates the statement. This activity was hindered by rising cotton and oil prices at a time when the real product of many sectors was declining and competition rose from imported textiles as well as rayon products and other artificial fibres.

The sharpest developments were those of capital goods. Basic iron and steel industries expanded in 1951 and 1952 in Chile, Argentina, Colombia and Peru. Brazil and Mexico, likewise continued to extend their capacity and the volume of output.

Total productive capacity of steel ingots in Latin America reached 1 million tons by the end of 1952, representing an increase of 100 per cent in 5 years. Average cement production has declined from the annual average of 10 million tons. Substantial investments have been made in the manufacture of basic chemicals as well as of antibiotics

/and other pharmaceutical

achieved in order to ensure maximum utilization of investments.

CHAPTER III. MINING

1. Copper, lead and zinc are three metals which are common to the majority of the mining countries in Latin America. The analysis in this chapter will be limited to these metals since they are mainly produced for export purposes, domestic consumption representing only a small proportion of total output, despite the recent increase created by the development of metallurgical industries. Since the majority of the producer countries do not consume the metal, it is generally exported in the form of concentrates or unrefined ingots for subsequent refining in overseas industrial centres. With certain exceptions, such as Chile's copper, these products do not enter to any significant degree in intra-regional trade.

There was substantial demand for the three products and prices have been high since July 1950, although they weakened during the second half of 1952. In some cases, such as Chilean copper, the influence of local incentives was not fully felt, since the Government absorbed the difference which was obtained over and above control prices.

In some countries, moreover, there are other factors which limit and hinder the expansion of mining, such as transport deficiencies and the lack of adequate electric power facilities.

Moreover, sudden price increases have generally failed to increase capacity, owing to the substantial investments required, to the uncertainty of the policy adopted by the different countries and the insecurity which causes Latin-American production to be complementary to that of the United States, compelling it, therefore, to depend on the
/fluctuations of the

at a rate of 9.7 per cent annually in the eight principal countries.

The importance of the energy problem is also underlined by the substantial capital required for expansion purposes, when it is a question of fuels or hydroelectric power, and taking into account transport difficulties and the long period required to develop sources of energy. Similarly, difficulties arise in connection with the foreign exchange required for fuel imports.

Although the majority of these countries use a substantial proportion of fire-wood, there is an evident tendency to substitute liquid mineral fuels for technical reasons, and due to the exhaustion of forestry resources. 2. The present shortage of electric power has led most countries to introduce rationing or restrictions on electricity consumption. The situation is aggravated by the need for renewal of equipment or by the necessity of depending on fuel imports. Some attempts have been made to meet the present rate of expansion of consumption.

Since per capita consumption is relatively low, there is an ample margin for expansion. Moreover, very considerable differences may be observed in the levels of electric power production. Whereas Argentina and Chile produce a total of over 300 KWH per capita, followed by Uruguay, Cuba and Costa Rica, averaging between 200 and 300 KWH per capita, the remaining countries show much lower levels which are directly related to the stage of economic development attained, the expansion of urbanization and the inadequate incentives for planning and investment.

Various methods have been adopted. In some countries, the fact that the plants are privately owned hampers

/programming on a

