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For some time the secretariat of the Economic Commission for Latin America has had the intention of publishing a periodical which would review the economic situation of the region and bring up to date the information appearing in its annual economic surveys. Special articles on different subjects related to the economy of Latin America will also be included.

Such is the content of the first issue, a number specially prepared for presentation at the Commission's sixth session, inaugurated at Bogota, Colombia, on 29 August 1955, and published in that city. The ECLA secretariat wishes to acknowledge a debt of gratitude to the Government of Colombia for its indispensable assistance, and to the Banco de la República for its valuable aid in providing facilities for the printing of this periodical in order to ensure its punctual appearance at the conference.

The ECLA secretariat assumes entire responsibility for the present issue of the Review, as well as for subsequent numbers. 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.

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ECONOMIC REVIEW OF LATIN AMERICA

August 1955

Special Issue

Review of the economic situation in Latin America during the early months of 1955

The economic situation in Latin America was generally less favourable during the first months of 1955 than in the last half of the preceding year. The adverse tendencies —particularly those arising from the external sector— noted in another secretariat document,¹ continued to exercise a constraining influence on economic growth. Export earnings declined; the terms of trade were less favourable; and the majority of the countries suffered a further deterioration in their balance of payments. Only Venezuela and Mexico showed any marked improvement over 1954. The rest of the Latin American countries taken together had a trade deficit of 126 million dollars in the first three months of 1955 compared with a surplus of 185 millions for the first quarter of 1954. Imports, although still at a high level, began to fall, and by mid-year indications were that imports of the coffee and cacao-producing countries would be considerably lower in 1955. This is borne out by the fact that during the first quarter exports from the United States, Canada, Western Europe and Japan to Brazil, Colombia and the other coffee and cacao-producing countries were 21 per cent less than their average quarterly exports to these countries in 1954.² Argentina also had an unusually large trade deficit owing to sharply increased imports. On the other hand, the mineral-producing countries had good prospects for an increase in earnings and in their capacity

to import during the year, since a high rate of industrial activity in the United States and Western Europe created a strong demand for petroleum, copper and other metals. In the case of copper, the benefit to Latin American producers was mainly reflected in higher prices, since production could be increased only moderately in comparison with the last half of 1954, owing to the lack of any substantial investment in recent years. Thus a boom in the United States and Europe did not, as usually in the past, stimulate the trade and economy of Latin America.

Only limited information is available on production and investment trends. While agricultural production appeared to be slightly higher —not more than 1 or 2 per cent—³ the rapid expansion of industry witnessed during the preceding year was halted, production being about 2 per cent below that of the last quarter of 1954. There were marked exceptions to the trend and in several countries the economic situation showed no significant change. However, in view of the general slowing down of economic activity and considering the dependence of investment on imports of capital goods and semi-manufactured raw materials, it is not likely that the investment coefficient for the region as a whole increased during the first months of this year, and for many of the countries it may have been definitely lower.

As is well known, in 1954 there was an upward movement of prices and money supply throughout Latin America, with the exception of Cuba, the Dominican Republic and Venezuela. Its magnitude varied, however, in the different countries. Deve-

¹ See Economic Survey of Latin America, 1954 (document E/CN.12/362/Rev. 1) United Nations publication, Sales No: 1955.II.G.1

² These data are derived from official statistics of the exporting countries. The bulk of these exports would not be registered as imports by Latin American countries until after the first quarter.

³ Estimates of agricultural production are for the crop year 1954/55.

lopments during the first half of 1955 showed some diverse tendencies but basically there were no significant changes in the prevalence of the degree of inflation in Latin America.⁴

Experience during the period under review has once again demonstrated the difficulty of curbing an accelerated inflationary process. Not only does an inflation of long standing generate its own forces of self-perpetuation, but it also greatly aggravates the problem of restoring conditions of monetary stability without bringing about a serious deflationary crisis. None of those countries which were undergoing this type of inflation at the end of 1954 —Bolivia, Brazil, Chile, Paraguay— was able to take effective measures to mitigate the price-wage spiral. The rise in the cost of living in Chile, stimulated by the devaluation in December 1954, wage adjustments and a reduction of imports, stood at 35 per cent during the first six months of 1955. Credit expansion and the budgetary deficit have followed a parallel course. Prices in Brazil, where the inflationary

⁴ See Economic Survey of Latin America, 1954, op. cit., Part I, Chapter I, Section III, for an analysis of the inflationary process in Chile; and Part II for a description of movements of prices and money supply in individual countries.

process was also intensified during 1954 but at a lower rate than in Chile, continued to increase owing mainly to a constant rise in exchange rates and previous wage increments. This, together with other factors related to industrial activity and coffee policy, necessitated the relaxation of restrictions which, since October 1954, had been contributing decisively to the curbing of the rate of monetary expansion.

Among the countries characterized by a moderate increase in prices and money supply during 1954 —Central America, Ecuador, Peru and Uruguay— some have experienced a reversal of the upward trend, owing to a decline in foreign exchange receipts. However, prices were still rising slowly in Peru and more rapidly in Uruguay during the first half of 1955. Salary and wage increases in Argentina and devaluation in Mexico during the second quarter of 1954 generated an upward movement in prices which continued to rise during the early months of 1955 but at a much slower rate. By May, prices had ceased to rise in Argentina and in June had reached a slightly lower level. While prices in Mexico rose by 25 per cent from April 1954 to June 1955, the increase from January to June was only 7 per cent.

I

INDUSTRIAL AND MINING PRODUCTION

1. Industrial production

The rapid expansion of industrial production in Latin America during 1954 was not maintained in the first quarter of 1955. The 1954 increase of 8.4 per cent in relation to 1953 was the consequence of a strong recovery of industrial production in Argentina and Mexico, and an extraordinary growth of industry in Brazil, Colombia and Venezuela. A decline of 1.6 per cent⁵ in industrial production in Latin America as a whole during the first three months from the level reached by the fourth quarter of 1954 was largely due to a drop in Argentina, Brazil and Chile. (See table 1.) However, the failure of Mexican production to rise above the level of the second half of 1954 was also a contributing factor, although further improvement in its trade and balance of payments

and good prospects for agriculture made Mexico's general economic situation favourable. Production declined by 6.2 per cent in Chile, where industry has been stagnating owing to the lack of capacity to import essential raw materials which were needed for the full utilization of existing plant capacity in some industries, and capital goods needed to expand activity in others; the shortage of raw materials became particularly acute during the latter part of 1954. Only partial statistical data are available for Colombia and Venezuela, but on the basis of other information it appears that industrial production and construction in both these countries continued to rise at about the same rate as during 1954.

⁵ This figure is adjusted for seasonal variation. See sources of table 1.

Table 1

LATIN AMERICA: INDUSTRIAL PRODUCTION IN 1954 AND IN THE FIRST QUARTER OF 1955

	Gross product of industry		Quantum of industrial production				
	Millions of dollars a	Share of each country in the Latin American total	Index 1950=100		Percentage variations		
			Average 1954	1st quarter 1955	1954 over 1953	1st quarter 1955 over 1954	1st quarter 1955 over 4th quarter 1954
Brazil	2,346	28.8	132.5	137.3	7.1	3.6	-3.6
Argentina	2,031	25.0	102.5	108.7	7.3	6.0	-1.0
Mexico	1,127	13.9	110.0	113.5	6.6	3.0	-1.5
Colombia	659	8.1	141.5	147.0	16.9	4.0	4.0
Venezuela	492	6.0	143.2	150.4	10.0	5.0	1.1
Chile	395	4.8	143.9	137.6	4.3	-4.4	-6.2
Total 6 countries.....	7,050	86.6	122.4	127.1	8.8	3.9	-1.6
Other countries.....	1,086	13.4	112.6	117.0	14.1	3.9	-1.6
<i>Total Latin America.....</i>	<i>8,136</i>	<i>100.0</i>	<i>121.1</i>	<i>125.7</i>	<i>9.5</i>	<i>3.9</i>	<i>-1.6</i>

SOURCE: Economic Commission for Latin America, on the basis of official statistics. The indices of Argentina, Brazil and Chile were adjusted in order to eliminate seasonal fluctuations. For Mexico, the index was estimated for groups of products, the value of which represents 43 per cent of total production. In the case of Venezuela, the corresponding groups represent 35 per cent. The index for Latin America as a whole was based on data relating to each individual country, weighted in accordance with the value added by industrial production during 1954.

NOTE: All figures are provisional.

^a At 1950 prices.

Argentina

The rapid recuperation of Argentine industry in 1954 received its initial impetus from an increase in salaries and wages which created a strong demand for consumer goods. Industry was able to respond to this added demand by calling on unused capacity. Increased imports of raw materials and a substantial improvement in labour productivity also played an important role in raising the level of production. (See table 2.) The stimulating effects of higher wages and salaries were gradually neutralized by a rise in prices and a consequent slackening of the growth of demand. Another factor that may have had an influence in dampening demand was the failure of agricultural production and income to rise concurrently with the production and income in other sectors of the economy. As shown in table 2, the most pronounced fluctuations were in textiles, garments, electrical machinery and equipment, and rubber.

Table 2

ARGENTINA: INDICES OF INDUSTRIAL PRODUCTION
(1950 = 100)

	1954		1955	Percentage variation	
	1st quarter	4th quarter	1st quarter	4th quarter over 1st quarter 1954	1st quarter over 4th quarter 1954
Quantum of industrial production ^a	98.0	109.8	108.7	12.0	-1.0
Number of workers.....	73.0	74.7	..	2.3	..
Number of man-hours worked	76.0	87.2	..	14.8	..
Quantum of production of various items: ^a					
Textiles	83.4	118.7	90.7	42.3	-23.6
Garments	70.5	110.0	98.5	56.0	-10.5
Electrical machinery and equipment	77.8	135.1	103.5	73.7	-23.4
Rubber	71.2	120.7	97.8	69.5	-19.0

SOURCE: *Secretaría de Asuntos Técnicos, Suplemento de la Síntesis Estadística Mensual de la República Argentina*, Buenos Aires, March 1955. Data for the first quarter of 1955 had not yet been published at the time this table was prepared and must therefore be considered as provisional.

^a Excluding seasonal variation.

Government policy in 1955 encouraged foreign private investment for the establishment of new industries, and a 70-million-dollar loan was obtained from the United States Export-Import Bank to expand iron and steel production. Industry could also count on adequate raw material thanks to a continued high level of imports. Plans were made early in the year for public investments for the expansion of energy production and rehabilitation of transport facilities, the inadequacy of which are serious bottlenecks for Argentine industry.

Brazil

Industrial production received a strong impulse during 1954 from a 25 per cent increase of imports of capital goods and semi-manufactured raw materials and from a rapidly expanding bank credit. By the end of the year, there was a reversal of both these trends. Credit restrictions which were established in the second half of the year, with the aim of curbing the inflationary process, have perhaps played a major role in the downward turn of industrial activity. Loans outstanding by the banking system to the private sector were no larger in the first three months of 1955 than in fourth quarter of the preceding year, and there was evidence that industry was being seriously affected. Moreover, balance-of-payments difficulties and uncertainty with respect to tax and tariff policy were also important elements reversing the upward trend of industry. As foreign exchange resources become scarcer, the exchange rate was increased sharply, with the result that prices of imported raw materials and capital goods, although classified under preferential categories, more than doubled their former value. Meanwhile substantial wage increases were reflected in higher costs of production which industry found difficult to meet under conditions of credit stringency and resistance to a commensurate rise in prices. Moreover, proposals to tax excess profits and to give labour a share in the profits of enterprises became a matter of considerable concern and aroused a strong reaction on the part of entrepreneurs.

As may be seen in table 3, the decline in production was greater for consumer goods than for capital goods.

During the second quarter, there has been a change of policy designed to moderate credit restrictions and to amend the profits tax and the proposals regarding labour participation in pro-

Table 3
BRAZIL: INDICES OF INDUSTRIAL PRODUCTION^a
(1948 = 100)

	General goods	Producer goods	Consumer goods	Building	Electric energy
<i>1954</i>					
Quarterly averages:					
I	158	187	148	155	155
II	151	174	147	142	153
III	148	194	134	139	155
IV	168	214	160	140	152
<i>1955</i>					
Percentage variation					
I	162	209	148	141	173
Between I and IV of 1954	6.3	14.4	8.1	-9.7	-1.9
Between I of 1955 and IV of 1954	-3.6	-2.3	-7.5	0.7	13.8

SOURCE: Economic Commission for Latin America, on the basis of official statistics.

^a Excluding seasonal variation.

fits, so that enterprises would be less burdened. Brazilian industry faces a situation similar in some respects to that of Colombia.⁶ The prospect of a reduced capacity to import will tend to lower essential imports of capital goods and raw materials. But Brazil's position has been greatly strengthened by the substantial progress that has been made in recent years in developing a capital goods industry.⁷ While a lower import capacity, in relation to growing requirements, and higher prices of capital goods may tend to lower the rate of increase of industrial production, it will also serve as a stimulus to development of a domestic capital goods industry. Foreign capital, as well as Brazilian, has become increasingly active in this branch of industry, and many new projects are being planned.

Chile

During the first quarter of 1955 Chile's industrial production has remained stationary at the 1954 level. The shortage of foreign exchange, hampering the purchase of raw materials and preventing the replacement of machinery and

⁶ See the reference to Colombia in this section.

⁷ See *Iron and Steel Transforming Industries in Selected Latin American Countries* (document E/CN.12/377).

the extension of plant and equipment, has been the main cause of this lack of progress. If the insufficient supply of electric energy—at least in the central zone—is also taken into account, it may be estimated that industry worked at only 70 per cent of its capacity. Even working at full capacity, it could not have met present market requirements, since demand for industrial products has been sustained, in some cases increasing, while production capacity has remained virtually constant in recent years.

It seems likely, however, that the industrial situation may improve during the remaining months of 1955, inasmuch as the foreign exchange shortage has been mitigated with the increase in copper sales and the entry into operation of the Cipreses plant in May, which has helped to meet power requirements. Moreover, in spite of Chile's difficult economic situation, foreign investors have lately become interested in the country, owing to the existence of abundant natural resources. During this year, the *Comité de Inversiones Extranjeras* has received numerous applications for the installation of factories, and it is expected that several important industrial projects will be initiated in 1955 and in the first half of 1956.

Since 1950, the cotton textile industry has not expanded its capacity to any large extent, mainly owing to the difficulty of importing machinery and equipment. In 1955, however, it is planned to install a factory for the manufacture of fine yarn, which will help to reduce imports. This stagnation of installed capacity contrasts with the large-scale expansion of demand which has been greatly affected by the reversal of the tendency—prevailing until 1950—to substitute artificial fibres for cotton.

Not only has the number of spindles and looms increased very little, but this industry has also been forced to work below full capacity owing to the lack of cotton, all of which is imported. In 1954 this shortage created serious problems. But mills are now working at something approaching full capacity, and it is believed that during the rest of 1955 at least the large factories will not be hampered by lack of raw materials.

In 1955 the rayon textile industry is operating with less than one daily shift and many looms are using cotton thread. Apart from the fact that in Chile rayon textiles are more expensive than cotton, this is undoubtedly due to the general decline of the market for rayon fabrics which—after a boom period when the installed capa-

city expanded rapidly—began to lose ground to the cotton industry, since the latter is applying new finishing processes and has carried out an intensive publicity campaign.

Of the two Chilean plants producing rayon, the filament plant has been unfavourably affected by these trends and has restricted the utilization of capacity. Conversely, the other factory is working at full capacity, since it manufactures staple fibre, demand for which is increasing, owing to the success obtained in mixing it with natural fibres.

Although present conditions seem unfavourable for the rayon industry, a greater rate of development may be expected in this field than in cotton manufacture. This will arise from the installation of dissolving pulp plants which will make possible the manufacture of textiles from domestic raw materials alone, capable of competing advantageously with imported cotton. Two of these factories are at the planning stage, and one project is already being carried out.

The wool textile industry, after emerging from a difficult situation in 1952 due to lack of markets, is now enjoying a growing demand that is at present unsatisfied, because there has been no increment in the industry's installed capacity. Raw material supplies constitute a less serious problem, since 50 per cent of the wool consumed is produced domestically and from 1953 onwards it has been possible to work at full capacity. The main problem lies in the importing of equipment for expansion and replacement purposes and the purchase of the fine wool not produced in the country.

For the first time during the last four years, in 1955 the iron and steel transforming industry has had insufficient supplies of basic metallurgical products particularly sheet and tinplate. This is due to the fact that it has grown at a faster rate than the steel-making industry, although production of the latter expanded considerably after 1951 when Huachipato entered operations.

Nevertheless, it should be borne in mind that the primary industry must export about 25 per cent of its production to Argentina, Brazil and Peru, not only to preserve the markets that will absorb the balances left by future expansion, but also to acquire the foreign exchange needed for the servicing of capital, and for the purchase of equipment and certain foreign raw materials (coal, tin and phosphoric iron).

Current expansion projects at Huachipato will enable production to rise from 221 thousand tons in 1954 to 268 thousand in 1955. In view of export requirements, however, this expansion will not fully cover the needs of the iron and steel transforming industry until mid-1956, when other expansion projects will have been terminated. The projects are being financed with a 10-million-dollar loan granted in 1951 by the Export-Import-Bank.

The growth of the iron and steel transforming industries, whose capacity tripled between 1951 and 1955 thanks to the availability of domestic raw materials, is a good illustration of the multiplying power of the basic steel-making industry. In 1955 expansion was curtailed by the shortage of certain iron and steel products, but the most serious problems are related to the lack of foreign exchange for a renewal of equipment and an extension of capacity. One solution would be to foster exports of the goods produced by the mechanical industry, and the *Asociación de Industriales Metalúrgicos* is at present preparing a plan for this purpose.

The *Segundo Plan del Acero* provides for the expansion of the iron and steel industry to meet the strong growth of domestic demand. About 15 million dollars will be invested in 180 industries during the next 5 years. Renewal of machinery will absorb about 60 per cent of this investment; 25 per cent will be spent on expansion, and the remaining 15 per cent will be used for new installations. In addition, training courses for workers have been organized.

Among the important industries, building is the only activity which has no raw material problems and which is not affected by exchange shortages—at least not directly. The main materials—cement, wood and structural steel—are produced in the country in such quantities that there is even an exportable surplus. No considerable changes have been forecast for this activity in 1955. During 1953 and 1954 construction in terms of area covered reached a peak 30 per cent above the 1952 level.

Apart from the abundance of raw materials, other factors have contributed to this prolonged building boom. The most important is inflation itself, which has encouraged investment in real estate in order to preserve the value of capital. Long-term credit granted by social security banks, and governmental incentives to building in the shape of exemptions, have also been influential.

Colombia

Imports of capital goods and raw materials, which have been a key factor in Colombia's rapid industrial development, were maintained at the very high level of the last half of 1954. This was made possible by an accumulation of commercial debts, and later by a heavy drawing on reserves. A substantial reduction in export earnings and balance-of-payments pressures created by a large trade deficit during the first five months of the year will probably force a decline in imports of raw materials and capital goods in 1955. Another unfavourable circumstance arising out of balance-of-payments difficulties is that the higher exchange tax for capital goods imports imposed in May will mean an increase in their prices. This, together with a tightening of bank credit which has begun to be felt, will have a restraining influence on industrial expansion. The net effect of developments in Colombia during the first quarter of the year was to create conditions which required industry to adopt a slower rate of expansion.

Mexico

According to available data, during the first quarter of 1955 Mexico's industry has been able to attain almost the same level of production as in the second half of 1954.

Since the remarkable expansion registered since mid-1954 was in fact only a recovery of the 1951 level, the same rate of development could not be expected to continue during the first quarter of 1955. Even if the same stimulating factors had been operating, production capacity could not have expanded in such a short period.

There are several indications that an increase in the rate of industrial development may take place during the remaining months of 1955. One of the most important of these would be the continuation of the incentives offered by the Government under its expansionist policy during the latter half of 1954. Under this policy the public works programme has been enlarged, and a new law was recently passed (February 1955) whereby a greater stimulus is provided for the creation of essential, new industries, including the mining of non-metallic ores. The additional protection given to industry by the 1954 devaluation should also be taken into consideration, for when the price of imported merchandise rose a large share of the demand for manufactured

commodities was channelled towards domestic production. In addition, good agricultural prospects will no doubt contribute to a rise in national income, and this in turn will result in a growing demand for manufactured goods, notwithstanding the unequal distribution of such income, which is the main obstacle obstructing the expansion of the domestic market.

Together with all these stimuli to development, it is anticipated that 1955 will witness a large increment in the industrial productive capacity over that of 1954. For instance, during the course of the present year petroleum capacity has increased from 233 thousand to 272 thousand barrels daily, and is expected to rise to 315 thousand by the end of the year. The oil plant of the Salamanca refinery has already entered operations for the production of 3 thousand barrels daily, which will reduce Mexican imports by 15 million dollars. The generating capacity for electricity rose by 52 thousand kW with the inauguration of the El Cóbano plant at the beginning of the year. The total increment forecast for 1955 is 114 thousand kW. Sizeable increases are also expected in the productive capacity of the textile, machinery, and fertilizer industries.

2. Mining

Table 4 presents the salient features of Latin America's mining production during the first quarter of 1955, in comparison with that of the previous year. Broadly speaking, progress was made in the production of copper, zinc, iron and petroleum, while lead and tin output declined.

With regard to petroleum, the most significant development of the year is that Bolivia has begun to export this commodity to Argentina, under the terms of a treaty subscribed to by both countries. The first 30,280 barrels were delivered in February. When the pipe-line which will connect the Camiri fields with the Argentine border is completed, petroleum exports will amount to 2,500 barrels daily. The most remarkable production increment took place in Mexico, where capacity expanded by 16 per cent during the first quarter; the aggregate increment is expected to reach 35 per cent by the end of 1955. In spite of pessimistic forecasts regarding the market for Venezuelan petroleum, exports increased by 10 per cent during the first quarter of 1955 in relation to the 1954 average, and daily production rose by 12 per cent.

Table 4
MINING PRODUCTION IN BOLIVIA, CHILE, MEXICO,
PERU AND VENEZUELA

(Thousands of tons)

	Bolivia	Chile	Mexico	Peru	Venezuela
<i>Copper</i>					
First quarter 1954....	1.01	82.0	15.6	4.5	—
Average 1954.....	0.92	90.9	13.7	6.3	—
Fourth quarter 1954..	0.87	114.5	11.2	7.0	—
First quarter 1955....	..	115.4	15.5	6.8	—
<i>Tin</i>					
First quarter 1954....	5.59	—	—	—	—
Average 1954.....	7.32	—	—	—	—
Fourth quarter 1954..	7.97	—	—	—	—
First quarter 1955....	6.48	—	—	—	—
<i>Lead</i>					
First quarter 1954....	4.1	..	52.8	12.9	—
Average 1954.....	4.6	..	54.2	14.5	—
Fourth quarter 1954..	4.1	..	57.0	15.5	—
First quarter 1955....	3.3	..	55.0	14.3	—
<i>Zinc</i>					
First quarter 1954....	6.7	..	55.0	24.1	—
Average 1954.....	5.1	..	55.9	28.1	—
Fourth quarter 1954..	4.9	..	55.5	29.9	—
First quarter 1955....	5.5	..	83.4	27.6	—
<i>Iron</i>					
First quarter 1954....	—	531	57.0	343	806
Average 1954.....	—	550	78.5	292	1,347
Fourth quarter 1954..	—	549	108.8	209	1,672
First quarter 1955....	—	312 ^a	61.8 ^a	158	1,830
<i>Petroleum</i>					
First quarter 1954....	50.9	52.6	2,929	568.7	24,960
Average 1954.....	55.2	56.6	2,990	572.9	25,236
Fourth quarter 1954..	72.2	64.8	3,010	578.9	26,960
First quarter 1955....	57.2	70.4	3,300 ^b	571.0	28,102

SOURCE: Economic Commission for Latin America.

^a Two months only.

^b Estimate.

During the first quarter of 1955 Bolivia's tin production registered a decline in relation to the fourth quarter of 1954 and the average for that year. This phenomenon, which was noted in all tin-producing countries, is undoubtedly due to a large extent to the price level, which is considered low and even declining in comparison with that for other ores. In addition, strong competition between tin and its substitutes has also had an effect. According to official statements, another important cause of the decline in Bolivia is the loss of more than 30 cents per pound in the operations of the *Corporación Minera*. There

is no prospect that production will expand during the remaining months of 1955.

The most remarkable change in the 1955 zinc situation was the extraordinary expansion of Mexican production, which rose by 50 per cent over the 1954 average. This was perhaps due to the policy adopted by the United States with a view to increasing its strategic reserves of the metal. There are favourable prospects for Peruvian production, thanks to the expansion of activities by the Cerro de Pasco Corporation.

Rising prices have stimulated copper mining activities, at least in Mexico and Chile. In the latter country the policy adopted to increase the volume of operations has also been influential. At present, Chile appears to be producing at maximum capacity. The new law will undoubtedly foster production through the expansion of

existing facilities and the re-opening of mines hitherto lying idle.

During 1955, iron production declined in all the countries under study, with the exception of Venezuela. Lower production in Chile is due to the depletion of the El Tofo mine, which used to supply the Huachipato and Corral plants. Supplies are now obtained from El Pao, Venezuela. In Mexico the drop can be attributed to a lower level of activity in the building industry, which is a large consumer of iron and steel products. The decline in Peru seems to be due to a fluctuation in foreign purchases. The 1955 monthly average for Venezuela's production is 43 per cent higher than in 1954. Since installed capacity exceeds current production, the latter is expected to expand still further during the rest of the year, even in the absence of new investment.

II

AGRICULTURE

1. The general situation

During the crop year 1954/55 Latin American agricultural output appears to have risen by only 1 to 1.5 per cent over the previous year's. However, it is still very early to attempt an accurate evaluation of the results of regional agricultural production,⁸ since the crops have yet to be harvested in several countries and many of the official estimates are therefore provisional.

Only with difficulty will Mexico and the Central American and Caribbean countries manage to equal their 1953/54 production. A prolonged drought has held back sowing in Central America and yields will inevitably be affected. In Mexico, although the weather could not exactly be described as unfavourable, nevertheless it has not been as good as in 1954. The effects of a new reduction in sugar-milling is being felt in Cuba.

Of the countries of South America, the outlook for Brazil, Argentina and, to a lesser extent, Chile and Venezuela, is satisfactory. Apart from an increment in coffee production, good results

for most of the other Brazilian crops as well as an improvent in the livestock sector are forecast. Although no appreciable changes will take place in Argentina's crop production, the agricultural sector as a whole is registering a satisfactory rate of development, thanks to good prospects for cattle-raising which, in the first six months of 1955, have resulted in an increase in slaughtering and in beef production. Not only is Chilean agricultural production greater than in 1954, but it also exceeds the average level of the last quinquennium. Venezuela is increasing the volume of agricultural output, and, after a resolute campaign, has achieved complete self-sufficiency with its rice and sugar production; it is probable that livestock production will also increase. A smaller coffee harvest in Colombia has very largely offset the progress achieved in other crops, as well as the slight improvement in the livestock sector. Uruguay's agricultural situation is deteriorating, since not only have the cereal and oil-seeds harvests declined but in addition wool production has contracted somewhat and the cattle crisis has become more acute.

From a preliminary analysis of the principal Latin American products, it can be seen that several interesting changes took place between 1953/54 and 1954/55. (See table 5.)

⁸ Very little information is available on Brazil, a country which is of great importance within the region. For this reason, many of the estimates given here are of a preliminary nature.

Table 5

LATIN AMERICA: PRODUCTION OF SOME OF THE MAIN AGRICULTURAL COMMODITIES DURING THE YEAR 1954/55

(Millions of tons)

	1953/1954	1954/1955	Percentage difference
	a	b	
Wheat	10.05	11.30 to 11.60	12 to 15
Barley	1.47	1.80	22
Rye	0.64	1.10	72
Coffee	1.89	2.00 to 2.10	6 to 10
Linseed	0.54	0.59 to 0.60	9 to 11
Peanuts	0.44	0.51 to 0.53	16 to 20
Maize	19.47	16.50 to 17.50	— 10 to 15
Oats	1.21	1.10	— 10
Cotton-seed	2.04	1.90 to 2.00	— 2 to 7
Sunflower-seed	0.50	0.34 to 0.35	— 30 to 32
Sugar	10.24	9.70 to 10.00	— 3 to 5
Cotton fibre.....	1.16	1.09 to 1.14	— 2 to 6
Wool	0.33	0.31 to 0.33	— 2 to 6

SOURCE: Economic Commission for Latin America.

a Subject to correction.

b Preliminary.

The production of maize, oats, sunflower-seed, sugar, cotton and wool has decreased in varying degree. Since it is precisely those countries which export part of their production that have experienced the smallest harvests, the region's exportable surpluses of these commodities will be restricted. In the case of maize and of oil-seeds there will be no surpluses at all.

On the other hand, the production of wheat, barley, rye, coffee, meat, linseed and peanuts is increasing. The greater exportable surpluses of the first five commodities named will tend to offset the losses in the other items. The outcome of Argentine harvests has a great influence one way or another on the production and exportable surpluses of maize, oats, sunflower-seed, wheat, barley, rye, meat and linseed.

Maize production decreased by 10-15 per cent in relation to the preceding year. Since Argentina—the only sizeable exporter—accounts for most of this decline, in 1955 Latin America will be able to export very little of this commodity. Oats production also fell by 7 or 8 per cent. Greater harvests in Chile were offset by smaller Argentine output.

The crisis in the production of edible oil-seeds has again become acute. Not only has sunflower-

seed continued to lose ground, but cotton-seed, which has acquired increasing importance in latter years, will also be in shorter supply. Sunflower-seed production will be smaller by 30 to 32 per cent than during the preceding year, and 70 to 72 per cent lower than in 1950/51 (a peak year for Latin American production of this commodity). Smaller Argentine and Uruguayan harvests (42 and 19 per cent respectively) are responsible for aggravating the growing scarcity of edible oils and fats in the region. Conversely, the output of peanuts will increase by 16 to 20 per cent, the increment being due almost entirely to the large Brazilian crop.

Sugar production apparently fell by 3-5 per cent. This decline for Latin America as a whole results from the restrictions placed on exports by the main producers, thus counterbalancing the increased production in other countries, whose output is destined almost exclusively for the domestic market. Cuba fixed its milling quota at 4,450 thousand tons, that is, 9 per cent less than the preceding year's level; the Dominican Republic will reduce production from 630 to 613 thousand tons, while Peru will maintain its 1954 output of 610 thousand. All this implies a decrease of 7 to 8 per cent in the availabilities of the traditional sugar exporters. Other countries will increase their production by 3 to 6 per cent (i.e., from 4.0 to 4.3 million tons). An exception is Argentina, whose output will be less, owing to the July frost which damaged the crop, especially in Tucumán.

The recent expansion of cotton production is likely to come to a halt in 1955, since several of the most important producers, such as Brazil, Argentina and Peru, are experiencing smaller harvests. On the other hand, the output of Venezuela, Colombia and Mexico is on the increase.

During the wool year 1954/55, the production and exportable surpluses of this commodity have declined, owing to the smaller clip in Argentina and Uruguay.

Increased output of wheat, barley and rye is due in large measure to good Argentine harvests. Latin American wheat production will improve by 12 to 15 per cent. Countries producing mainly for the domestic market are making little significant progress and will very probably reach production levels similar to the previous year's. Argentina is the country which registered the largest increase, production rising to 7.5 million tons, in comparison with some 6.2 millions in 1953/54.

The barley harvest is a record in Latin America. Present production is 22 per cent above that of the previous year and somewhat more than 2 per cent over the peak figure registered during the crop year 1952/53.

Rye production presents an equally favourable picture, increasing 70 per cent over the 1953/54 level. Argentina accounted for slightly more than 97 per cent of the total.

Linseed —although improving by approximately 10 per cent— is very far from recovering its position of the pre-war quinquennium, during which production attained 2.1 million tons. Since Uruguay has barely maintained its 1953/54 output, Argentina was once again responsible for most of the increase.

Latin America's coffee situation has likewise improved; production —estimated at 2 to 2.1 million tons— has increased by 6 to 10 per cent, thus reaching the highest post-war level. With the exception of Colombia whose harvests are about 15 per cent smaller, most countries register some sort of improvement, the most notable being that of Brazil.

It is not yet possible to assess the situation with regard to Latin American livestock production. Only partial data are available on cattle slaughtering in the principal countries, but these give an indication that 1955 production is likely to be higher than that of the preceding year. Increased output in Argentina, Brazil, Venezuela and possibly Colombia deserves some mention. Most of the increment in Argentine production is destined for export, and this will partly offset the losses in Uruguayan production and export.

2. The situation in selected countries

To this examination of the state of agriculture in Latin America as a whole should now be added a few brief notes on the situation obtaining during the first few months of 1955 in selected countries of the region.⁹

Argentina

It is estimated that agricultural production in 1954/55 will remain more or less at the same

⁹ The order adopted in this brief review is the following: first, Argentina, Chile and Uruguay —three countries in the temperate zone of South America; secondly, Brazil, Colombia, Peru and Venezuela— four countries in the tropical zone; and, finally, Mexico, Cuba and Central America.

level as that of the previous year, owing to rather unfavourable weather conditions; on the other hand, there will be a recovery in the livestock sector. The increase in some crops has merely offset the losses experienced during 1953/54. Agricultural production therefore seems to have made little progress towards the attainment of the targets established by the Second Five Year Plan. The quantum of grain production has increased by about 6 per cent over that of the previous crop year, although the various cereals have followed different trends. (See table 6.)

Table 6
ARGENTINA: A COMPARISON BETWEEN THE 1953/54 AND 1954/55 HARVESTS OF CERTAIN CROPS

(Thousands of tons)

	1953/1954	1954/1955	Percentage variation
<i>Cereals</i>			
Wheat	6,200	7,500	21
Maize	4,450	2,750	— 38
Barley	893	1,205	55
Oats	991	900	— 9
Rye	607	1,050	73
Rice	212	182	— 14
<i>Oil-seeds</i>			
Sunflower-seed	344	200	— 42
Peanuts	170	140	— 18
Cotton-seed	360	212	— 19
Linseed	410	470	15
<i>Others</i>			
Cotton fibre.....	136	111	— 19
Tobacco	33	29	— 12
Potatoes	1,600	1,500	— 6
Grapes	1,200	2,000	67

SOURCE: *Síntesis Estadística Argentina and Sanidad Rural*.

^a Provisional data.

There has been an over-all decrease in the production of edible oil-seeds. Thus the declining trend for this item during recent years has been aggravated; in 1955 the shortage of raw materials for oil manufacture was so acute that imports became necessary. The various incentives offered by the Government —particularly in the matter of prices— aimed at reversing this trend have not produced results thus far; although prices paid to the producer have more or less followed the rise in the cost of living,¹⁰ still higher prices have been announced for the coming season.

¹⁰ The cost-of-living index is used as a means of comparison, although it does not faithfully reflect the increase in production costs.

Conversely, a different price policy has been adopted for the major cereals. In fact, while prices have not changed since 1953 and have been pegged at the same level for 1955/56, the quotations on the domestic market for many of these cereals are higher than prices paid by IAPI. This situation has become more marked in 1955, owing to the livestock boom and to a shortage of forage which has caused a sustained demand for maize, barley and oats. If an analysis is made of price trends for other grains—millet and *alpiste*— or other commodities—potatoes, tobacco, etc.— which are not subject to an official price policy, it will be observed that there were sizeable increases over the averages for 1954, in some cases these increments reaching 70 per cent in June 1955.

Apart from its effects on production in face of rising costs, this situation has also contributed to a decline in exportable availabilities of some cereals, since it has been more profitable to the producer to sell them on the domestic market or to use them as forage.

The livestock sector presents quite a different picture, and the situation seems to have improved. The damage caused by the 1952 drought has already been overcome and animal stocks have recovered the level of that year. The rate of slaughter has increased substantially, and by the first half of 1955 it was already 20 per cent above the level reached during the same period of 1954. The volume of meat obtained, however, has increased by only 12 per cent, owing to the new regulations favouring the production of smaller animals for the purpose of accelerating the stock-raising process. It should be noted that these production increments have been directed mainly towards the export market. (See table 7.)

Table 7

ARGENTINA: SLAUGHTER AND MEAT PRODUCTION DURING THE FIRST SIX MONTHS OF 1954 AND OF 1955

	Total number of animals slaughtered (Thousands of head)	Meat production (Thousands of tons)		Total
		For consumption	For export ^a	
First six months of 1954..	4,017	767	136	903
First six months of 1955..	4,792	808	200	1,008

SOURCE: Instituto Nacional de Carnes.

^a At port.

According to various sources of information, wool production is at a lower level, fluctuating between 165 and 180 thousand tons, which would represent a decline of up to 8 per cent.

Chile

Good weather, credit and technical assistance—which reflects a generally favourable environment for agricultural development—and price policy which in some cases has eliminated controls and in others has made efforts not to discourage the producer in face of inflation, have undoubtedly been some of the principal factors underlying the expansion of Chile's agricultural production. The area under cultivation has been extended and better unit yields have been obtained. The most recent data on production indicate that there have been considerable increases over the previous year. (See table 8.)

Table 8

CHILE: COMPARISON OF THE HARVESTS OF CERTAIN CROPS IN 1953/54, 1954/55 AND IN THE QUINQUENNIUM 1949/50 - 1953/54

(Thousands of tons)

	Average			Percentage variation in relation to 1953/54
	1949/50-1953/54	1953/54	1954/55	
Wheat	931.3	955.4	1,078	13
Barley	73.5	55.6	89	61
Oats	84.6	96.9	108	11
Maize	72.9	96.9	102	6
Rice	74.4	80.4	88	10
Beans	69.7	79.3	76	- 4
Lentils	12.7	13.1	14	8
Peas	14.4	10.6	11	2
Potatoes	485.0	605.7	610	1

SOURCE: Dirección General de Estadística; for 1954/55: Ministerio de Agricultura.

Wheat production is inferior only to the 1948/49 peak harvest of 1,113.5 thousand tons, while the maize crop is the largest ever recorded in Chile.

Uruguay

Uruguay's agricultural production reached lower levels in 1954/55 than in the preceding year, when there was a 30 per cent increment over

1952/53. Unfavourable signs are also in evidence in the livestock sector, since the slaughter of cattle has declined and the wool clip is smaller.

Exportable surpluses of wheat reached 432 thousand tons. The price which the Government will pay to the farmer for the 1955/56 harvest has been reduced from 16.50 to 14 pesos per metric quintal. This policy has been adopted to discourage production from exceeding present levels at the expense of other crops or cattle-raising, in order to relieve the budget of the subsidies granted to production for export and for the domestic market.

Production of oil-seeds has decreased by about 20 per cent, and as a consequence many oil-manufacturing concerns have come to a standstill. Important advances have been made in sugar-milling, production having increased from 22 to 32 thousand tons. Thus it is possible to meet 40 per cent of consumption needs. A record harvest was registered for rice.

Table 9

URUGUAY: AREA SOWN AND PRODUCTION OF CEREALS AND OIL-SEEDS IN 1953/54 AND 1954/55

	Area (Thous- ands of hectares)	Production (Thous- ands of tons)	Area (Thous- ands of hectares)	Production (Thous- ands of tons)	Percentage variation in production
<i>Cereals</i>	1,175.4		1,141.8		
Wheat	747.9	818.6	728.1	791.7	— 3
Maize	294.0	237.3	276.1	183.9	— 23
Rice	16.8	57.8	17.9	70.2	22
Common barley..	13.2	13.1	14.1	12.0	— 8
Barley for malt..	29.4	27.3	28.1	27.1	— 1
Oats	74.1	59.7	77.5	56.1	— 6
<i>Oil-seeds</i>	264.1		251.8		
Linseed	97.0	64.5	99.2	64.0	— 1
Sunflower-seed...	161.1	109.0	144.9	68.1	— 38
Peanuts	6.0	4.3	7.2	5.7	33

SOURCE: *Ministerio de Ganadería y Agricultura.*

The situation has deteriorated in the livestock sector in comparison with the preceding year. Wool output fell from 91.9 to 87.2 thousand tons. Cattle production is still in the same difficult situation which arose some years ago, with the result that slaughtering is on a smaller scale. Increasing domestic consumption has necessitated a substantial reduction of exports. Since mid-1954 several packing-houses have been lying idle.

Brazil

The favourable outlook for Brazilian agriculture is due to generally good weather, an extension of the area sown and the slight incidence of plagues. Official estimates reveal that the level of production will be superior to that of 1954.

Agricultural activity was stimulated by rising prices for commodities for domestic consumption, which offset the effects of the credit restrictions applied by the *Banco do Brasil*. The Government is advancing the programmes under way and is continuing to distribute the agricultural machinery purchased with the 18-million-dollar loan from the International Bank for Reconstruction and Development. No figures have so far been published on agricultural production, since the majority of crops have yet to be harvested and others are still being sown.

Coffee is the only crop for which an aggregate estimate can be made. According to the computations of the *Instituto Brasileiro do Café*, export stocks will amount to 17.7 million bags, or 23 per cent more than in the previous year. Undoubtedly the recovery of plantations damaged by the 1953 frost as well as the production of new plantations in the Paraná area have contributed to this expansion.

Only partial estimates are available for other crops. The rice harvest appears to have been small in São Paulo, Paraná and Rio Grande, but production was sizeable in the Triangulo Mineiro and Goias, thanks to unusually good weather in these areas. However, it is not yet possible to assess results for the country as a whole.

The peanut harvest in São Paulo appears to have reached a peak level of 275 thousand tons, which represents an increase of 100 per cent. Brazil has thus become the main Latin American producer. Sugar production is also on the increase.

Although data are lacking on livestock production, it is estimated that slaughter is increasing, thanks to the suppression of price controls for meat. Supplies have become normal in urban areas, and rationing has practically disappeared.

Colombia

The general impression is that good crops will be harvested of all products except coffee. The levels of 1954 will probably be surpassed in many cases. Specifically, it appears that rice production will be sufficient to meet domestic requirements, and that imports of this commodity will be unnecessary. About 30 thousand tons of cotton fibre

will be harvested, which compares very favourably with the 28 thousand produced in the previous year. The potato crop will likewise reach high levels. The progress anticipated in all these commodities will probably be offset by the reduction in the coffee crop (340 thousand tons), estimated at 15 per cent less than that of the preceding year. The poor coffee crop is due to the damage caused by heavy rains during the flowering season. Livestock production seems to have recovered from the decline of the previous two years.

Peru

It is as yet impossible to obtain a complete picture of Peru's agricultural production in 1954/55. However, there is little likelihood that the levels of the previous year—a record for cotton and sugar production—will be maintained. The only significant expansion is likely to take place in the coffee and barley crops; sugar, fruit and vegetables will probably remain at the same level and a decline is forecast in the production of cotton, rice, maize, potatoes and cinchona bark.

The expansion of coffee production in 1955—estimated at 11.1 thousand tons, or 20 per cent more than in 1954—was due partly to the incorporation of new plantations. It is estimated that sugar production will maintain the same high level of about 611 thousand tons that was registered in 1953/54. The cotton crop is calculated at 105 thousand tons. Thus it is likely that there will be a decline of about 5 per cent in relation to the previous year's all-time record of 110.4 thousand tons. The rice harvest will also probably be smaller than in 1953/54, although sufficient to cover domestic requirements.

Venezuela

In 1954/55 Venezuela's agriculture has been unfavourably affected by bad weather. For this reason, the production of certain crops is at a low level. Higher yields and the extension of the area sown, however, have offset these losses, and it is likely that over-all production will roughly equal that of the preceding year. Meat production was greater during the first four months of 1955 than in the corresponding period of 1954. If this trend continues, total agricultural output will show an increase in 1955.

With regard to cereals, the maize and wheat crops have declined, while rice production reached 102 thousand tons compared with only 58 thou-

sand in the previous year.¹¹ Thanks to this record crop, domestic requirements will be more than satisfied. Efforts are being made to increase consumption, while producers have of their own accord agreed to lower prices.

Although the production of edible oil-seeds is still at a very low level in Venezuela, an increase of 35 per cent has nevertheless been obtained. Notwithstanding the efforts to achieve a recovery, cacao production has fallen by 6 per cent and amounts to only 15 thousand tons. On the other hand, coffee, yielding a harvest of 53.4 thousand tons, exceeds last year's level by 30 per cent. A record cotton fibre crop of 6 thousand tons was obtained, and it is likely that sugar production will reach 145 thousand tons, as compared with 99 thousand in 1954. This upward trend will ensure self-sufficiency of supply.

During the first four months, total production of the livestock sector (including cattle, sheep and pigs) amounted to 32.2 thousand tons of meat, a figure 9 per cent higher than that registered during the same period of 1954.

Mexico

Since most crops are harvested during the last months of the year, practically no data are yet available on Mexico's agricultural production for 1955. However, it can be mentioned that the distribution and volume of rainfall was not as favourable as in 1954; when the rainy season finally began, after a delay of two months, precipitation was too heavy in some areas. Nevertheless, it is estimated that production levels will equal those of the previous year; although the wheat and maize harvests may be smaller, increases are expected in sugar, coffee and cotton.

The anticipated increment in sugar production is from 9 to 10 per cent above the peak figure of 830 thousand tons registered in 1954. About 105 thousand tons of coffee are expected to be obtained, that is, 17 per cent more than in the previous year. Cotton production is also likely to expand by about 10 or 15 per cent, although excessive rainfall may still cause a reduction of the harvest.

¹¹ According to annual surveys carried out by the *Banco Agrícola y Pecuário*, 1953/54 production stood at 48.9 thousand tons harvested from 50 thousand hectares, while that of 1954/55 rose to 73 thousand tons. A complete inventory of production taken by the Ministry of Agriculture, however, indicates that 57.9 thousand tons were harvested from 46 thousand hectares in 1953/54 and 102.3 thousand tons were obtained in 1954/55. The figures given by the Bank may therefore under-estimate production.

Central America

Agricultural prospects are not very favourable in Central America, and production is not likely to exceed 1954 levels. A prolonged drought retarded maize sowings and damaged coffee flowers. This was followed by an excessive rainfall which was unfavourable to certain crops already sown, particularly in El Salvador and Guatemala.

Cuba

Cuba's agricultural production will probably reach a lower level in 1955 than in the preceding year. This is due mainly to the limitations imposed on sugar production and, in a lesser degree, to the drought which has affected the other crops.

Market conditions and sugar surpluses which amounted to about 1.9 million tons and which remained unsold at the end of 1954, obliged the authorities to apply new restrictions to the milling

of the product. The quota was fixed at 4,450 thousand tons, which means that export availabilities will fall by 350 thousand tons and production will reach its lowest level of the post-war years.

Maize was severely affected by drought, and although an exact appraisal of the volume of production is not yet possible, it is estimated that output will be smaller.

However, the tobacco and coffee harvests will probably be greater. The former crop has been estimated at 40.8 thousand tons as compared with 36.6 thousand in the preceding year. Owing to the accumulation of surpluses which are difficult to place on the world market, the authorities would have wished to prevent an expansion of production, but the measures adopted for this purpose came into force when a large part of the area had already been sown. Coffee production, estimated at 39 thousand tons, is likely to increase by about 8 per cent in relation to 1954.

III

FOREIGN TRADE

The figures for Latin American foreign trade in the first quarter of 1955 show a continuation of the tendencies prevailing during the final months of the preceding year. The fall in the value of exports and the increase in imports caused a decline in the trade balance to one-fourth of the surplus in the first quarter of 1954.

Provisional estimates indicate a considerable deterioration —apparently more than 10 per cent— in the terms of trade, this alone accounting for two-thirds of the change in the trade balance for the region. If three countries —Mexico, Panama and Venezuela—¹² are excluded, the decrease becomes even more pronounced, since the remaining countries as a whole faced a net deficit in their trade balance during the first months of 1955. These countries customarily have a large debit balance in their current accounts, even if no allowance is made for costs and freight charges

¹² Venezuela's trade balance is usually high because of large debits on other current account items. In Mexico and Panama —in contrast with the other Latin American countries— invisible income (from the tourist industry and others) is very important and usually offsets the considerable debit balances of commodity trade.

connected with the import of goods and included in the c.i.f. value; and they thus need a favourable trade balance in order to achieve equilibrium in their current accounts. Thus debit balances in both commodity trade and services have put increased pressure on gold and dollar reserves.

Estimates of the terms of trade have not been made here by the usual methods, but indirectly, using the indices of prices in foreign markets for the main Latin American exports in relation to export price indices of European and North American countries, which together provide over 80 per cent of the region's imports.

1. Changes in export prices

Table 10 gives the price indices of the main Latin American exports in world markets, to facilitate a comparison of the first six months of 1955 with 1954.

The main reason for the fall in the total index has clearly been the fall in coffee and cacao prices, both because this drop was marked and because coffee is the product with the greatest relative importance in the weighting of the index. (It

Table 10
LATIN AMERICA: PRICE INDICES IN WORLD
MARKETS FOR MAIN EXPORTS

(1954 = 100)

Quarterly periods		Coffee and cacao	Other agricultural products	Hides and wool	Petroleum	Metallic ores	Weighted totals
		a			b		c
1954	I	99.3	101.7	93.8	100.0	96.4	99.5
	II	110.3	100.6	101.9	100.0	100.0	104.3
	III	101.2	98.9	103.1	100.0	100.0	100.4
	IV	89.1	98.6	100.9	100.0	103.6	95.8
1955	I	72.6	98.7	100.3	100.0	105.0	89.4
	II	70.8	98.3	100.2	100.0	111.4	89.1

SOURCE: Economic Commission for Latin America.

a Wheat, maize, cotton and sugar.

b Copper, tin, lead and zinc.

c Price indices for the main Latin American products were based on their quotations in United States and European markets. The indices were averaged by weighting them in accordance with their importance in Latin American export trade in 1954.

should be noted, however, that the data presented cover only 71 per cent of the value of total exports in 1954, and that this tends to exaggerate the importance of the coffee and cacao index within the weighted total.) During the second quarter of the current year the downward trend of the index¹³ has become more pronounced despite the rise in metallic ore prices.

2. Change in import prices and terms of trade

Table 11, which is based on the indices of exporting countries, appears to show that import prices have risen slightly for the Latin American countries.

A comparison of the weighted indices of import prices for the first quarter 1954 with those of the first quarter 1955 indicates an approximate increase of 1 per cent. If this is related to the fall in export prices, the result is a decline of 10.9 per cent in the terms of trade.

Table 11 also shows divergent tendencies in the price movements of exports from the United States and the principal European countries. The competitive effort reflected in the reduction of European prices is especially noticeable for

¹³ The price index fell by 10.1 per cent in the first quarter 1955 and by 14.6 per cent in the second, compared with the same periods in the previous year.

France, where the index fell within a year from 100.6 to 96.5. There was also a slight reduction in the German export price index. British and, still more, Dutch prices, have, however, increased.

Table 11

INDICES OF EXPORT PRICES OF THE PRINCIPAL INDUSTRIAL COUNTRIES, AND THE TERMS OF TRADE OF LATIN AMERICA

(1954 = 100)

Quarterly periods		United States	Canada	European countries	Weighted total	Terms of trade
		a			b	c
1954	I	99.1	100.6	100.0	99.4	100.1
	II	102.6	99.6	99.6	101.6	102.6
	III	99.4	99.2	98.8	99.2	101.2
	IV	99.7	99.5	98.7	99.4	96.4
1955	I	100.4	100.3	99.7	100.2	89.2

SOURCE: Economic Commission for Latin America.

a Includes Western Germany, France, Netherlands, Sweden and United Kingdom.

b Price indices for the most important countries exporting to Latin America are based on the unit value indices which they publish. For the United States, the data are based on series compiled by the Department of Commerce for exports to Latin America. These indices were averaged by weighting them in accordance with the importance of the countries in Latin American import trade in 1954.

c Based on the weighted totals of table 10.

3. Trade balances

Despite the efforts of the Latin American countries to increase the volume of their exports, the downward trend of prices in most products is reflected in the receipts derived from exports and in the trade balances.

Table 12 confirms the influence of the fall in coffee and cacao prices. If the first quarter 1955 is compared with the corresponding period in the previous year, the countries producing these products have suffered a loss of 243.5 million dollars in the net change of their foreign trade. On the other hand, although the magnitudes involved have been much smaller, the improved prices of non-ferrous metals have benefited the mining countries. Prices have not been the determining factor in the setback experienced by the agricultural countries—the fault lying rather in the poor maize and oil-seed harvests in Argentina and in the Uruguayan cattle crisis. There is no significant change in the position of the countries with more diversified exports, nor in Venezuela, which continues to register large trade balances in its favour.

In comparison with a year ago, there are very few countries which have improved their foreign trade balances. The only noteworthy case is that of Chile, which has advanced from a debit of 15 million dollars in the first quarter 1954 to a credit of 9 millions in 1955. It should be recalled, however, that exports during the early months of 1954 were affected by the difficulty in finding

Table 12
LATIN AMERICA: TRADE BALANCES: EXPORTS F.O.B.,
IMPORTS C.I.F.

(Millions of dollars)

Countries grouped by main exports ^a	First quarter 1954 (1)	Fourth quarter 1954 (2)	Year 1954 (3)	First quarter 1955 ^b (4)	Variation (4/1)
Coffee and cacao	168.5	— 50.6	— 14.6	— 75.0	—243.5
Agricultural products	60.0	— 51.1	46.5	— 36.7	— 96.7
Metals and minerals ^c	— 10.2	53.7	72.0	12.9	23.1
Various	— 15.5	— 5.7	— 3.2	— 11.7	3.8
<i>Sub-total^d</i>	<i>202.8</i>	<i>53.7</i>	<i>100.7</i>	<i>—110.5</i>	<i>—313.3</i>
Remaining countries:					
Venezuela	252.9	216.9	890.7	250.9	— 2.0
Others	— 46.2	— 32.0	—229.7	— 38.4	7.8
<i>Total^e</i>	<i>409.5</i>	<i>131.2</i>	<i>761.7</i>	<i>102.0</i>	<i>—307.5</i>

SOURCE: Economic Commission for Latin America, on the basis of official statistics.

^a The coffee and cacao group comprises Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, and Nicaragua; the agricultural countries are Argentina, Paraguay and Uruguay; countries predominantly exporting metals and minerals are Bolivia and Chile. "Various" includes Honduras and Peru. "Remaining countries" are Venezuela, Mexico, and Panama.

^b Provisional figures.

^c Excluding petroleum.

^d Sixteen countries.

^e Cuba is not included for lack of basic data.

outlets. Two other countries — Mexico and Peru — also show some improvement. Argentina, Brazil, Colombia and Uruguay had deficits as compared with surpluses in the first quarter of 1954 — the net change in their balances being 77 million dollars, 100 millions, 77 and 20 millions, respectively.

4. Influence of price changes on trade balances

In the absence of sufficiently detailed data to establish a quantum index for Latin American imports in each quarter, an approximate estimate may at least be made of the effect of export and import price changes on variations in the balance of trade. (See table 13.)

Table 13
LATIN AMERICA: EFFECT OF PRICE CHANGES
ON TRADE BALANCES
(Millions of dollars)

	First quarter 1954	First quarter 1955	Gross variation	Variation due to price differences ^a	
				Lower receipts	Greater expenditure
Exports	1,895.7	1,730.2	—165.5	193.8	
Imports	—1,468.2	—1,628.2	142.0		13.0
Balances	409.5	102.0	—307.5	—206.8	

SOURCE: Economic Commission for Latin America.

^a The "lower receipts" from exports is the difference between the value of exports at current prices in the first quarter of 1955 and the value at prices obtaining in the same quarter of 1954. In order to calculate this figure the ratio between the price indices for the respective periods, given in table 10, was used. The same method was employed, on the basis of table 11, to estimate the "greater expenditure" on imports.

5. Gold and dollar reserves

If, as stated at the beginning of this section, Mexico, Panama and Venezuela are excluded from the total for Latin America, financial problems arising from the reduction of the net trade balances may be seen in better perspective. In the remaining Latin American countries as a whole — and still more so for the principal countries — the trade deficits have been reflected in increased pressure on gold and foreign exchange reserves.

Table 14
LATIN AMERICA: QUARTERLY VARIATIONS IN
CENTRAL BANK RESERVES
(Millions of dollars)

Groups of countries ^a	First quarter 1954	Fourth quarter 1954	Year 1954 ^b	First quarter 1955
Coffee and cacao producing	7	37	— 56	—144
Agricultural	54	—109	— 41	— 61
Mining	— 22	— 5	— 7	14
Various	0.8	9.4	8.4	— 4.7
<i>Subtotal^c</i>	<i>39.8</i>	<i>— 67.6</i>	<i>— 95.6</i>	<i>—195.7</i>
Remaining countries:				
Venezuela	— 23	— 24	— 2	— 25
Mexico and Panama	— 11	69	84	— 53
<i>Total^d</i>	<i>5.8</i>	<i>— 22.6</i>	<i>— 13.6</i>	<i>—167.7</i>

SOURCE: Economic Commission for Latin America; and International Monetary Fund, *International Financial Statistics*.

NOTE: The smaller loss in foreign exchange experienced by the coffee and cacao exporters in 1954, and the very great outflow during the first quarter of 1955, are explained in part by the fact that Colombia financed the 1954 balance-of-payments deficit through the accumulation of commercial arrears, which were liquidated during the early months of 1955.

^a See note^a of table 12.

^b Annual variation.

^c Sixteen countries.

^d Excluding Cuba. See note^a of table 12.

Table 15

LATIN AMERICA: EXPORTS F.O.B., IMPORTS C.I.F.

(Millions of dollars)

Countries and groups of countries producing:	Year 1954					Quarterly average	Year 1955	Variation between 1st quarter 1954 and 1st quarter 1955	
	I	II	III	IV	I		Millions of dollars	Percentages	
<i>Coffee and cacao:</i>									
<i>Sub-total:</i>	<i>Ex</i>	801.3	676.6	643.5	711.7	708.6	597.3 ^a	-204.0	-25.5
	<i>Im</i>	632.8	678.6	775.8	762.3	712.3	672.3 ^a	39.5	6.2
Brazil	E	410.4	319.8	383.9	447.7	390.5	297.6	-112.8	-27.5
	I	365.3	383.7	454.0	430.6	408.4	352.4 ^a	-12.9	-3.5
Colombia	E	161.5	196.4	163.6	135.6	164.3	125.9	-35.6	-22.0
	I	137.6	155.2	180.9	176.9	162.7	179.5	41.9	30.5
Costa Rica	E	27.0	20.0	12.0	21.0	20.0	27.0 ^a	—	—
	I	21.0	20.0	18.0	22.0	20.2	21.0 ^a	—	—
Ecuador	E	16.7	23.9	30.8	28.0	24.8	19.2 ^a	2.5	15.0
	I	19.2	25.2	26.6	30.1	25.2	26.5	7.3	38.0
El Salvador	E	56.9	20.4	4.5	23.1	26.2	40.0 ^a	-16.9	-29.7
	I	20.9	21.3	21.8	22.6	21.6	14.7 ^a	-6.2	-29.7
Guatemala	E	50.0	27.7	7.9	15.3	25.2	32.4 ^a	-17.6	-35.2
	I	21.7	20.5	20.7	23.3	21.5	22.0 ^a	0.3	1.4
Haiti	E	23.0	11.9	8.8	11.0	13.6	11.0 ^a	-12.0	-52.2
	I	12.4	11.5	12.1	11.6	11.9	11.6 ^a	-0.8	-6.5
Nicaragua	E	19.4	20.5	11.5	3.0	13.6	19.0 ^a	-0.4	-2.1
	I	14.9	15.1	18.5	19.2	16.9	15.0 ^a	0.1	0.7
Dominican Republic	E	36.4	36.0	20.4	26.9	29.9	25.2 ^a	-11.2	-30.8
	I	19.7	26.0	23.1	26.0	23.6	29.6 ^a	9.9	50.3
<i>Agricultural products:</i>									
<i>Sub-total:</i>	<i>Im</i>	340.9	384.4	282.6	320.2	332.0	294.9 ^a	-46.0	-13.2
	<i>Ex</i>	280.9	284.0	345.7	371.3	320.5	331.6 ^a	50.7	18.0
Argentina	E	265.0	304.1	203.0	273.1	261.4	238.1	-26.9	-10.2
	I	221.5	211.8	266.2	268.9	242.1	271.4 ^a	49.9	22.5
Paraguay	E	6.6	8.7	10.2	8.4	8.5	7.0 ^a	0.4	6.1
	I	9.5	10.2	11.3	7.8	9.7	9.5 ^a	—	—
Uruguay	E	69.3	71.6	69.3	38.7	62.2	49.8	-19.5	-28.1
	I	49.9	61.9	68.2	94.5	86.6	50.7	0.8	1.6
<i>Metals and minerals (excluding petroleum):</i>									
<i>Sub-total:</i>	<i>Ex</i>	86.1	142.7	135.6	140.0	126.1	123.9	37.3	43.9
	<i>Im</i>	96.3	116.2	133.5	86.3	108.1	111.0 ^a	14.7	15.3
Bolivia	E	20.3	26.2	25.0	28.7	25.1	21.3	1.0	4.9
	I	15.6	15.2	35.6	22.1	22.1	17.4 ^a	1.8	11.5
Chile	E	65.8	116.5	110.6	111.3	101.0	102.6	36.8	55.9
	I	80.7	101.0	97.9	64.2	86.0	93.6	12.9	16.0
<i>Various products:</i>									
<i>Sub-total:</i>	<i>Ex</i>	61.7	80.5	89.4	73.1	76.1	66.9 ^a	5.2	3.4
	<i>Im</i>	77.2	71.5	80.2	78.3	77.0	78.6 ^a	1.4	1.8
Honduras	E	16.4	24.8	17.8	7.9	16.7	15.1 ^b	-1.3	-7.9
	I	14.6	11.7	15.4	16.5	14.6	14.6	0.9	6.2
Peru	E	45.3	55.7	71.6	65.2	59.4	51.8	6.5	14.3
	I	62.6	59.8	64.8	62.3	62.4	63.1	0.5	0.8
<i>Total 16 countries</i>	<i>Ex</i>	1,290.0	1,234.2	1,151.1	1,245.0	1,243.0	1,083.0	-207.0	-16.0
	<i>Im</i>	1,087.2	1,150.3	1,335.2	1,298.7	1,217.9	1,193.5	106.3	9.3
<i>Remaining countries:</i>									
Mexico	E	154.0	100.0	143.0	164.0	139.9	161.7	7.7	5.0
	I	183.0	192.0	171.4	176.9	179.2	184.4 ^a	1.4	0.8
Panama	E	3.6	4.3	4.6	4.9	4.4	3.9 ^a	0.3	8.3
	I	20.8	23.5	21.1	24.0	22.4	19.6 ^a	-1.2	-5.8
Venezuela	E	448.1	455.1	433.5	472.0	452.2	481.6	33.5	7.5
	I	195.2	239.3	228.4	255.1	229.5	230.7	35.5	18.2
Cuba	E	138.8	166.0	141.9 ^a	92.3 ^a	134.8 ^a	125.0 ^a	-13.8	-10.0
	I	139.0	123.0	146.9 ^b	146.9 ^b	139.2 ^b
<i>Grand total:</i> ^c	<i>Ex</i>	1,895.7	1,843.6	1,732.2	1,885.9	1,839.5	1,730.2 ^a	-165.5	-8.7
	<i>Im</i>	1,486.2	1,605.1	1,756.6	1,754.7	1,649.0	1,628.2 ^a	142.0	9.6

SOURCE: Economic Commission for Latin America, on the basis of national statistics. In the case of the countries whose imports were reported f.o.b., rough adjustments were made in order to express them in c.i.f. values. Gold was excluded wherever possible.

^a Preliminary or partial estimate.

^b Average of third and fourth quarters.

^c Excluding Cuba. See note ^e of table 12.

In a comparison of table 14 with table 12, a clear correlation is seen for the sixteen countries included in the sub-total between changes in the foreign trade balances and the fluctuations of the reserves. It is interesting to find that the relatively large balances of the first quarter 1954 brought about a much smaller increase in reserves—40 million dollars from a favourable trade balance of 203 millions—and that the appearance of a 110-million-dollar debit balance in the first quarter of 1955 is reflected in a change of 196 millions in reserves. This means that in a period of favourable trade balances, 163 million dollars were absorbed to offset deficits in the remaining balance-of-trade accounts, and that in the first quarter of 1955—when the balances again became unfavourable for Latin American countries—the apparent deficit in the other accounts was reduced to 86 millions, or a little more than half the previous amount. Diverse factors have probably played a part in this. However, it may be asserted that at least part of this reduction was due to the acquisition of new short and medium-term credits, to an increase in commercial arrears and to the help obtained from the United States Government through the donations of the Foreign Operations Administration (FOA) and exports of surplus stocks payable in the national currencies of the importing countries.¹⁴

Notwithstanding the foregoing, in the first quarter of 1955 the outflow of gold and foreign exchange represented 9.5 per cent of these countries' total gross reserves, which were reduced to a value lower than that of five months' imports. Another unfavourable feature of the present situation is the almost complete disappearance in the first quarter of the year of the favourable trade balance of Latin America with the United States and Canada.

¹⁴ Between July 1954 and June 1955 the United States Government, through the intermediary of the FOA and the Commodity Credit Corporation (CCC), made donations of agricultural products (grants for relief), valued at 21.4 million dollars, to Latin American countries. Fifteen million dollars' worth was distributed to Bolivia, 3.2 millions to Haiti, 3 millions to Guatemala and the rest to Honduras. During the same period, contracts were concluded for sales of agricultural products, also taken from the surpluses, for a total of 23.2 million dollars. Consideration was given in this case only to sales payable in the national currencies of the purchasing countries, barter operations being excluded. The following countries benefited: Argentina (8.7 million dollars); Colombia (7.3), and Chile (7.2). Commodities delivered by the United States on these terms were principally wheat, cotton and edible oil.

6. Exports and imports by countries

Table 15 shows in detail the trend of trade movements in each of the Latin American countries, the basic features having been summarized in table 12.

A comparison of the figures for the first quarters of 1954 and 1955—where seasonal factors have no influence—reveals a lag in the exports of some countries. In the group of coffee- and cacao-exporting countries, an exception is Ecuador which shows a large increase in exportable production in general; but its coffee and cacao barely represent half the value of its exports. However, it may be noted that for Ecuador (as was the case for Brazil and Colombia in the coffee group, and for all the remaining Latin American countries including the mineral exporters, with the sole exception of Venezuela), the value of exports for the first quarter 1955 is much lower than the figure reached in the last quarter of 1954.

For the ten South American countries, quarterly quantum and unit value indices have been calculated for exports, these data being used for computing the variations show in table 16.

Table 16

SOUTH AMERICA: VARIATION IN THE CURRENT VALUE OF EXPORTS, QUANTUM AND UNIT VALUE INDICES BETWEEN THE FIRST QUARTERS OF 1954 and 1955

(Percentages)

Countries	Current value	Quantum index	Unit value index
Argentina	— 10	— 12	2
Bolivia	5	10	— 5
Brazil	— 28	— 23	— 5
Colombia	— 22	— 32	15
Chile	55	44	8
Ecuador	15	35	— 10
Paraguay	6	—	6
Peru	14	7	7
Uruguay	— 28	— 22	— 9
Venezuela	8	13	— 5

SOURCE: Economic Commission for Latin America, on the basis of official statistics.

By increasing the volume of their exportable production, Bolivia, Ecuador and Venezuela have achieved an increase in their export receipts, despite the decline recorded in unit values. Only

Chile and Peru have experienced the favourable effects of both rising prices and a greater volume of exports. In contrast, Brazil and Uruguay have exported less, with falling prices. In Argentina, a slight price improvement has somewhat mitigated the fall in the quantum of external sales. It would appear that this also held true —and to a still greater degree —in the case of Colombia. The real picture is, however, different, since the real unit value of Colombian exports— of which coffee represents 80 per cent —has not actually increased by 15 per cent between the first quarter of 1954 and the corresponding period of 1955. The increase recorded by the statistics apparently represents only the “registered price” of exported coffee (the price on the basis of which exporters must return foreign exchange to the Government). Since this price left an ample margin freely available to exporters in the first months of 1954, the reduction in foreign exchange receipts in Colombia has in effect been considerably greater than is apparent from the figures.

The value of imports —still comparing the first quarter of 1955 with its counterpart in 1954— continues to increase for almost all countries. The only noteworthy exception is Brazil. Argentina and Colombia are the countries where imports have risen most, in spite of the fact that they have suffered serious export setbacks. In both these countries, imports in 1955 are well above the quarterly average for 1954, and this also applies to Chile.

Among the most important factors influencing the present trend of foreign trade in some countries, particular attention is drawn to the apparent divergence between Colombia and Brazil as regards the effects of coffee prices on imports. For exports, the value fell in both countries by 24 per cent if the first quarter 1955 is compared with the average for the previous year. Although to a lesser degree, imports have also declined in Brazil and are now lower than in any quarter of the previous year. On the other hand, Colombian imports in the early months of 1955 have been maintained at the very high level reached in the second half of 1954, i.e., 30 per cent higher than in the first quarter. During the closing months of 1954, however, the Government adopted various measures to reduce imports, the efficacy of which will undoubtedly be put to the test very shortly. Such was the volume of foreign purchases during the brief period when coffee prices were exceptionally high that the effects of these measures could not be perceived until several months

later. Meanwhile Colombia is facing the important problem of financing its trade deficit.

The trade crisis in Brazil is not of such recent date as in Colombia. The fall in coffee and cacao prices has undoubtedly been among the most serious influences, but it is important to emphasize that —in contrast to what happened in Colombia —the high prices did not provide Brazil with any increase in the value of her coffee exports since the reduction in volume completely offset the increase in unit value. From mid-1954 onwards, the fall in prices has not been counterbalanced by a corresponding increase in the volume exported. On the contrary, in the first quarter 1955 only 1.2 million bags of coffee were exported —or 35 per cent less than in the first quarter 1954. A closer study of the Brazilian situation, however, reveals favourable factors which cannot be overlooked. The greater flexibility of the exchange system in recent months has given a powerful stimulus to exports and to the production of many other commodities which, together, now represent more than 30 per cent of the value of Brazilian exports. Of the 19 principal products exported, 15 are showing increases which in some cases represent a definite revival in both quantum and value terms. A comparison between figures for the first four months of 1954 and 1955 shows that for these 15 products there was a rise of 64 per cent in value. The increase is still greater —reaching, in fact, 90 per cent— in the minor commodities as a whole, a group which has now been joined by many articles not formerly exported by Brazil. It should be added that this is not merely a question of regaining the levels reached before 1954, since in relation to the same period of 1950 there is even a net increase of 38 per cent in value terms. Of the four products where exports have declined in 1955, only one, apart from coffee, is of any importance, namely, unginmed cotton. However, the alteration in the exchange rate in May has much improved the latter's prospects.

These facts become more striking if it is remembered that import restrictions —despite the fact that Brazil's capacity to import is being exceeded— have already reached such dimensions that economic activity and development are being affected. In the first four months of 1955 imports of raw materials have fallen by 28 per cent and those of machinery and vehicles by 1.6 per cent as compared with the same period in 1954. Imports of fuel have risen by 3.3 per cent and those of foodstuffs by 5.1. (In the first quarter of 1955,

supplies of fuels and foodstuffs accounted for 37.8 per cent of imports and absorbed 43 per cent of the exchange derived from commodity exports, in comparison with 29.4 and 25.8 per cent respectively in 1954 —wheat being practically the only commodity to show an opposing trend.)

Among the remaining coffee-producing countries, mention should be made of the difficult position of Haiti. Here the effects of the fall in prices have now been aggravated by the loss of the greater part of the harvest owing to bad weather.

The slight decline in exports from Argentina is also due to climatic factors. If a considerable portion of the maize and sunflower-seed harvests had not been lost, Argentine foreign trade would have recorded fresh progress in 1955. The notable change of trend in beef production and the probable increase in cereal exports in the second half of the year —unless adverse conditions affect the next harvest —may still offset, or at least reduce, the losses suffered in the first six months. The apparent disparity between the reduction of exports and the considerable increase in imports is explained by the fact that when import quotas were being allotted at the end of 1954, prospects for exports were favourable—only to suffer a reversal with the subsequent inclement weather. In addition, the increase in imports has resulted in an improvement in supplies of raw materials and spare parts, for which the present situation is regarded as satisfactory. Although there has not been a return to the abundance of former years, producer activities are not hampered by shortages of materials. The development of various new industries, which have increased and diversified production and so rendered import replacement possible, has also contributed largely to this improvement.

The reduction of exports in Uruguay has resulted in the disappearance of the surplus on trade account, which is now in balance. The main reason for the reduction lies in the beef production crisis and in the sluggish state of wool sales, marketing of which is hampered by an increase in costs while the rate of exchange has been maintained at the basic level. The alteration in this rate of exchange for exports when the Marginal Exchange Fund shows a small deficit would inevitably affect the level of exchange rates for imports. The same problem has arisen in more acute form for wheat. Owing to the high support price fixed by the Government, wheat production has increased to such an extent that in the course of

a few years it has become the second most important product exported by the country. The high cost of wheat production, however, made it necessary to grant an export exchange rate much higher than the basic, with a resulting increase in non-essential and luxury goods imports brought in at the corresponding import rate. The difficult problem now faced by the Uruguayan authorities is that of adapting their exchange system to domestic costs and world prices without aggravating inflationary pressure.

The world copper shortage has completely changed Chile's foreign trade prospects in 1955. Not only has the value of exports in the first quarter exceeded that of the corresponding period last year, but it has also been slightly above the average for the whole of 1954. Prices of this metal and the volume of production have continued to rise. Since Chile has no great volume of commercial payments arrears, revenue from exports should enable the import figures of the last two years to be exceeded considerably. On the other hand, the country's supplies of raw materials —and still more of machinery and spare parts— had at the end of 1954 reached levels which were inadequate.

As regards the composition of Chile's exports, it is noteworthy that the share of copper rose in the first quarter of 1955 to 60 per cent (as compared with 44 in the first quarter of 1954). There has also been an increase in exports of timber, which however does not represent more than 3 per cent of the total. In 1955, the export quantum for manufactures has regained the 1952 level. This results from an increase in exports of manufactured copper, which offsets the disappearance of cement exports and the heavy reduction in the case of iron, consequent to greater domestic consumption. For agricultural products, exports have, however, fallen by 25 per cent compared with the first quarter of 1954.

The situation of Peru is characterized by the continuation of earlier trends. Imports, which had returned to a moderate level after the somewhat excessive rise in 1953, are being maintained at a level slightly above that in 1954. Exports are registering fresh advances and show an increase of 14 per cent in relation to the first quarter of the last year. This not due to the better prices for metallic ores, since in this field Peruvian exports have fallen off considerably, as have her exports of sugar; it is chiefly the result of a 40 per cent increase in cotton shipments and an exceptional upswing in exports of

petroleum and derivatives, especially gas oil and kerosene. In the case of imports, it should be noted that there has been a strong increase in imports of machinery and transport material, which represent 36.4 per cent of the total during the first four months of 1955 (as against 33 per cent in 1954).

In Venezuela, the volume of petroleum exports continues to rise. The increase in the value of imports has tended to run parallel to that of exports. The figures for the first quarter show an increase of 13 per cent in volume and 7.8 in value for exports of petroleum and its derivatives. The export of iron ore continues to climb rapidly, showing a rise of 50 per cent in the first five months.

Mexico is recording remarkable progress in 1955. Exports, which fell by one-third in the second quarter of 1954—the period when the peso was devalued—have now exceeded the level of the first quarter of that year by 5 per cent. Still more important is the income derived from the tourist industry. Despite a debit trade balance of 23 million dollars and the settlement of all outstanding payments, reserves increased by 45 millions during the first quarter of 1955 and by 35 millions more in the second. Attention should also be drawn to the increase in exports of silver and of cotton.

7. Trade between Latin America and the principal industrial countries

Table 21, which appears on pages 22-23 of this article, gives over-all data for trade between the 20 Latin American republics and the United States, Canada, Japan and the principal European countries.¹⁵ It should be emphasized that trade with these countries accounts for about 72 per cent of exports from, and 88 per cent of imports into, Latin America (and for almost all the imports of agricultural, industrial and mining machinery and vehicles).

Imports of Latin American products by these countries in the first quarter of the current year have on the whole shown a slight reduction amounting to 3.5 per cent—54.2 million dollars—in relation to the first quarter 1954.

¹⁵ The statistical data used here are based on official sources for the industrial countries grouped in table 21, since Latin American data by countries of origin and destination were not currently available in sufficient detail.

In this connexion it is once again evident that coffee and cacao prices have played a predominant role. In fact, imports of Latin American products have declined more in the case of Brazil than for the region as a whole. (See table 17.)

Table 17

VARIATION IN IMPORTS OF LATIN AMERICA INTO INDUSTRIAL COUNTRIES BETWEEN THE FIRST QUARTERS OF 1954 AND 1955

(Millions of dollars, f.o.b. values)

Importing countries	Total variation	From countries exporting coffee and cacao		From remaining Latin American countries
		Brazil	Others	
United States.....	— 43.2	— 59.1	— 34.8	50.7
Western Europe ^a	11.5	— 29.6	13.2	27.9
Canada	— 1.8	— 2.2	0.1	0.3
Japan	— 20.7	3.5	— 4.7	— 19.5
Total.....	— 54.2	— 87.4	— 26.2	59.4

SOURCE: Economic Commission for Latin America.

^a For countries included see table 21.

Other tendencies are also revealed in table 17. First, for Latin America as a whole—with the exception of Brazil, but including the other coffee and cacao exporters—there is a slight increase in the value of exports, notwithstanding a decline in the index of export prices. This confirms the former statement that an increase has probably taken place in the quantum of Latin American exports during the first quarter of 1955. Secondly, there appears to have been some change in the destination of Latin American exports. Table 18 gives a clearer picture of this trend.

Table 18

LATIN AMERICA: VARIATION IN THE DISTRIBUTION OF IMPORTS OF LATIN AMERICAN PRODUCTS BY INDUSTRIAL COUNTRIES

(Percentages)

Importing countries	First quarter	First quarter
	1954	1955
United States.....	58.1	57.4
Western Europe.....	32.7	34.7
Canada	4.6	4.6
Japan	4.6	3.4
Total.....	100.0	100.0

Table 21-A
EXPORTS TO LATIN AMERICA
(Millions of dollars, f.o.b. values)

Exports from		Quarter	United States	Canada	Western Germany	Belgium and Luxemburg	France	Italy	Netherlands	United Kingdom	Sweden	Switzerland	Total Western Europe ^a	Japan	Total ^b
To															
Brazil	1954 I		80.7	7.9	33.9	0.7	21.8	8.9	7.7	8.5	10.5	6.1	120.5	22.0	231.1
	Average 1954		113.8	11.6	35.2	1.8	19.7	11.1	4.8	6.2	12.9	8.4	125.4	19.5	270.3
	1954 IV		106.9	6.7	38.4	2.2	21.7	16.2	3.3	7.6	11.9	9.6	131.3	18.8	263.7
	1955 I		60.2	4.3	26.1	2.9	16.7	9.2	2.6	5.7	8.4	5.8	96.3	5.1	165.9
Colombia	1954 I		61.2	3.1	10.3	4.4	6.8	1.3	2.5	5.7	2.5	2.1	37.7	1.4	103.4
	Average 1954		85.6	5.4	13.8	4.3	6.2	1.5	2.3	6.5	2.1	3.0	41.5	2.4	134.9
	1954 IV		97.0	6.0	17.8	5.0	6.3	1.7	2.0	7.0	1.8	3.5	46.4	3.3	152.7
	1955 I		82.2	6.6	13.2	4.3	4.3	0.7	2.5	7.9	3.7	2.6	41.5	2.2	132.5
Other coffee and cacao exporters	1954 I		62.6	4.8	8.2	2.1	2.0	3.3	1.6	5.7	1.1	1.2	26.6	1.1	95.1
	Average 1954		75.3	5.2	10.2	2.8	2.4	0.9	2.1	6.6	1.5	1.7	31.3	2.6	114.0
	1954 IV		87.0	5.2	11.6	3.6	2.8	3.9	2.1	7.5	1.7	2.0	36.7	2.9	131.8
	1955 I		71.3	4.7	9.9	3.2	2.2	3.4	2.0	7.3	0.8	1.2	30.7	2.6	109.3
Total coffee and cacao exporters	1954 I		204.5	15.8	52.4	7.2	30.6	13.5	11.8	19.9	14.1	9.4	184.8	24.5	429.6
	Average 1954		274.7	22.2	59.2	8.9	28.3	16.0	9.2	19.3	16.5	13.1	198.2	24.5	519.6
	1954 IV		290.9	17.9	67.8	10.8	30.8	21.8	7.4	22.1	15.4	15.1	214.4	25.0	548.2
	1955 I		213.7	15.6	49.2	10.4	23.2	13.3	7.1	20.9	12.9	9.6	168.5	4.9	407.7
Argentina	1954 I		21.8	0.3	24.1	7.4	9.1	4.2	9.3	16.7	1.7	2.2	80.9	10.3	113.3
	Average 1954		30.6	1.7	19.1	5.0	11.0	8.8	6.4	16.0	3.6	3.5	81.0	12.2	125.5
	1954 IV		41.1	2.6	17.9	4.3	14.6	15.2	5.0	18.8	6.7	5.4	99.1	14.0	156.8
	1955 I		35.8	1.4	15.7	6.3	20.1	16.4	11.3	21.7	3.1	4.5	109.1	13.7	160.0
Uruguay	1954 I		5.7	0.8	5.7	2.5	5.3	1.5	1.2	11.3	1.5	1.1	31.2	0.2	37.9
	Average 1954		10.8	0.7	6.1	2.6	4.2	1.9	1.5	9.4	1.9	1.2	30.1	0.6	42.3
	1954 IV		17.3	1.1	6.6	3.0	3.1	2.3	1.1	9.7	2.2	1.5	31.4	0.7	50.5
	1955 I		9.9	0.7	4.5	2.1	2.4	1.9	1.9	7.3	2.1	1.1	25.7	0.3	36.6
Cuba	1954 I		95.8	4.0	3.0	1.9	1.2	0.6	1.7	3.2	0.3	1.0	16.1	0.3	116.2
	Average 1954		107.2	4.5	3.7	2.5	1.6	0.9	1.1	2.9	0.4	1.0	16.7	0.8	129.2
	1954 IV		118.0	5.1	4.2	3.2	2.5	0.8	1.0	3.0	0.5	1.1	17.5	0.7	141.3
	1955 I		113.0	2.9	2.9	2.7	1.4	0.5	0.9	4.0	0.4	1.2	15.5	1.0	132.4
Venezuela	1954 I		114.8	8.1	11.2	3.0	4.3	4.6	6.5	15.0	1.8	2.8	53.1	1.4	177.4
	Average 1954		132.8	7.9	14.6	4.9	5.9	4.9	5.6	17.8	1.6	3.4	62.7	2.3	205.7
	1954 IV		135.6	7.4	19.6	5.5	6.8	5.2	4.2	23.5	2.0	4.1	73.9	2.8	219.7
	1955 I		128.2	6.5	16.2	5.1	5.5	3.6	6.6	17.8	1.6	3.4	62.8	2.6	200.1
Mexico	1954 I		167.5	6.5	7.7	1.3	2.2	2.6	1.9	4.2	1.7	3.7	26.5	5.8	206.3
	Average 1954		157.6	7.0	8.9	1.2	3.0	3.5	1.4	4.0	3.0	3.5	30.0	7.2	201.8
	1954 IV		156.5	7.9	12.6	1.1	3.1	5.1	1.1	3.7	5.5	3.5	38.1	5.3	207.8
	1955 I		159.0	8.5	8.7	1.0	1.6	3.4	1.3	4.2	2.4	2.6	26.4	2.0	195.9
Chile	1954 I		14.8	0.7	6.0	0.4	6.2	1.2	0.2	2.1	1.6	0.7	21.3	—	36.8
	Average 1954		18.6	0.8	7.9	0.9	3.9	1.7	0.5	3.0	1.2	1.0	22.1	0.3	41.8
	1954 IV		25.2	1.0	13.4	1.1	3.4	2.3	0.8	4.5	1.2	2.2	30.1	0.9	57.2
	1955 I		23.6	1.0	7.6	0.9	1.1	1.8	0.4	4.6	1.3	0.6	19.3	0.3	44.2
Peru	1954 I		19.6	1.0	3.2	1.0	3.4	0.7	1.6	4.1	1.0	1.1	17.7	1.1	39.4
	Average 1954		24.2	1.3	4.0	1.2	2.6	0.8	1.7	4.5	1.0	1.3	18.6	1.2	45.3
	1954 IV		27.0	1.3	4.9	1.4	2.6	0.8	1.7	4.4	1.1	1.7	21.4	1.2	50.9
	1955 I		24.1	1.5	4.7	1.5	2.0	0.6	1.1	6.0	1.4	1.9	20.1	0.9	46.6
Bolivia	1954 I		7.1	0.1	1.0	0.4	0.2	0.2	0.6	0.8	0.1	0.4	3.7	—	10.9
	Average 1954		7.7	0.3	1.4	0.4	0.7	1.1	0.7	1.1	0.2	0.4	5.3	0.3	13.6
	1954 IV		8.4	0.8	2.1	0.6	1.3	0.3	1.1	2.0	0.4	0.6	8.7	0.4	18.3
	1955 I		8.3	0.2	2.4	1.1	0.2	0.1	0.8	1.8	0.4	0.6	7.8	0.3	16.6
Latin America ^d	1954 I		680.5	38.4	119.5	25.6	64.1	29.4	35.2	85.6	27.0	22.9	456.0	44.1	1,219.0
	Average 1954		799.1	47.7	129.1	28.1	62.3	29.0	28.6	82.4	30.5	29.0	479.1	50.6	1,376.5
	1954 IV		865.0	46.9	151.5	31.6	68.9	54.0	24.2	96.6	35.5	35.9	549.9	52.5	1,514.3
	1955 I		750.8	39.2	113.9	31.6	58.8	44.9	31.8	91.0	26.4	26.1	467.8	34.4	1,292.2

SOURCES: Economic Commission for Europe; United Nations *Statistical Papers*, Series T; United States Department of Commerce.

^a Excluding Yugoslavia.

^b Total of the countries and areas mentioned.

^c Including Honduras, Panama and Paraguay.

Table 21-B
IMPORTS FROM LATIN AMERICA ^a
(Millions of dollars, f.o.b. values)

Imports of From	Quarter	United States	Canada	Western Germany	Belgium and Luxemburg	France	Italy	Netherlands	United Kingdom	Sweden	Switzerland	Total Western Europe ^b	Japan	Total ^c
Brazil	1954 I	192.2	8.7	31.6	7.2	27.9	14.4	4.7	19.9	13.1	3.3	148.1	11.6	360.6
	Average 1954	170.4	8.1	34.6	5.4	22.5	12.8	4.1	22.5	13.6	3.4	148.2	16.1	342.8
	1954 IV	211.7	10.5	40.2	5.0	17.2	13.8	4.6	20.8	14.3	3.7	150.9	15.4	388.5
	1955 I	133.1	6.5	25.3	5.0	18.4	11.7	3.1	16.0	11.4	2.6	118.5	15.1	273.2
Colombia	1954 I	119.7	6.9	8.2	2.3	1.0	0.8	1.0	0.1	2.2	0.6	17.2	0.1	143.9
	Average 1954	126.6	6.4	8.8	1.9	0.8	1.0	2.1	0.4	2.8	0.8	19.2	0.2	152.4
	1954 IV	93.3	6.2	10.4	1.0	1.0	1.0	2.8	1.2	3.1	0.4	21.4	0.1	121.0
	1955 I	103.6	5.3	9.8	2.5	1.0	0.6	2.6	1.5	3.5	0.6	22.9	0.2	132.0
Other coffee and cacao exporters	1954 I	127.9	4.0	9.2	7.8	1.6	2.6	2.8	4.9	1.7	2.8	33.6	5.5	171.0
	Average 1954	85.9	5.5	6.9	5.2	2.3	2.4	3.0	8.6	2.4	2.5	41.0	4.0	136.4
	1954 IV	78.0	4.8	17.4	2.5	2.0	2.8	2.8	4.7	2.4	1.7	36.8	1.3	120.9
	1955 I	109.2	5.8	16.6	5.1	3.6	2.5	2.8	5.2	2.5	2.3	41.3	0.6	156.9
Total coffee and cacao exporters	1954 I	439.8	19.6	49.0	17.3	30.5	17.8	8.5	24.9	17.0	6.7	198.9	17.2	675.5
	Average 1954	382.9	20.0	55.9	12.5	25.6	16.2	9.2	31.5	18.8	6.7	208.4	20.3	631.6
	1954 IV	383.0	21.5	68.0	8.5	20.2	17.6	10.2	26.7	19.8	5.8	209.1	16.8	630.4
	1955 I	345.9	17.6	51.7	12.6	23.0	14.8	8.5	22.7	17.4	5.5	182.7	15.9	562.1
Argentina	1954 I	22.9	0.4	27.0	14.4	7.0	13.4	18.9	56.0	2.3	7.2	156.9	14.6	194.8
	Average 1954	25.7	0.7	30.4	12.7	12.3	7.1	15.1	49.4	2.4	4.4	146.9	13.2	186.5
	1954 IV	19.4	0.9	46.6	11.5	10.9	5.0	11.7	44.3	2.9	4.0	151.5	20.8	192.6
	1955 I	30.0	0.6	36.1	7.4	6.0	11.2	8.3	60.9	2.3	2.2	145.2	6.3	182.1
Uruguay	1954 I	5.1	0.3	3.6	0.6	2.6	1.7	5.2	11.2	2.1	1.7	29.8	0.5	35.7
	Average 1954	7.8	0.3	4.1	0.6	2.2	1.5	4.2	10.5	1.2	1.4	27.0	1.7	36.8
	1954 IV	14.5	0.2	2.5	0.3	1.0	0.8	3.2	5.0	0.9	0.6	15.6	3.0	33.3
	1955 I	2.6	—	3.0	0.5	0.9	1.1	3.5	8.9	0.7	0.6	21.8	3.0	27.4
Cuba	1954 I	113.9	0.9	0.3	0.3	1.7	0.4	2.3	12.2	0.1	0.1	20.2	4.0	139.0
	Average 1954	100.3	2.6	0.6	0.8	1.6	0.3	2.4	7.8	0.1	0.5	16.9	5.3	125.1
	1954 IV	52.4	1.4	1.2	0.2	1.6	0.2	2.0	2.3	0.1	0.2	10.3	6.5	70.6
	1955 I	116.3	1.3	9.8	0.2	0.4	0.3	2.6	4.3	1.0	0.3	22.0	5.7	145.3
Venezuela	1954 I	127.8	42.4	4.1	3.0	5.0	1.2	4.5	11.5	5.1	0.6	38.5	1.9	210.6
	Average 1954	125.9	43.0	4.1	2.4	5.6	2.0	5.8	10.9	4.8	1.1	38.9	0.8	208.6
	1954 IV	137.8	43.4	4.6	1.9	4.1	2.5	4.1	11.5	5.0	1.1	35.8	—	217.0
	1955 I	152.9	43.7	5.4	2.3	3.3	1.6	9.7	12.4	5.3	1.0	43.4	—	240.0
Mexico	1954 I	106.1	4.6	6.9	3.0	2.3	0.7	3.6	2.3	0.6	2.2	23.4	25.0	159.1
	Average 1954	82.0	3.6	11.4	3.4	1.6	0.8	2.6	2.3	1.2	2.3	27.1	20.1	132.8
	1954 IV	69.8	2.6	19.3	5.8	2.1	1.2	3.0	4.3	2.3	3.7	43.2	30.6	146.2
	1955 I	123.2	4.2	19.4	5.6	1.5	0.6	4.0	6.0	1.3	2.7	41.8	21.8	191.0
Chile	1954 I	41.8	—	5.0	0.7	2.3	1.0	0.5	1.9	0.9	0.1	14.6	0.7	57.1
	Average 1954	49.4	0.1	7.7	0.8	2.0	1.3	0.8	7.8	1.5	1.4	26.0	0.5	76.0
	1954 IV	34.9	—	9.5	0.6	2.3	2.3	1.9	8.2	1.4	1.6	30.6	0.4	65.9
	1955 I	45.2	—	11.0	0.3	1.0	2.3	0.8	11.8	2.1	1.1	31.6	0.5	77.3
Peru	1954 I	20.5	0.7	2.2	1.1	1.4	0.3	1.2	4.4	0.3	1.5	13.2	7.0	41.4
	Average 1954	24.1	0.6	4.2	2.5	2.2	0.3	1.2	8.7	0.3	2.1	22.5	4.4	51.6
	1954 IV	22.9	0.3	7.7	2.4	1.7	0.2	1.1	6.5	0.2	3.5	24.4	2.3	49.9
	1955 I	23.8	0.2	3.7	1.5	1.3	0.4	0.9	6.6	0.4	2.0	17.7	1.7	43.4
Bolivia	1954 I	14.4	—	0.1	0.1	—	0.1	—	5.7	—	—	5.9	0.1	20.4
	Average 1954	11.8	0.1	0.1	0.2	—	0.1	0.1	6.6	—	—	7.0	0.2	19.1
	1954 IV	11.2	—	0.2	0.1	—	—	0.1	7.4	—	—	7.7	0.1	19.0
	1955 I	9.9	—	0.2	0.1	—	—	0.3	6.8	—	—	7.4	0.3	17.6
Latin America ^d	1954 I	903.7	71.3	99.5	42.2	52.9	37.5	45.3	131.1	28.7	20.6	508.2	71.6	1,554.8
	Average 1954	822.4	73.3	119.5	37.2	53.2	30.1	42.3	136.7	30.9	20.2	526.7	67.4	1,489.8
	1954 IV	754.8	72.2	160.4	32.4	44.0	30.4	37.8	117.8	32.8	20.6	533.6	81.9	1,442.5
	1955 I	859.6	69.5	111.1	31.5	37.4	32.4	38.8	141.5	30.5	15.5	520.0	55.5	1,504.6

SOURCES: Economic Commission for Europe; United Nations *Statistical Papers*, Series T; United States Department of Commerce.

^a For those countries whose original data were expressed in c.i.f. values adjustments have been made to convert these data to an f.o.b. basis.

^b Excluding Yugoslavia.

^c Total of countries and areas mentioned.

^d Including Honduras, Panama and Paraguay.

The tendency already indicated in the *Economic Survey of Latin America, 1954*¹⁶ towards a greater percentage share by the European countries in Latin American trade is being maintained. On the other hand, the early months of 1955 have witnessed a relatively significant decline in imports from Japan.

If a study is made of the trend of the region's exports on the basis of table 21, the deductions already drawn from data supplied by the Latin American countries themselves receive additional support. Imports from countries in the "coffee and cacao" group fell by 113 million dollars in the first quarter of 1955 as compared with the same period in 1954. There was also a decline of 23 million dollars in purchases from the agricultural countries, while increases of 17 million, 29 and 32 million respectively were recorded for the mining countries, Venezuela and Mexico.

Table 19

VARIATION IN THE EXPORTS OF INDUSTRIAL COUNTRIES TO LATIN AMERICA BETWEEN THE QUARTERLY AVERAGE 1954 AND THE 1ST QUARTER OF 1955

(Millions of dollars, f.o.b. values)

Exporting countries	Total variation	The countries exporting coffee and cacao		To remaining Latin American countries
		Brazil	Others	
United States.....	-48.4	- 53.6	-7.3	12.5
Western Europe.....	-11.8	- 29.2	-1.0	18.4
Canada	- 8.6	- 7.1	0.5	- 2.0
Japan	-15.9	- 14.4	-0.1	- 1.4
Total.....	-84.7	-104.3	-7.9	27.5

SOURCE: Table 17.

An analysis of figures on exports from the industrial countries to Latin America reveals very similar trends. In this case the first quarter

¹⁶ *Op. cit.*, Part I, chapter III.

1955 is compared with the quarterly average for 1954, a method which was not employed in the case of imports on account of seasonal factors.

The reduction in trade with Brazil is greater than that with Latin America as a whole.¹⁷ It may also be noted that the relative position of the European countries continues to improve slightly, while that of Japan is deteriorating, this time accompanied by Canada.

Table 20

VARIATION IN THE DISTRIBUTION OF EXPORTS FROM THE INDUSTRIAL COUNTRIES TO LATIN AMERICA

(Percentages)

Exporting countries	1954 quarterly average	First quarter 1955
United States.....	58.0	58.1
Western Europe.....	34.9	36.2
Canada	3.5	3.0
Japan	3.6	2.7
Total	100.0	100.0

SOURCE: Table 17.

A detailed study of the position of Latin American countries and groups of countries with respect to exports from industrial countries shows certain differences from import trends. Although the reduction chiefly effects the countries in the "coffee and cacao" group, there are also reductions, albeit slight, for Venezuela and Mexico, while there are increases in the mining and agricultural groups—conclusions which coincide with those reached on the basis of the figures originating from Latin American sources.

¹⁷ The fall in the total value of exports to Latin America from countries under consideration is 6 per cent, comparing the first quarter of 1955 with the quarterly average for 1954.

RECENT TRENDS IN THE EXPORTS AND PRICES OF SOME PRODUCTS

I. COFFEE

Coffee is the most widely exported commodity in Latin America, being produced and sold abroad by fourteen republics, which provide over 80 per cent of world supplies. The relative importance of coffee in Latin American trade rose impressively after the end of the Second World War, so that by 1953 this commodity accounted for over 26 per cent of the value of the region's total exports and 44 per cent of the exports of the coffee-producing countries. These figures represent a two-fold increase over the corresponding proportions of the early post-war years. However, this growth has been largely due to the rise in coffee prices, since the volume of Latin American exports of this commodity has increased very little, the stagnation or decline in Brazilian shipments offsetting a moderate improvement in the exports of the other countries of the region.

The relative importance of coffee in the growth of Colombia's and Brazil's exports can be assessed from a study of chart 1. In both countries the improvement in the coffee terms of trade has been responsible for most of the increase in the purchasing power of exports between 1947 and 1954.¹ In Colombia non-coffee exports have

contributed scarcely 10 per cent of the rise in the purchasing power of exports during this period, and the quantum of coffee sales has improved by only 5 per cent. Thus, about 85 per cent of the increase has been obtained from the improvement in the coffee terms of trade. In Brazil, between 1947 and 1953, the growth in the purchasing power of exports was provided entirely by the coffee terms of trade, since the purchasing power of other exports declined and the quantum of coffee sales in 1953 was at approximately the same level as at the beginning of the period. In 1954, however, the situation was completely reversed: in this year non-coffee exports accounted for the entire improvement in purchasing power, since the rise in the coffee terms of trade was insufficient to counterbalance the decline in the quantum of coffee sales. Nevertheless, during the entire period 1947-54, the improvement in the relative prices of coffee was sufficient not only to offset the decline in coffee quantum, but also to provide about 70 per cent of the increase in the total purchasing power of Brazilian exports.

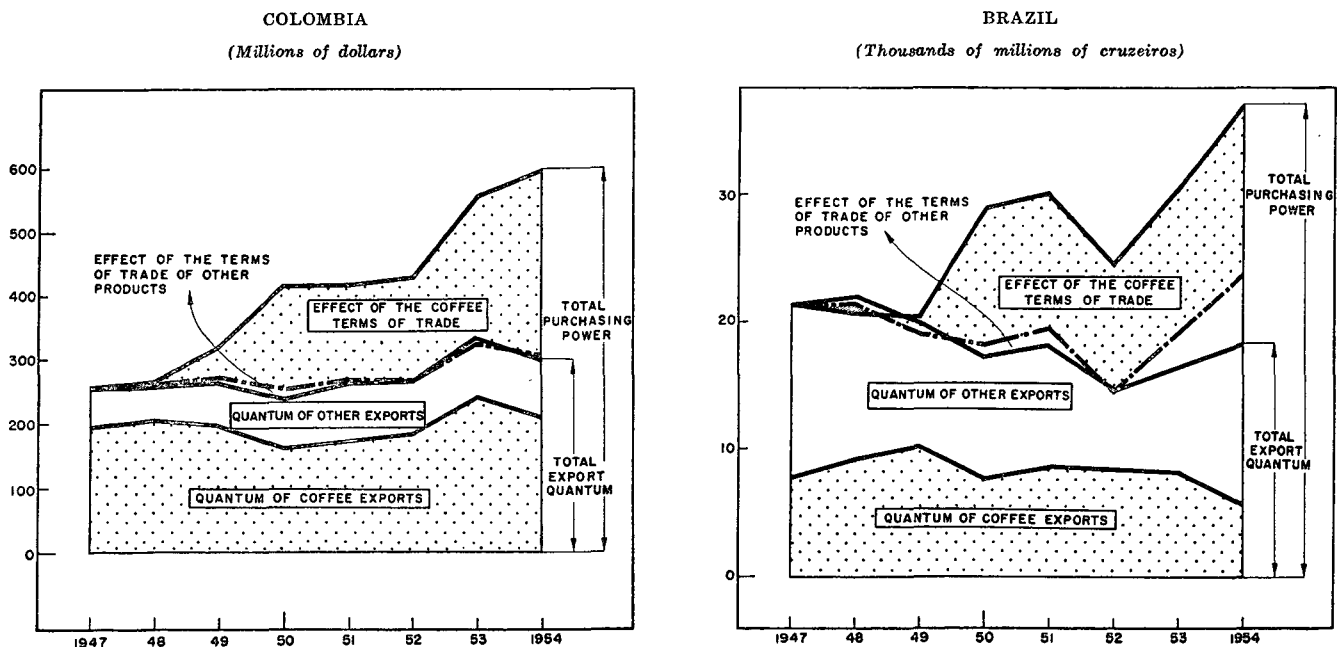
The post-war rise in coffee prices has been the result of the steady decline in world exportable coffee supplies

¹ The purchasing power of exports is equal to the export quantum multiplied by the terms of trade. The export quantum in chart 1 is the physical volume of exports expressed in 1947 prices. The terms

of trade effect is the difference between the purchasing power of exports and the export quantum. In the chart these measurements are given separately for coffee and other exports.

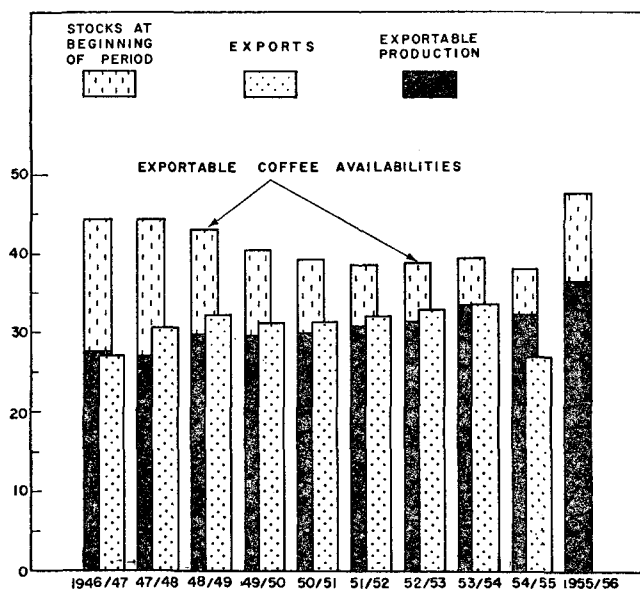
Chart 1
QUANTUM AND PURCHASING POWER OF EXPORTS

(Natural scale)



between 1947/48 and 1953/54 (crop years 1 July to 30 June). During this period world exportable coffee production lagged behind the growth of world demand for imports of this commodity; consequently stocks were depleted and fell from over 17 million bags to only about 6 millions. (See chart 2.) The explanation for the lag in exportable coffee production is the stagnation of Brazilian output, which at the beginning of the period accounted for about half of the world total. Fifteen years of chronic surpluses in this country had reduced production to 40 per cent below the pre-war level by the end of hostilities, and thereafter huge stocks continued to discourage any increase in output. After 1949/50, the continued reduction in inventories and the rise in prices stimulated new plantings, which would have affected 1954/55 exportable production had not the frost in Paraná occurred. The full impact of new Brazilian plantings, however, is likely to fall on the harvest in 1955/56, a year for which a substantial rise in world exportable coffee production is predicted.

Chart 2
COFFEE: EXPORTS AND WORLD EXPORTABLE AVAILABILITIES
(Millions of bags)



Despite the stagnation of Brazilian output, until 1949, world exportable production has risen steadily since the end of the war as a result of the expansion of output in the rest of the world. By 1953/54 world coffee availabilities had ceased to decline and exportable production was approximately equal to world import demand. Thus the carry-over at the end of this year was roughly equivalent to the surplus at the beginning of the year. At this point, the price rise provoked by speculation regarding frost damage to the Brazilian crop and fears of a general coffee shortage seriously affected world import demand, which declined by an estimated 20 per cent between 1953/54 and 1954/55. This decline was several times greater than the reduction in world coffee availabilities, which, accor-

ding to preliminary estimates, would have been adequate to cover even a moderate increase in world demand during 1954/55.

As a result of the contraction in demand, coffee stocks on 1 July 1955 probably exceeded 10 million bags. If this carry-over is added to the sharply increased production in 1955/56, total exportable supplies during that year will exceed the early post-war level. In chart 2 total supplies are shown to rise to almost 48 million bags in 1955/56, but this figure is somewhat exaggerated owing to the method generally employed in the calculation of world exportable production.² According to this system, the increase in Brazilian output will coincide with an expansion in the production of Colombia, although in reality the current crop in the latter country, which will be exported during the second half of 1955, notwithstanding its inclusion in world exportable production for 1954/55, has been estimated at 15 per cent below that of the previous season. It is entirely possible, therefore, that if world import demand were to recover to the 1952/53 level (the last year for which inventory changes in importing countries did not abnormally affect imports), and if depleted inventories in consuming countries were restored, the carry-over in world exportable coffee at the end of 1955/56 might not exceed that registered on 1 July 1955.³

Trends in coffee exports by principal countries or areas since the end of the Second World War can be divided into two periods. During the first period, from 1945 to 1949, Brazil and Africa principally accounted for the rise in the volume of world exports. (See chart 3.) By exporting 11 million bags from reserves, Brazil was able to increase shipments by 37 per cent, in contrast with an increase of less than 10 per cent for the rest of Latin America. The corresponding rise for Africa and Asia was 50 per cent, although most of it represented only the recovery of the pre-war export level. It is interesting to note that the countries whose exports grew least during this period were those who benefited most from increased United States coffee imports during the war. This is particularly true of Colombia.

After 1949, trends were reversed. Although the major Latin American coffee-exporting countries suffered a sharp setback in 1950 as a result of the contraction in United States imports provoked by the doubling of coffee prices, thereafter Colombian and Central American exports were mainly responsible for expanding the volume of world sales. Brazil could no longer draw on stocks to the same extent as before to supplement the low level of production, and after the pre-war level of African production was restored, further increases came more slowly. Thus, in 1952 Brazilian coffee exports were for the first time surpassed by exports of the rest of the world, which in recent years have been shared fairly equally among Colombia, the rest of the Western Hemisphere, and Africa and Asia including Oceania. In 1954, however, the volume of Latin American exports again suffered a sharp decline, which was felt by all major producers in the region, although Brazil was the most affected. In contrast, Afri-

² See the Statistical Note at the end of this article for an explanation of the problem involved in calculating world exportable production.

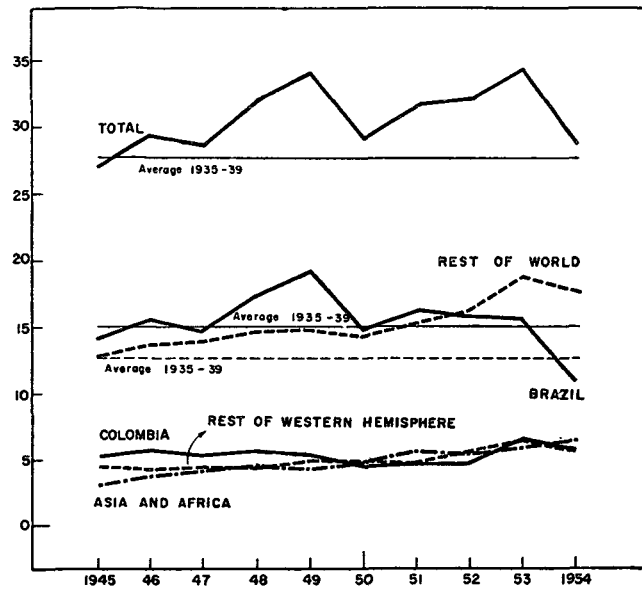
³ The recent frost in Paraná will not reduce the coffee crop exportable during 1955/56, owing to the fact that the harvest was almost terminated when the frost occurred. However, production for export in 1956/57 and 1957/58 will be affected.

Chart 3

COFFEE: EXPORTS BY PRINCIPAL COUNTRIES AND AREAS

(Millions of bags)

Natural scale



can exports continued their almost uninterrupted post-war expansion, just as in 1950 when the same phenomenon occurred. The sharp price rises have in fact tended to stimulate sales of the cheaper African and Asian coffee.

Post-war trends in coffee exports by principal countries have been very closely linked with the changing importance of the chief world markets. As can be seen from chart 4, rising European demand has been the dynamic element in the moderate over-all expansion of world coffee imports. As a matter of fact, non-European demand has shown an irregular downward trend or stagnation since the end of the war. In 1953 non-European imports were only 500 thousand bags greater than in 1946, while European purchases rose by 5 million bags between these two years. These contrasting tendencies are explained by the fact that non-European imports increased substantially during the war when the stability of coffee prices served greatly to stimulate consumption; since the end of the war, each sharp rise in prices has tended to restrict consumption in these markets. In Europe on the other hand, consumers have been attempting to recover their pre-war consumption level, which even by 1954 had not yet been restored.⁴ Increases in coffee prices have not greatly affected the rate of growth of European demand, owing to the sharp post-war rise in *per capita* income and to the fact that after the war coffee imports have been kept below potential demand through the use of quantitative import controls and rationing. In some countries tariffs and excise taxes on coffee have also been

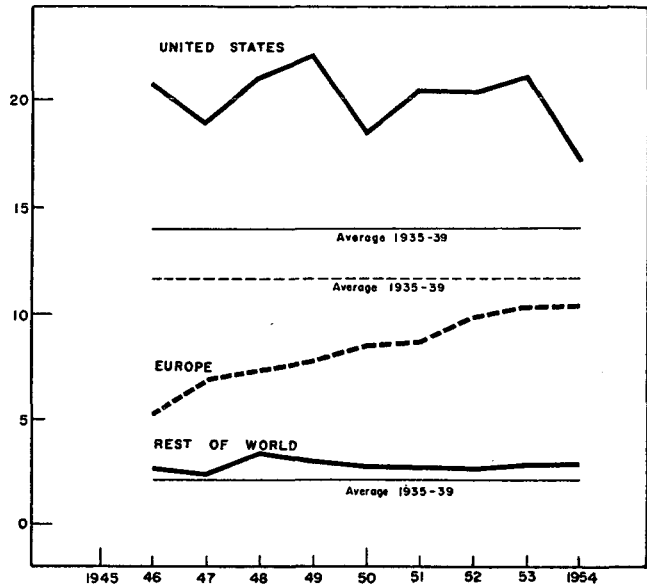
⁴ In 1954, European *per capita* consumption was still only about 4.3 pounds, compared with something like 5.5 or 6.0 pounds before the war. Although *per capita* coffee drinking is highest in the Scandinavian countries (over 10 pounds), the post-war recovery has in general been more marked among other European countries, such as Great Britain, Italy, and more recently Germany, although Finnish imports have also risen very rapidly.

Chart 4

COFFEE: IMPORTS BY PRINCIPAL AREAS

(Millions of bags)

Natural scale



very high, so that their gradual lowering has tended to offset the effect of the rise in green coffee prices on domestic retail prices. Owing to the improvement in Europe's balance of payments, and, more recently, on account of the sharpening in world competition to export manufactured goods to Latin America, quantitative and exchange control barriers to coffee imports have also been progressively lowered. Thus, demand for coffee imports has received a constantly increasing stimulus, which has been particularly marked in the case of Western Germany. Between 1951 and 1954, this country increased its coffee purchases by 1 million bags, that is, by 250 per cent.⁵

The dynamic growth of European coffee demand in recent years has been of particular benefit to the Central American and Caribbean countries. Contrary to what might have been expected, the relative importance of African coffee in Europe has declined steadily since 1951. (See table 1.) The gap left by this decline has been filled by the countries of Latin America—excluding Brazil—which have been able to raise their share of European imports from approximately 10 per cent to an estimated 25 per cent. This trend has been the natural result of the relative insensitiveness of European demand to the level of coffee prices, whereas that of the United States has been shifting away from the more expensive coffees to the cheaper varieties produced outside Latin America. Thus, Africa increased its share of the United States market from 5 to 9 per cent between 1951 and 1954. This increase was in response not only to the demand of roas-

⁵ The reduction of Western Germany's customs and excise duties in August 1953 from the equivalent of 1.29 dollars to 55 cents per pound stimulated a 27 per cent increase in coffee imports in 1954, in spite of the sharp rise in world coffee prices. In July 1955 it was reported that the German Government would soon make efforts to free coffee imports from all restrictions.

ters for cheaper types to mix with more expensive coffees, but also to the increased use of soluble coffee. Latin American countries other than Brazil have also increased their share of the United States market in recent years, Colombia accounting for the greater part of this increase. Colombia's exports to Europe have also risen, but they still represent scarcely 12 per cent of the country's total shipments. Central American and Caribbean coffee producers, on the other hand, increased their exports to Europe by 22 per cent in 1954 (compared with only 1 per cent for Colombia). In that year the European market absorbed 23 per cent of the total coffee shipments of these republics.⁶ Brazil's share of Europe's coffee imports has fluctuated within rather narrow limits during recent years.

Table 1
THE ORIGIN OF UNITED STATES AND EUROPEAN
COFFEE IMPORTS

(Percentages of total imports by volume)

	United States		Europe	
	1951	1954	1951	1954
Brazil	54	37	39	35
Other Latin American countries	41	53	10	25
Africa	5	9	46	33
Asia and Oceania.....	—	1	5	7

SOURCES: United States data taken from official statistics; the European figures are based on a sample of the six most important coffee importing countries of the area as they appear in issues of *Commodity Trade Statistics* (United Nations publication; Statistical Papers, Series D).

Inasmuch as the United States is still the principal market for Latin American coffee exports, absorbing over 80 per cent of non-Brazilian shipments and approximately 60 per cent of Brazil's coffee sales, it is important to analyse in some detail recent trends in United States consumption of this commodity. The principal determinants of United States coffee demand are changes in *per capita* income and in relative coffee prices. In chart 5 trends in these series are compared with the variation in the volume of *per capita* coffee consumption and *per capita* expenditure on coffee. It can be seen that the curve of *per capita* consumption in pounds varies inversely with the curve of relative coffee prices, while there is a rather direct correlation between changes in *per capita* income and *per capita* expenditure on coffee. It should be noted, however, that between 1925-29 and 1945-49 expenditure on coffee tended to absorb a progressively smaller share of *per capita* income (except in the early 1930's), first

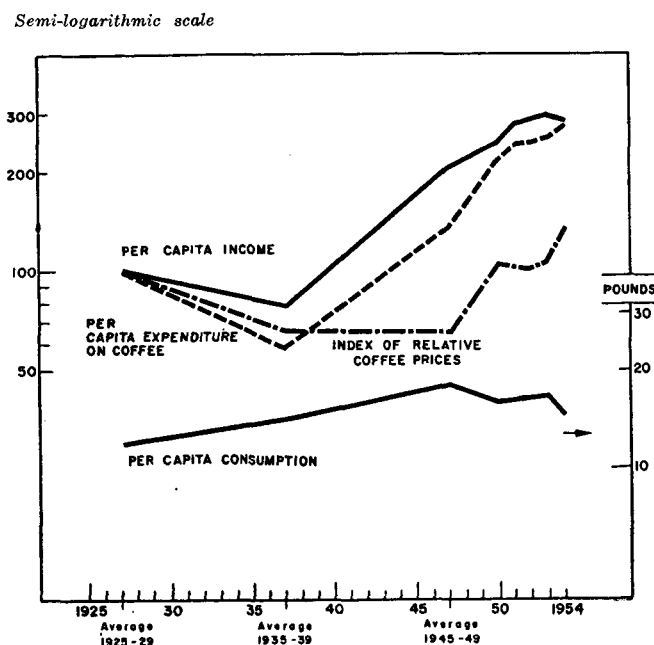
⁶ European demand has been of particular importance to El Salvador, Costa Rica and Haiti; in 1954 the latter two countries exported more coffee to Europe than they did to the United States, which in the case of Costa Rica is in marked contrast with the situation prevailing in previous post-war years. It should be noted, however, that Europe was an important market for Latin American sales of mild coffee before the Second World War and that in many European countries there exists a traditional taste preference for this type of coffee.

as the decline in relative coffee prices exceeded the increase in *per capita* coffee consumption, and later as income grew more rapidly than *per capita* coffee drinking, while relative prices remained stable. This is the trend to be expected over the longer term, since the demand for the beverage is relatively inelastic with regard to income.

As a result of the sharp increase in the price of coffee in 1949-50, the relative price rose again to the 1925-29 level. The consequent decline in *per capita* consumption was, however, insufficient to prevent *per capita* expenditure on coffee from rising more rapidly than *per capita* income. Thereafter, the long-term trend reasserted itself; relative prices declined and *per capita* coffee consumption rose until 1954, when the 1950 phenomenon recurred. In 1954 the decline in *per capita* consumption prevented *per capita* expenditure on coffee from surpassing the 1925-29 level, despite the fall in United States *per capita* income. By mid-1955 relative coffee prices had again declined almost to the level of the early 1950's; *per capita* consumption was recovering, and *per capita* income was again increasing more rapidly than coffee purchases.

Reductions in United States *per capita* coffee consumption have been accomplished not only by substituting other beverages for coffee, but also by reducing the amount of coffee used in the preparation of each cup. In 1954 consumers obtained an average of 63 cups from each pound of roasted coffee, compared with 61 cups in 1953 and only 45 in 1946. This represents an increase of 40 per cent in eight years. It has been estimated that if consumers had obtained the same yield from a pound of roasted coffee in 1954 as in 1946, total United States green coffee consumption would have amounted to 21.8 million bags instead of only 17.6 millions, after taking into account the amount employed in the manufacture of

Chart 5
COFFEE: UNITED STATES CONSUMPTION
(1925-29 = 100)



soluble. The increased dilution of coffee not only has a direct impact on green coffee consumption, but it also renders coffee more susceptible to replacement by other products and to "stretching" through the use of poorer quality mixtures.

Recent coffee price trends are summarized in chart 6-A. It can be seen that retail prices have consistently lagged behind wholesale prices, a tendency which protected the consumer from the full impact of the rise in green coffee prices and prevented *per capita* consumption from falling further than it did. But the opposite effect was noticeable after prices began to decline. Another interesting aspect of chart 6-A is the change which is revealed in the spread between the prices of the Santos and Manizales contracts. During 1945-49, Manizales coffee was quoted at an average of four cents per pound, or 17 per cent above Santos N° 4. During 1950-52, this margin fell to about 3 cents or only 6 per cent. In the second quarter of 1953 and the second and third quarters of 1954, Santos was actually quoted with a premium over Manizales. This tendency has not been a result of demand factors but of Brazilian policy designed to maintain price gains when the market weakened. The successive devaluations of the coffee cruzeiro beginning in August 1954 merely resulted in a further drop in United States imports of Brazilian coffee, since importers kept purchases to a minimum in anticipation of further devaluations. Thus, the spread between Santos and Manizales quotations has tended to widen considerably, so that the September 1955 futures position showed a margin of 10 cents in favour of Manizales at the end of July. This bearish attitude toward Brazilian coffee has also been responsible for the fact

that a disproportionate part of the reduction in United States inventories has affected holdings of Santos coffee, although in recent weeks spot purchases by roasters have tended to strengthen coffee prices in general, even in futures positions.⁷

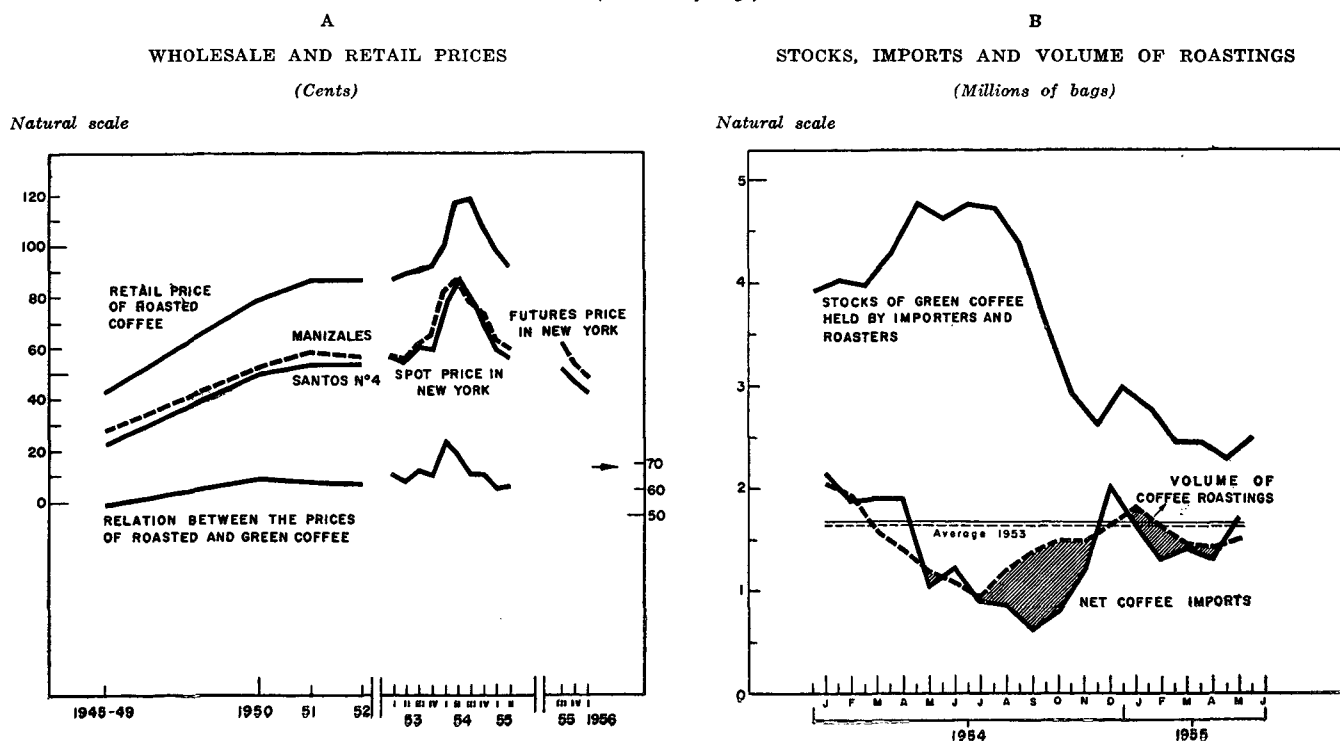
From mid-1954 to April 1955, the decline in importers' and roasters' stocks of green coffee prevented the recovery of consumption from being fully reflected in imports. During this period about 2.5 million more bags of coffee were roasted in the United States than were imported into that country. By mid-1955, stocks were adequate for only about six weeks of roastings. (See chart 6-B.) The same tendency towards a reduction in coffee inventories has been noticeable in European countries during the early months of 1955. In all cases reductions have been motivated by an anticipation of a further decline in the price of coffee, and the stability or slight strengthening of prices beginning in May has been due to the fact that inventories were so low and that the effect of the higher level of roastings was making itself felt on import demand. As a result, in June the volume of exports of Brazil—the country most affected—recovered sharply from the low levels to which it had fallen.

Increased consumption of soluble coffee in the United States has also been blamed for a considerable share of

⁷ Towards the end of July, trading on the New York coffee exchange reached the highest volume in several months, and spot prices strengthened considerably. At the beginning of August, reports of frost damage in Brazil caused a rapid rise in futures prices. But prices dropped sharply when it was proved that these frosts affected only the Paraná plantations and that all producing countries had sufficient stocks available.

Chart 6
UNITED STATES COFFEE MARKET

(Millions of bags)



the recent decline in green coffee demand. It has been calculated that at least 30 per cent less green coffee is used to make a cup of soluble coffee than one of the regular roasted variety. Although it has been estimated that in 1954 between 12 and 20 per cent of total green coffee consumption went into the production of soluble coffee, this does not indicate that United States green coffee demand was reduced proportionately. On the contrary, informed opinion holds that a significant proportion of increased consumption of soluble coffee has supplemented rather than replaced consumption of regular coffee. There is no doubt, however, that the further large-scale use of soluble coffee will effectively reduce the rate of growth of demand for green coffee which would otherwise take place. In this regard, it should be noted that soluble coffee consumption in the United States is still concentrated in the East Coast and that there still remains a number of potential markets which have not been fully exploited. Furthermore, it is generally held that if soluble coffee can be given the same aroma as the regular variety, it might well replace the latter in almost the whole United States market.

In summary, the current coffee situation from the point of view of exporting countries does not appear as unfavourable now as it did at the beginning of the year. Both prices and demand have strengthened in recent weeks, and coffee inventories in the major consuming countries have apparently ceased to decline. Perhaps as much as one-half of the estimated decline in 1954-55 world import demand was due to inventory reductions, which indicates that the mere restoration of stocks would go a long way towards recovering the level of demand of the previous year. If at the same time consumption continues to rise, then expanded world exportable production in 1955/56 might be marketed without an increase in the coffee carry-over of 1 July 1955.

The longer-term coffee situation is more doubtful, however, and some international and governmental agencies foresee the development of a basic disequilibrium between world coffee supply and demand. On the demand side, increased consumption of soluble coffee and consumer price resistance in the United States has tended to slow down the rate of growth of import demand in this market, while in Europe the current expansion of imports will soon restore the pre-war level of *per capita* consumption, after which further gains are likely to come more slowly. As regards supply, a sharp recovery in Brazilian output, which now appears somewhat doubtful, added to steadily rising production in the rest of the world would tend to expand world supplies very rapidly. The expansion of world coffee production during the late 1920's, which continued well into the 1930's even after prices had declined, gives an idea of the possible order of magnitude of an uncontrolled growth of output. If increased production considerably reduces relative coffee prices, past experience shows that consumers simply spend less of their income on this commodity, with the consequent improvement in the quantum of coffee exports being more than offset by the decline in the coffee terms of trade.

Statistical Note

The generally accepted method for calculating world exportable coffee production tends to exaggerate current fluctuations in output and gives a false impression of the probable expansion in 1955/56

availabilities. The statistical problem arises from the fact that, since coffee in Latin America is harvested throughout the year, in order to add up total production for the region, a somewhat arbitrary grouping of harvests must be made. As can be seen in chart 7, in the southern hemisphere coffee picking begins during the early part of the year, becoming progressively later towards the north, and finally coinciding with the beginning of the next Brazilian harvest.⁸ The international coffee year, from 1 July to 30 June, commences with the intensive harvesting period in Brazil, continues with the harvests of the Central American and Caribbean countries towards the middle of the crop year, and ends with the intensive Colombian harvest.⁹

Chart 7

COFFEE: LATIN AMERICAN HARVESTS

YEARS	1954												1955												1956											
	MONTHS												MONTHS												MONTHS											
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
BRAZIL																																				
COLOMBIA																																				
MEXICO, CENTRAL AMERICA AND CARIBBEAN COUNTRIES																																				
COFFEE YEARS	1954/55												1955/56																							
MILLIONS OF BAGS	25.0												29.6																							

The Colombian crop that is harvested from March to June is exported chiefly during the second half of the calendar year, or during the coffee year following the one in which it is included as a part of world production. Normally, this discrepancy does not create a serious problem, since Colombian exportable production is considerably less than 20 per cent of the world total and errors cancel out in time. The harvest ending in mid-1955, however, has been officially estimated at 15 per cent lower than the crop of the preceding season, while international and governmental agencies have forecast a sizeable increase in production for the following year. Thus, in view of the sharp fluctuations in Brazilian output, it is of considerable importance to determine whether the recent decline in Colombian production should be made to coincide with last year's reduction in Brazil or with the large crop in that country predicted for 1955. The most realistic solution would appear to be the latter, so that the smaller Colombian harvest would affect the coffee year in which most of it is exported.

In this way, the increase in total Latin American coffee production between 1954/55 and 1955/56 would be half of that indicated by standard calculations, that is, only 2.4 million bags instead of approximately 4.6 millions. World exportable production would then work out to be only about 1.7 million bags above the estimated 1953-54 level. Even with this adjustment, figures on Colombian coffee production are not strictly comparable with the statistics of other coffee-producing countries. Colombia's exportable production is calculated on the basis of actual exports plus net changes in stocks held in the warehouses of the *Federación Nacional de Cafeteros* and in ports of embarkation during the Colombian coffee year, which extends from 1 October to 30 September.

In view of the method of calculating world exportable coffee production and the tentative nature of the statistical data provided by producing countries, it is really too early to form an accurate judgment of the amount of coffee which will flow into the market during the coming year.

⁸ As can be seen in chart 7, there are two harvests in Brazil, the most intensive period corresponding to the shaded areas. In Costa Rica and Guatemala, on the other hand, coffee is harvested virtually throughout the year.

⁹ The so-called "principal" crop in Colombia is harvested in some regions while the *mitaca* or small crop is being picked in others, and vice versa. The volume of production is thought to be almost equal during both six-monthly periods.

II. SUGAR

Sugar production in those countries of Latin America which are habitual exporters of the commodity is influenced by a series of factors differing appreciably from the elements determining the level of activity of the industry in countries which are obliged to import or which export only occasionally. Hence the situation and its most recent changes should be given separate consideration in the case of each group of producers. It should first be pointed out, however, that Latin American production in 1955 will be lower than that of the preceding year, to judge by preliminary estimates for each country. As in 1954, the decline is due solely to smaller output in the countries which are habitual exporters, Cuba, in particular.

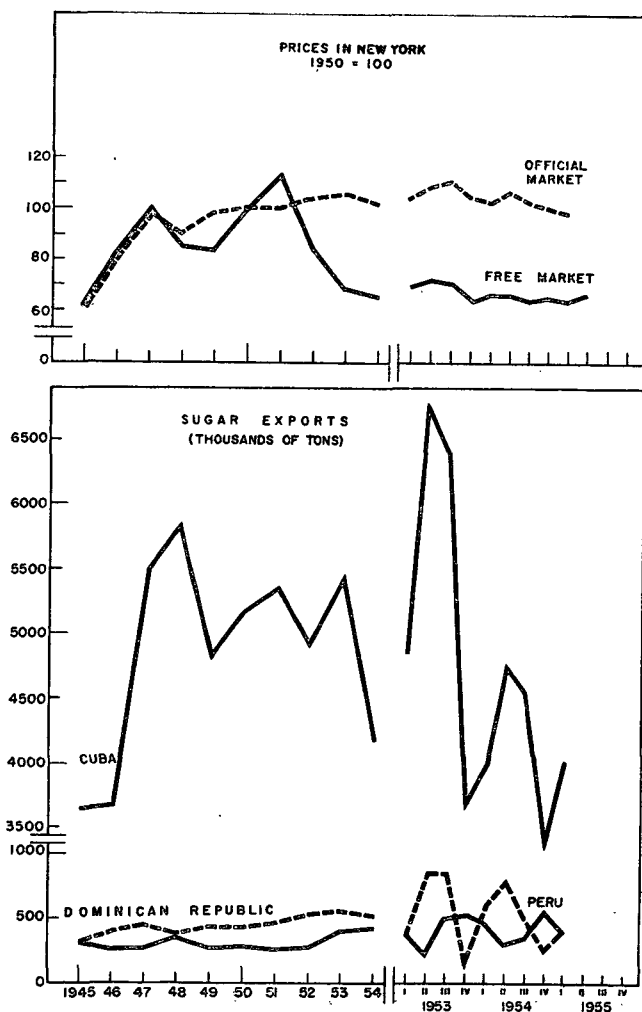
Production of importing countries and those which export occasionally

For the fifth year in succession, the volume of sugar production in these countries seems likely to exceed the

Chart 8

SUGAR: PRICES AND EXPORTS

Natural scale



previous year's level, increasing at only a slightly lower rate than the average of 6.4 per cent registered over the period 1947-54. In the meanwhile, the expansion of the current year is virtually limited to the major producers, with the exception of Argentina, where frost damaged the sugar-cane plantations. The production of the other countries —Brazil, Colombia, Mexico and Venezuela— shows prospects of increasing by 5 to 10 per cent. It is worth while mentioning, however, that among the smaller producers, Uruguay's industry, according to recent estimates, will produce 32 thousand tons, an increment of 11 thousand tons over the previous harvest and 10 times more than in 1950. For some countries, the increase in sugar production means a further step towards self-sufficiency, and for others, an expansion of their exportable surpluses. Among the former group, the most outstanding example is that of Venezuela, which will be able to cover all its domestic requirements if, as is forecast, the output of new mills increases production from 90 thousand to 145 thousand tons. Mexico provides a good illustration of the situation in this group of countries. It has been estimated that the volume of sugar handled by Mexican mills should reach 910 thousand tons —as compared with 829 thousand one year ago— and that consumption will not exceed 730 thousand tons. Since the International Sugar Agreement has fixed Mexico's export quota at 69.8 thousand tons, the current year's production will help to raise stocks from 200 to more than 310 thousand tons.

At the beginning of 1955, there was the likelihood that Brazil would also be able to expand its inventories, but a sharp increase in exports during the first five months of the year will probably make inroads into the existing stocks. On 1 January 1955 a surplus of 840 thousand tons had been accumulated from previous harvests, which, added to estimated current production, resulted in a total availability of approximately 2,940 thousand tons.

Given a *per capita* consumption equivalent to that of 1954 and an export volume in line with the quota fixed for Brazil, by the end of 1955 stocks will have reached 980 thousand tons. However, Brazil has not ratified the International Sugar Agreement and has stimulated sales abroad by increasing exporters' foreign exchange subsidies.

As a result of the policy adopted, during the first five months of the year, exports increased to 240 thousand tons, that is, 48 per cent more than in 1954 as a whole and 6 per cent less than in 1953. Even if this rate of sale is reduced by half, during the remaining months of the year sugar surpluses will not reach more than about 800 thousand tons.

Stocks, production and markets of the habitual exporters

No accurate data are obtainable on the stock situation in the Dominican Republic and Peru, but available information would appear to indicate that inventories were not very large at the beginning of 1955, having increased very little during the course of 1954. Cuba presents a different picture, since at the end of last year stocks reached their post-war peak of 1,940 thousand tons.

In the face of a rather discouraging market and the problem of growing surpluses which cannot be exported, Cuban output is once more being restricted. Although

Table 2
PRODUCTION OF THE HABITUAL SUGAR EXPORTERS
(Thousands of tons)

Year	Cuba	Dominican Republic	Peru	Total
1952	7,224.5	588.2	470.7	8,283.4
1953	5,158.9	630.5	602.2	6,391.6
1954	4,890.2	630.0	610.7	6,130.9
1955 ^a	4,450.0	613.0	610.0	5,763.0

SOURCE: Official statistics.
^a Provisional.

the Dominican Republic and Peru have kept their production more or less at the 1954 level, the decline in Cuban sugar-milling was sufficient to cause the third consecutive production decline in this group of countries. (See table 2.)

At the end of 1954, the world sugar market situation was not particularly favourable, despite the system of export quotas. The tendency of prices to fall below the minimum established by the International Agreement is a sign of the weakening of the market. No appreciable improvement in prices resulted from the 80 per cent reduction—brought into force in November 1954—in the quota of the signatories of the Agreement. At the end of the first quarter of 1955, the unexpected appearance of the U.S.S.R. as an importer of sizeable quantities of sugar—about 600 thousand tons—caused a temporary strengthening of the market, resulting in a slight recovery of prices, which lasted from the end of March until the beginning of July. This development enabled the International Sugar Agreement to raise export quotas to 90 per cent of their base level. However, the effect of the purchases in question was speedily dissipated, and towards the end of June the fact that prices on the free market fell below the minimum induced the Agreement authorities to institute a further reduction of

5 per cent, so that from July onwards exporting countries will not be able to sell more than 85 per cent of their basic quota.

During the first quarter of 1955, export statistics of Cuba, the Dominican Republic and Peru—especially Cuba, which benefited most—do not yet reflect Soviet participation in the world sugar market. Thus, the volume exported by the three countries concerned during this quarter was slightly lower than that registered for the same period of the preceding year. (See table 3.)

Table 3
EXPORTS OF CUBA, DOMINICAN REPUBLIC AND PERU
DURING THE FIRST QUARTER OF 1953, 1954 AND 1955

(Thousands of tons)

Year	Cuba	Peru	Dominican Republic	Total
1953	1,215	94	91	1,400
1954	991	118	144	1,253
1955	1,007	106	100	1,213

SOURCE: Official statistics.

Some of the factors which shaped the world market at the end of 1954 and at the beginning of the current year are still operative. The most recent estimates place world output at a slightly higher level than the exceptional production registered in 1954. On the other hand, the stocks held by importing countries at the end of that year, amounting to 4,170 thousand tons, were larger than at any time during the post-war period, a similar situation obtaining in the case of the exporting countries.¹⁰ If production estimates prove correct and if world consumption does not rise unexpectedly, sugar stocks will increase once more in 1955.

¹⁰ In 1953, these countries possessed stocks of up to 2,050 thousand tons and of 2,700 thousand during the subsequent year.

III. COPPER

Copper exports are the major source of foreign exchange income only in the case of Chile, although since the end of the Second World War the commodity has been exported by five other Latin American countries, two of them—Mexico and Peru—achieving the status of important world producers. Latin American copper production, with the exception of that of Peru, has tended to stagnate, so that the region's share of world output has declined steadily in the post-war period. The failure of exports to increase in volume has, however, been more than offset by the increase in the copper terms of trade. Thus, between 1947 and 1954 the purchasing power of Chilean copper exports rose by 25 per cent, despite a decline of 10 per cent in the quantum of copper sales.¹¹ (See chart 9.) The favourable effect of the copper terms of trade

was especially noticeable after 1951, when prices for Chilean copper rose above world market quotations.¹²

Between 1947 and 1954, the share of Latin America in total world copper production fell from 26 to 19 per cent. Almost the whole of this decline represented a decrease in the relative importance of Chile's output. Although the share of the United States, the world's largest producer, also dropped during this period, copper production in the rest of the world rose substantially. Africa made the most important gains and increased its output by over 75 per cent. (See chart 10.) Although world copper consump-

¹² In this connexion it should be noted that, between 1947 and 1951, the increase in the purchasing power of Chilean exports was entirely due to the increase in the volume and the improved relative prices of other exports, mainly nitrate. For the whole period 1947-54 these exports in fact accounted for 60 per cent of the improvement in the purchasing power of all Chilean exports, including copper.

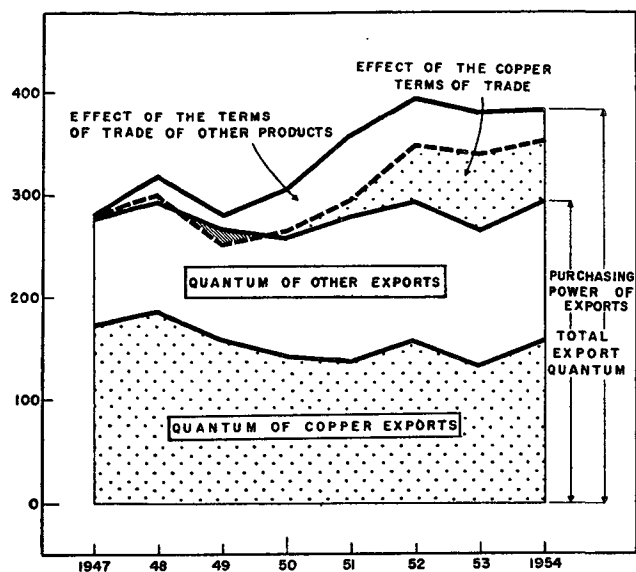
¹¹ For definitions of these terms, see footnote 1.

Chart 9

CHILE: QUANTUM AND PURCHASING POWER OF EXPORTS

(Millions of dollars at 1947 prices)

Natural scale



tion, excluding that of the U.S.S.R., China and Eastern Europe, rose by some 19 per cent only, and there were two periods of general over-supply during these years, the lack of expansion in Latin American production is mainly explained by other factors. Since the end of the war very little investment has been made to expand productive capacity in the region. The sizeable investment in the new sulphide plant of the Chuquicamata mine in Chile, for example, has been adequate only to replace capacity lost through the gradual depletion of other ores. This phenomenon is not due to the exhaustion of Latin America's copper reserves, and, moreover recent studies indicate that the basic costs of production compare quite favourably with those in other major producing countries, even in Africa.

The explanation for the lack of development of new productive capacity may be that large foreign copper mining companies have preferred to invest in areas outside Latin America where there appears to be a prospect of higher profits. Most of the world's copper output is controlled by a few large companies, which have interests in most of the major producing areas, thus, they have been in a position to direct investment in such a way as to maximize their rate of return.

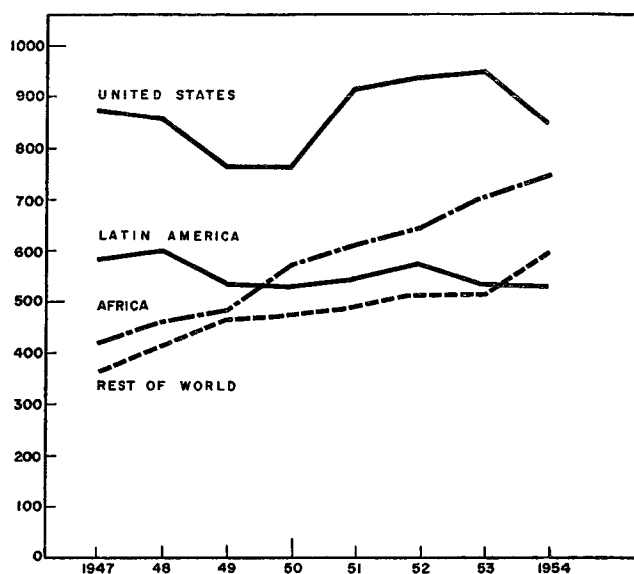
The share of export proceeds retained by foreign copper companies in Chile has diminished considerably in recent years; and since most of the benefit from rising copper prices, and from the differential between the successive devaluations of the peso and the constant exchange rate applied to the producers, has been retained by the Government, while at the same time costs have risen considerably, there has been less incentive for an expansion in production. During 1954, however, this situation in Chile has changed considerably with the passing of legislation providing for the progressive reduction of the tax burden on foreign copper companies as production in-

Chart 10

COPPER PRODUCTION BY PRINCIPAL AREAS

(Thousands of short tons of fine metal)

Natural scale



creases. Furthermore, attractive terms extended by Peru to a foreign company have resulted in plans for the development of a large new mine in that country, which it is considered will increase the region's output by 150 thousand tons in 1960.

In general, demand for copper has tended to increase at a slower rate than world income. This lagging rate is due mainly to expectations that, owing to its lower price, aluminium will continue to substitute for copper. (Since the end of the war, copper has already been almost completely replaced in high-tension power transmission in the United States and is rapidly giving ground in urban power distribution.) Furthermore, the use of secondary copper has tended to increase somewhat more rapidly than the consumption of primary copper, which forms almost all United States imports of the commodity. It should be noted, however, that in other major consuming countries a similar lag in the growth of copper consumption has not been so apparent. Furthermore, United States imports can be expected to increase much more rapidly than total consumption of copper, owing to the fact that domestic mining production is becoming increasingly dependent upon marginal producers, and over-all reserves of commercial exploitable ores are being depleted.

The influence of long-term factors has been obscured in recent years by very pronounced cyclical fluctuations in short-term determinants of demand. Since the United States is the principal market for Latin American copper sales, it is of particular interest to observe recent trends in the level of economic activity and in consumption and imports of copper in that country. In chart 11 it can be seen that, although copper demand has more or less followed the trend in manufacturing production, the changes have been much more pronounced than those in the latter, and copper imports have fluctuated much

more violently than total deliveries of refined copper. This phenomenon is only to be expected, since copper is used mainly in heavy goods production, which is more susceptible to the business cycle. Since domestic copper production is protected from foreign competition, the full impact of changes in demand thus falls on imports. During the period 1949-54, the amplified effect which the marked variations in United States economic activity had on copper imports was intensified by speculative price movements, as a result of which inventories fluctuated in such a way as to accentuate still more the effect of the industrial fluctuations on copper demand. Thus, during the 12 months which followed the second quarter of 1952, United States copper imports almost doubled, only to fall again in the fourth quarter of 1953 to the previous low level.²³

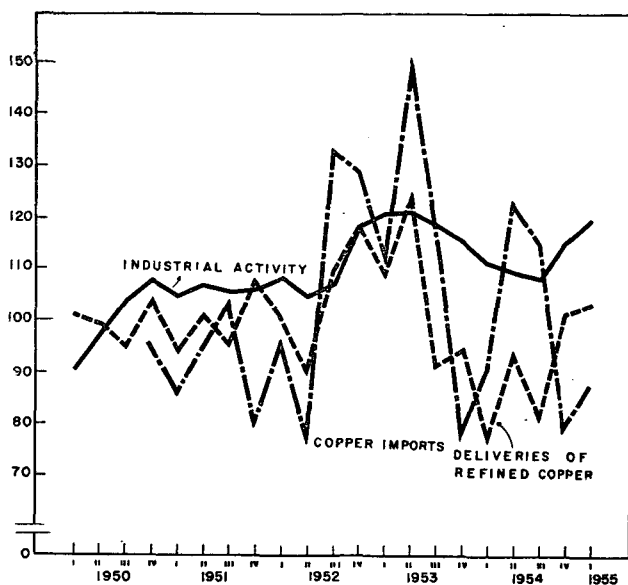
Two rather unusual trends can also be observed in chart 11. During the period following the beginning of hostilities in Korea, copper consumption and imports in the United States did not rise appreciably in spite of the increased armaments production. This phenomenon was due to the copper rationing programme which regulated available supplies and effectively diverted consumption of the metal from peace-time uses to defence

Chart 11

UNITED STATES: INDUSTRIAL ACTIVITY AND CONSUMPTION AND IMPORTS OF COPPER

(1950 = 100)

Natural scale



needs. Trends during 1954 and early 1955 have also been abnormal, owing, in the first instance, to the purchase of the Chilean surplus stock in the middle of 1954 in order to add to the strategic stock-pile when copper consumption in the United States was at a low level, and later to the general shortage of copper at the begin-

²³ Owing to recurrent labour difficulties in the world copper industry, United States consumption of this product has also been affected at intervals by sudden shortages of supply during the period covered in chart 11.

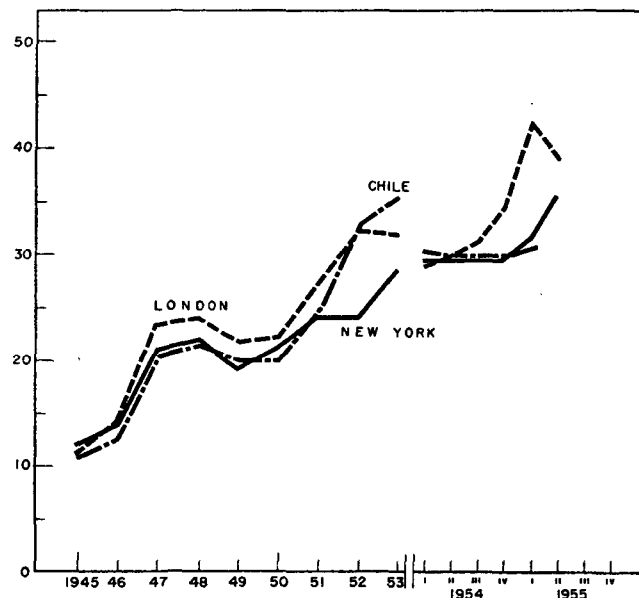
ning of 1955 which has kept consumption at a level far below that justified by the rise in economic activity. This copper scarcity resulted first from the voluntary restriction of world production during early 1954, when there were signs of a surplus forming, and later from a series of labour disputes which halted production in the principal mines of the United States, Chile and Africa.

Chart 12

COPPER: NEW YORK, LONDON AND CHILEAN QUOTATIONS

(Cents per pound)

Natural scale



During the first half of 1955, the apparent consumption of copper in the United States rose substantially; in the period January-May it was nearly 22 per cent above the average 1954 level. To meet this expansion, domestic production also showed a marked increase, the January-May level being 27 per cent above the average for 1954 (or 14 per cent above that of 1953). On the other hand, imports of copper into the United States declined, and the total in the first four months of 1955 was, at an annual rate, some 13 per cent less than in 1954 and 24 per cent less than in 1953. (It is of interest to note that imports from Latin America declined by only 10 per cent in relation to 1954, with the result that Latin America's share in total imports showed a slight increase.)

The participation of foreign copper in total availabilities in the United States has fallen steadily during recent months, amounting to only 27 per cent in May 1955; this decline in imports has thus contributed appreciably to the difficulties which existed in the supply situation. With the heavy increase in demand, commercial stocks were reduced by 22 per cent between December 1954 and May 1955. Notwithstanding this and other measures—notably releases from the United States strategic stock-pile—by mid-year the supply situation was still stringent. With the outbreak of strikes on 1 July, domestic output of refined copper fell to 40 per cent of the pre-strike level, and the situation became precarious. According to unofficial re-

ports, many copper-consuming industries reduced stocks to a maximum of two weeks' supply as compared with a normal one of two to four months.

Table 4
PERCENTAGE OF COPPER EXPORTED FROM CHILE

Destination	1948	1949	1950	1951	1952	1953	1954	1955 ^a
United States..	64.6	66.7	78.0	77.9	82.4	93.2	60.7	48.3
Europe	22.2	28.5	16.4	18.2	15.9	6.1	38.7	48.3
Other areas....	7.2	4.8	5.6	3.9	1.7	0.7	0.6	3.4

^a First three months.

Copper exports diverted from the United States were absorbed almost entirely in European markets (especially

that of the United Kingdom). In the case of Chile, for instance, in the first quarter of 1955 exports to Europe equalled those to the United States. (See table 4.)

The increasing attractiveness of prices in the European market has contributed to this diversion. The London price has usually been above that of New York, although only to a small extent. Since the end of 1954, however, the disparity has been growing, and while in May 1955 the New York quotation increased to 36 cents per pound, the London price rose continuously to 47 cents. It should be remembered, however, that the nature of the two markets differs, that of London being essentially a curb market meeting marginal needs. Considerable quantities could not therefore be absorbed at such prices, since quotations would be forced down to the level at which Rhodesian copper is negotiated.¹⁴ (See chart 12.)

¹⁴ Until 31 July 1955, 35¼ cents; thereafter 40½ cents.

IV. WOOL

Two main factors affecting Latin American exports of wool are the decline of wool consumption in the United States and the partial replacement of Latin America as a supplier of the European market. The decline in United States consumption of wool is a recent phenomenon, which has arisen chiefly because of the smaller proportion of personal income which is being spent on clothing, and on account of competition deriving both from the price situation and from the use of synthetic fibres. It is estimated that consumption of wool by United States mills for civilian garment manufacture was only 1.85 pounds *per capita* in 1952-54 compared with 3.70 pounds in 1946-48. Synthetic fibres have been replacing both apparel and carpet wool; their share in the total consumption of fibres increased from 13.8 per cent in 1945 to 23.2 per cent in 1953, while that of wool dropped from 10.7 to 7.6 per cent during the same period.

Table 5
LATIN AMERICA: SHARE IN WORLD WOOL PRODUCTION

Years	Argentina	Uruguay
1936-40	10.4	3.2
1946-50	11.7	4.2
1952-53	9.3	4.5
1954	8.3	4.5
1955 ^a	6.2	4.5

SOURCE: Economic Commission for Latin America, on the basis of *Foreign Crops and Markets*, 20 June 1955.

^a Estimated.

In Europe, synthetic fibres have not been substituted to the same extent, but competition from affiliated areas has become an important factor limiting Latin American exports. Thus, in the sizeable market of the United Kingdom a more pronounced tendency towards the use of wool from Commonwealth sources, to the detriment of other countries, has been noted. If an examination is made of total wool imports into the United Kingdom during the period 1953-55, taking the first four months of

each year as a basis of comparison, it can be seen that the combined share of Argentina and Uruguay fell from 20 to 7 per cent; in 1954, no less than 58 per cent of the total decline was felt by these two countries, although only 12 per cent of the improvement in the following year fell to their share. (See table 5.)

Substantial shifts in production and consumption, together with sharp price fluctuations, have been characteristic of the international wool trade during the post-war years. As table 5 demonstrates, the share of Latin America in world production has declined. On the other hand, the relative importance of Australia and New Zealand has been increasing consistently. At the end of the Second World War there were large surplus stocks in the world market, since production, especially of Australian, New Zealand and South African wool, could not be marketed during the period of hostilities. These stocks were held largely by the United Kingdom Dominion Wool Disposal Corporation, a governmental body formed for the orderly liquidation of wool surpluses. Such liquidation was achieved in a much shorter time than had been expected, owing partly to accumulated demand and partly to an increase in *per capita* consumption.¹⁵ Furthermore, production in the United States declined by 55 per cent, that is, by 175 million pounds between 1942 and 1949, which was less than the increase in world production.¹⁶ Thus, both declining production and increasing demand permitted a quick and orderly liquidation of world surplus stocks, so that by 1948 demand began to exceed available supplies. In 1950, when the United States started to increase its purchases of wool for military purposes and stock-piling, prices more than doubled, but in 1951 they fell again to their previous level.

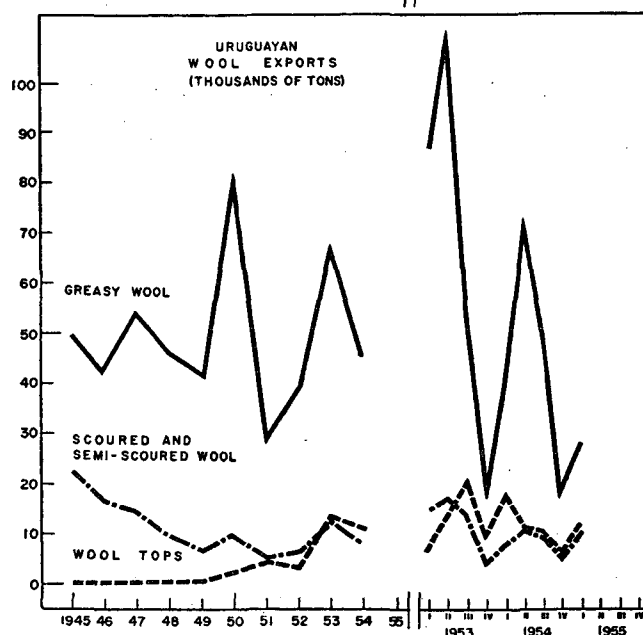
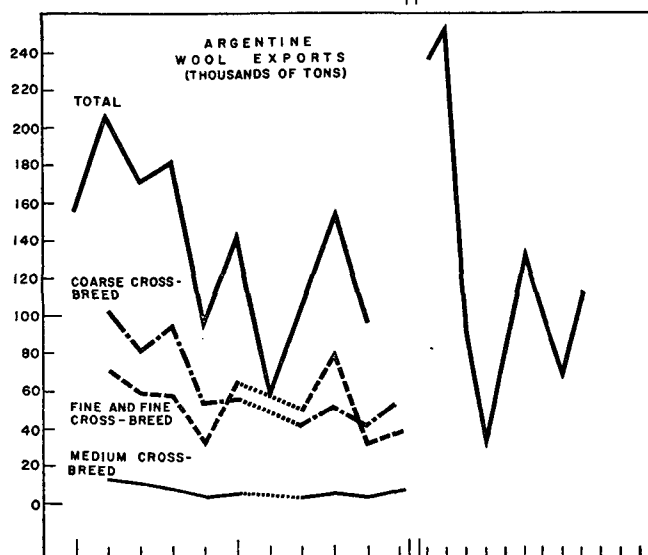
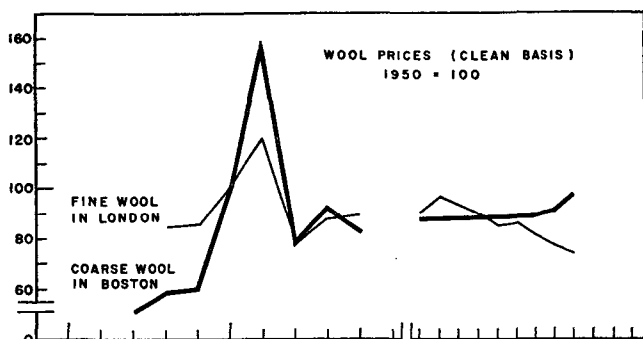
¹⁵ United States *per capita* consumption of apparel wool rose from 2.18 pounds—the average figure for the period 1935-39—to 4.31 pounds in 1946; it subsequently declined to 3.65 pounds in 1947 and to 3.31 pounds in 1948. In 1954, consumption fell below the 1935-39 average. Demand for carpet wool was particularly strong during the post-war years. From a yearly average of 96 million pounds in 1936-40, carpet wool consumption in the United States fell to 41 millions in 1942-44, and thereafter increased to 208 million pounds in 1948.

¹⁶ United States production increased by 10 per cent between 1950/51 and 1954/55.

Chart 13

WOOL: PRICES AND EXPORTS

Natural scale



World production, which had declined during the war and in the immediate post-war years, rose again after 1949, increasing over the pre-war average by 10.5 per cent during 1952 and 1953 and by 11.6 and 13.7 per cent in 1954 and 1955, respectively. Since consumption did not increase at the same rate there was a tendency to over-supply. Although it is too early to see the pattern of consumption for 1955, price trends would seem to indicate that a balance between supply and demand has been achieved at a lower price level.

Wool prices became stable at the beginning of the second quarter of 1955, after apparel wool had registered a persistent decline of 30 per cent from the July 1953 level. Prices for coarse wools, which had remained relatively stable during 1954, increased 8 per cent during the first quarter of 1955 in relation to December 1953. Although the unit value of coarse cross-breeds was only 64 per cent of the average of fine and medium-fine in the first five months of 1954, it increased to 85 per cent during the same period of 1955. Thus, after a second break in the world wool market during 1954, the situation now seems to have become temporarily stable at a lower level for apparel wool, and at a slightly higher one for coarse grades.

Table 6
WOOL YEAR 1954/55^a
(Thousands of tons)

	Argentina	Uruguay
Production	165	87
Carry-over	70	10
	235	97
Domestic consumption.....	60	9
Export availabilities.....	175	88
Sold up to 30 June ^b	95	38
Unsold balance.....	80	50

SOURCE: Economic Commission for Latin America, on the basis of unofficial estimates.

^a October 1954 to September 1955.
^b For Uruguay, up to 31 May.

As a consequence of price fluctuations in the world market and the withholding of wool in anticipation of higher prices, Argentine and Uruguayan exports have undergone sharp yearly variations. Argentine sales have been strongly influenced by modifications of the exchange rate and the sales tax, stocks being accumulated during one year and sold in the next together with the current clip. During the period October 1954 to July 1955, the share of the United States in total Argentine exports rose: the former country absorbed 47 per cent of total Argentine wool exports, as compared with 36 per cent during the same period of 1953/54, on account of a larger purchase of coarse wools.¹⁷ The share of the United Kingdom and the Eastern European countries also

¹⁷ However, the total share of Latin America in United States imports is declining since it represented 31 per cent in the first quarter of 1955, 35 per cent in 1954 and 47 per cent in 1953.

increased proportionately, while exports both to Latin America and to Japan fell considerably.

On the other hand, Uruguayan exports, consisting chiefly of medium and fine grades, have fallen off sharply in the first three months of 1955, showing a decline of 25 per cent in relation to the same period of 1954, according to official statistics. It is estimated that during the first six months of 1955 Uruguayan exports of wool decreased by 30 per cent with respect to January-June 1954, the latter level being one-third less than that of the first half of 1953. One of the reasons for this decline has been the reluctance of exporters to sell at lower prices, in anticipation of an increase in the export rate of exchange that did not materialize.

V. COTTON

The volume of cotton exports from Latin American countries in the first three or four months of 1955 were not characterized by a uniform movement. Compared with the corresponding period of 1954, exports from Peru and Mexico, for instance, showed appreciable increases, while those from Brazil declined.

In the case of Peru, exports in the first four months of 1955 increased from 6.6 to 10.8 thousand tons, or by 63 per cent, as compared with the figures for the same months of the preceding year. It should, however, be pointed out that the 1954 level was lower than in the previous two years, and that exports in January-April 1955 were more or less at the same level as in 1952 and 1953. Furthermore, the crop in 1955 is estimated to be slightly smaller than in 1954,¹⁹ and it is interesting to note that exports in April 1955 were below the levels recorded for April in preceding years.²⁰

The share of Peru's exports which went to other Latin American countries in the first quarter of 1955 rose to 24 per cent, although this was not as high as in 1952 and 1953, when as much as one-third was purchased by those countries. Exports to the United States and Japan likewise expanded considerably, the former country having purchased 16 per cent of total Peruvian exports in the first quarter of 1955 as against only 4 per cent in that of 1954. Conversely, exports to the European Continent and the United Kingdom declined, though this was a relative change, rather than a decrease in absolute volume.

Peruvian cottons are actually a class by themselves, inasmuch as they are the only long-fibred varieties exported from Latin America, all others being of medium length. Here it may be observed that prices for the *Pima* variety fell by about 9 per cent between January and April 1955, and for *Tanguy* by 12 per cent between February and April.

Mexican exports in the first three months of 1955 increased from 48 thousand tons to 57 thousand, or by 11 per cent, as compared with the same period in 1954. They were, however, below the level of 64 thousand tons registered in 1953. On the other hand, the Mexican crop is estimated to have reached a record of some 434 thousand

Both countries are having difficulty in disposing of fine and medium-fine wools from the 1954/55 clip. These grades represent a large proportion of Uruguay's wool production. On the other hand, Argentine production consists mainly of coarse wool, most of which has been sold this year.¹⁸

¹⁸ While Argentina is exporting mainly greasy wool, scoured wool and tops, forming only 4 and 1 per cent respectively of the total export volume, there is a progressive tendency in Uruguayan exports towards these latter categories, which enjoy preferential rates of exchange. Thus the share of tops in total wool exports increased from 17 per cent in 1954 to 23 per cent in the first quarter of 1955; that of scoured wool rose from 13 to 21 per cent during the same period.

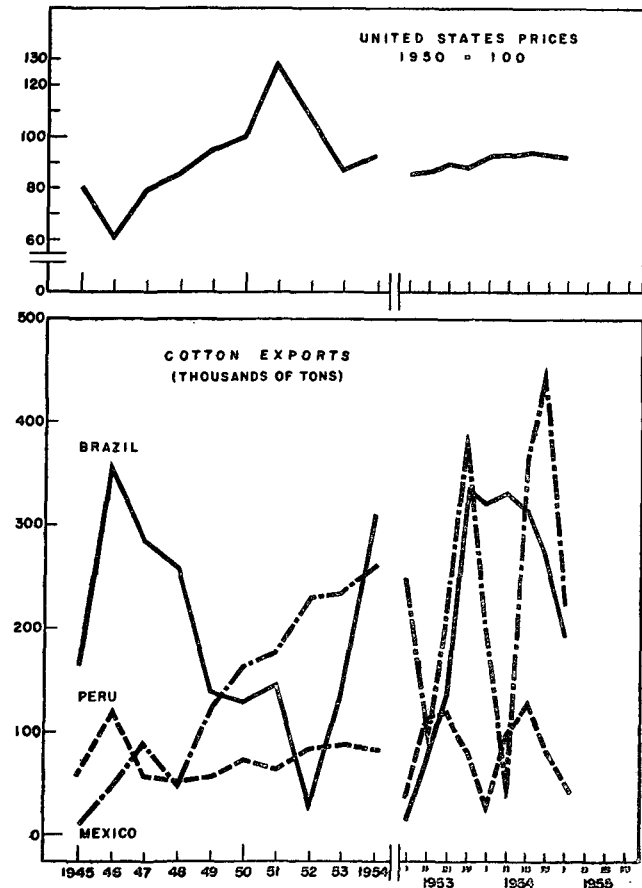
tons in the 1954/55 crop year, against 380 thousand in 1953/54, which was itself a very high figure, considering that production amounted to only 120 thousand tons in 1948.

In the case of Brazil, the exact volume of current production has not yet been established, but it would seem that it has declined, partly through a reduction in the cultivated area and partly through climatic factors.

Chart 14

COTTON: PRICES AND EXPORTS

Natural scale



¹⁹ 105 thousand tons against 110 thousand.

²⁰ 3.6 thousand tons against an average of nearly 5 thousand for 1952-54.

Table 7
PRODUCTION, CONSUMPTION AND ACCUMULATED STOCKS OF COTTON^a

(Thousands of bales)

	1949/50	1950/51	1951/52	1952/53	1953/54	1954/55 ^b
<i>United States</i>						
Carry-over from previous year ^c	5,300	6,800	2,300	2,800	5,600	9,700
Production	16,100	10,000	15,100	15,100	16,300	13,600
Net exports.....	5,600	3,900	5,400	2,900	3,600	3,400
Mill consumption.....	8,800	10,100	9,100	9,400	8,600	8,800
Stocks accumulated at end of year ^d	6,800	2,300	2,800	5,600	9,700	11,100
Held by the CCC.....	3,540	79	285	1,987	7,035	8,000
CCC stocks as percentage of total stocks.....	52.1	3.4	10.2	35.5	72.5	72.1
Accumulated stocks in terms of months of consumption.....	9.3	2.6	3.7	7.1	13.5	15.5
<i>Rest of the world^e</i>						
Carry-over from previous year.....	8,200	8,800	8,400	10,500	9,900	8,200
Production	10,700	12,300	13,500	13,700	13,700	14,900
Net imports.....	4,700	3,300	4,600	2,200	2,900	3,000
Mill consumption.....	14,800	16,000	16,000	16,500	18,300	18,500
Stocks accumulated at end of year.....	8,800	8,400	10,500	9,900	8,200	7,600
Accumulated world stocks in terms of months of consumption.....	8.0	4.8	6.4	7.1	8.0	8.2

SOURCE: Economic Commission for Latin America, on the basis of information published in various issues of *The Cotton Situation* (United States Department of Agriculture).

^a By crop years beginning on 1 August.

^b Estimate.

^c Carry-overs represent the volume of cotton retained from the previous year's production; stocks accumulated at the end of the year consist of the balance left after consumption needs have been met.

^d According to the United States Bureau of the Census.

^e Excluding the U.S.S.R., China and various Eastern European countries.

Exports amounted to only 47.8 thousand tons in the first three months of 1955 against 80.3 thousand in the corresponding period of 1954 — a fall of 40 per cent. However, in 1954, the volume of exports was especially large, and the 1955 level was higher than both the figure for the first quarter and the quarterly average of 1953. Here it may be noted that 1953 and 1954 witnessed the reversal of a marked downward trend which had prevailed throughout the period following 1946. It is a little early to predict the trend for future months, but the granting of more favourable exchange treatment and a consequent increase in the cruzeiro subsidy in May 1955 may possibly stimulate exports and arrest the decline which has occurred in the last twelve months.

With regard to the Central American countries, it would seem that 1954/55 production has increased, especially in Nicaragua, where the volume has risen from 25 thousand tons to 38 thousand. The same is true of El Salvador and Guatemala, whose production has expanded from 13 to 16 thousand tons and from 8 to 9 thousand tons, respectively. Thus 1954/55 crops for the Central American countries represent a total of 68 thousand tons.

In contrast, adverse weather conditions in Argentina have reduced crops and lowered their quality, with the result that cotton exports will be either very small or non-existent.

Apart from climatic factors, the volume and value of Latin American cotton exports depend to a very large extent on the policy of the United States, since this country is still the major influence in the world cotton situation. United States production has represented about one-half of the world total in recent years, and formerly accounted for a much larger share.

Table 7 shows the statistical position between 1949 and 1955.

It is only in recent years that the influence of large United States Commodity Credit Corporation (CCC) stocks hanging over the market has achieved great importance. These stocks rose from 3.4 per cent of all United States stocks in August 1951 to more than 72 per cent from 1954 onwards. Formerly stocks for six months of mill consumption were considered to be adequate and normal. The recent tendency has been to adjust holdings of cotton according to the availability of stocks of the CCC. Thus, when total United States stocks diminished considerably in 1951 and CCC stocks were particularly small, other countries increased their own inventories from six to eight months of consumption. In response to the more recent increment in CCC stocks, other countries have reduced their carry-overs to amounts representing only five months of consumption in 1954 and 1955. In other words, stocks have been reduced by the equivalent of three months' consumption. At the same

time, United States stocks outside the CCC also decreased to the point where only four months' supplies were on hand.

The influence which fluctuations in stocks have exerted on prices may be gauged by studying the relationship between such fluctuations and price movements. If world stock requirements are estimated on the basis of six months' consumption, a comparison with the actual situation shows the 1951 demand to have been larger by 25 per cent than total stocks held, which meant a rise in prices. This situation was later reserved, taking all stocks into consideration, and free stocks now remain above the six months' requirements.

The international cotton situation in the first seven months of 1955 has thus been characterized by the psychological pressure which the very large stocks held by the CCC are exerting. Another of its notable features has also been the uncertainty as to what price policy would be pursued by the United States in its disposal

programme. The possibility that subsidies might again be paid and market prices consequently lowered has had a double effect on the world situation: a) by reducing world market prices, which remained fairly stable during 1955, although some 8 or 10 per cent lower than in the last months of 1954; and b) by restricting the purchases of the importing countries, in the hope of a new price decline. Prices became firmer during the first week of August 1955, when it seemed likely that the United States would maintain its present policy.²¹

The current export price, legally established in the United States (105 per cent of the support price, plus handling charges) has, in effect, set a minimum level, at which Latin American producers find themselves in a position to compete.

²¹ This situation may change, owing to the substantially higher estimates for the United States cotton crop during the year 1955/56. If this estimate should prove correct, stocks would be increased by 1.4 million bales.

Impact of coffee exports on the economies of Brazil and Colombia

Since the war, the prices and, to a lesser degree, the export volume of almost all commodities have experienced sharp variations. These fluctuations have been particularly marked during the period 1952-55 and have had considerable repercussions upon internal economic policy and activity in a number of Latin American countries. Among the countries most affected by these developments have been those which depend largely on coffee, sugar and copper for their foreign exchange receipts. Coffee production accounts for some 9 per cent of Colombia's gross income and for only about 6 per cent of that of Brazil; but in both countries coffee has played such a dynamic role in the growth of the national economy and in the capacity to import that these aspects deserve detailed

attention. In the following brief studies some of the consequences of the dependence of Brazil and Colombia on this export commodity are examined. Since the role of external trade in the economic growth of Brazil and Colombia is analysed in other secretariat documents*, the discussion is limited here to recent modifications in trade and exchange policy in direct relation to coffee exports, as well as to an analysis of some of the consequences which these changes have had for monetary and fiscal policy.

* See *Analyses and Projections of Economic Development, II. Economic Development of Brazil* (document E/CN.12/364) and *III. Economic Development of Colombia* (document E/CN.12/365).

BRAZIL

Introduction

In 1954, although Brazil's coffee sales represented only 37.8 per cent of world exports of the commodity, the country continued to rank as the largest exporter. Nevertheless, neither 1954 nor 1953 were normal years and, if the most recent five-year average is examined, it will be seen that Brazil's share stood at 46.9 per cent as compared with 58.2 per cent in 1945-49.

Table 1 shows that there is no definite trend in the proportion of Brazilian shipments to world coffee exports. If account is taken of the abnormal conditions during the war years 1940-44 and again during 1950-54, it may be said that Brazil usually has a share of more than 50 per cent of all world exports. In addition, the probable increment in production during the next few years permits the assumption to be made that Brazil will retain its traditional position in the coffee trade.

Table 1
BRAZIL: COFFEE EXPORTS

Periods	Coffee as a percentage of the value of exports	Brazilian shipments as a percentage of world coffee exports
1925-29.....	71.7	59.8
1930-34.....	67.2	58.2
1935-39.....	44.6	54.1
1940-44.....	31.7	49.0
1945-49.....	41.8	58.2
1950-54.....	65.0	46.9

In contrast, the share of coffee in the value of Brazilian exports shows a downward trend, which however halted in 1945-49. In reality the recovery occurred between 1948 and 1949, so that during the following quinquennium

coffee once again represented an average of 65 per cent of the current value of all exports, despite the sharp fall in the volume exported during 1954.

In any event, coffee constitutes Brazil's main source of foreign exchange, and the prospects for other exports do not suggest any major change in the composition of foreign trade during the next few years. Moreover, some 60 per cent of Brazilian coffee exports are purchased by the United States and thus provide the largest single source of dollar revenue.

It has already been seen that during 1947-54 the improvement in relative coffee prices contributed about 70 per cent of the increase in the purchasing power of Brazilian exports, and was therefore the decisive factor in the evolution of the terms of trade. Thus the role which coffee has played in the economic development of Brazil has been an important one.

The high degree of industrialization attained in Brazil might suggest that the contribution of coffee to the national economy has been decreasing, but this is not so. (See table 2.)

Although in 1945-49, the value added by coffee production within total income amounted to 4.3 per cent, in the following five-year period it reached 6.2 per cent. The fact that this increase was largely influenced by higher coffee prices does not alter its significance. Indeed, it emphasizes the importance for Brazil of the fluctuations in prices and in the demand for coffee. The development of Brazil has exceeded the level permitted by the capacity to import and has thus created balance-of-payments problems. If the investment coefficient is to recover from its recent decline, in order that the rate of growth in Brazil may continue uninterrupted, a high level of imports must be maintained. So far, this has been possible, thanks to the accumulation of foreign debts, which have in fact caused most of the difficulties in the balance of payments. In this way, the relative independence which Brazil's development has shown in relation to the capacity to import appears to have reached a limit.

Table 2
BRAZIL: COFFEE AND NATIONAL INCOME
(Millions of current cruzeiros)

Year	Value added by coffee production	Income at factor cost	Percentage of the value added by coffee production within total income
1945.....	3,717	86,100	4.3
1946.....	5,336	111,400	4.8
1947.....	5,532	142,900	3.9
1948.....	6,451	159,700	4.0
1949.....	8,486	181,700	4.7
1950.....	15,885	211,500	7.5
1951.....	16,578	251,300	6.6
1952.....	19,021	299,000	6.4
1953 ^a	21,451	347,400	6.2
1954 ^a	20,162	445,700	4.5
Five-year averages:			
1945-49.....	—	—	4.3
1950-54.....	—	—	6.2

^a Preliminary figures.

The solution nearest to hand would appear to lie in a greater replacement of imports, a field in which substantial progress has already been made.¹ The recent discovery of petroleum deposits in the Amazon basin—which some circles consider to be the most important event in Brazil's economic history—has opened up very promising possibilities. But until such prospects materialize—a process requiring several years—price fluctuations and the situation of world coffee markets will continue to play a leading role in maintaining economic development and in achieving an equilibrium in the balance payments.

Effect of the decline in coffee prices on Brazilian policy

The causes determining the fall in coffee prices, after the sharp increase which took place in mid-1954, have already been examined. In brief, they consisted of curtailed demand in the United States. This decline was influenced by a number of factors which it would be pertinent to recall in order to appreciate the official position taken and the short-term prospects.

It is generally recognized that United States coffee demand is inelastic within certain price limits. But the increase of 1954—when prices rose to more than 90 dollar cents per pound—exceeded these limits and led to a drop in consumption which is estimated at more or less 13 per cent. The reaction of the final consumers was affected by active propaganda opposing the high ruling prices and by the considerable rise in the consumption of soluble coffee, which is being substituted for the regular variety.

Nevertheless, the situation was mainly influenced by the roasters, whose reaction to the higher prices was to employ

¹ For a detailed examination of the import replacement problem, see *Analyses and Projections of Economic Development. II. The Economic Development of Brazil, op. cit.*

a greater share of cheaper African coffee in the blends² and to decrease stocks which thus fell far below their normal level. This gave rise to a bear market and a consequent drop in prices.

It has been estimated that, in the aggregate, there was a 30 per cent decline in the sale of Brazilian coffee to the United States. Inasmuch as exports to other countries also decreased and prices were much lower, average monthly foreign exchange receipts—which amounted to 79 million dollars in 1954—fell to only 50.1 millions during the first five months of 1955. The surplus of the 1954/55 harvest amounted to between 6 and 6.5 million bags.³

The situation improved in May and made remarkable progress in June, when the volume exported was 50 and 300 per cent, respectively, above the level of the same months in 1954. This trend can be appreciated from the following figures on coffee exports (thousands of 60-kilogramme bags):⁴

	May	June
1954.....	472	397
1955.....	675	1,320

The greater exports in May and June brought the figures for this first half of 1955 very close to those for the same period in the previous year: 5.2 million and 5.3 million bags, respectively.

Official policy has changed considerably. At the end of 1954 and early in 1955, the defence of the coffee market was carried out through minimum export prices, domestic support prices for the planter and purchases by the *Instituto Brasileiro do Café*. In February the drop in sales necessitated the adoption of a resolution establishing guaranteed prices for purchasers; in accordance with this resolution, the Government was responsible for differentials caused by the drop in prices, or by exchange reforms, for a period of 45 days. It was thus possible to encourage purchases and to offset bear market speculation.

These measures were no longer in force during May and June 1955. The most important decision was doubtless that of suspending official coffee buying, the final purchase being made on 11 May. The fact that almost all the harvest had already been sold by planters meant that the measure lacked immediate significance although it represented a fundamental change in official policy. It should also be added that the credit policy of the *Banco do Brasil* toward planters was modified. Previously, loans were granted on the total value of the crop at prices fixed by the Government, but, under the new system, only 80 per cent of the harvest was covered and at prevailing market prices.

The Minister of Finance, in a statement before a committee of the Chamber of Deputies in July, urged the need for a policy defending Brazil's principal export commodity, but at the same time opposed any pegging of minimum prices. On the one hand, too high a price would cause a more than proportional reduction in demand, as evidenced by recent experience. On the other hand, current prices are satisfactory for planters and consumers,

² The consumer is not aware of a modification of the blends, provided this is kept within certain limits.

³ *Conjuntura Econômica*, June 1955.

⁴ Official statistics published in the Press.

while, in addition, the market is favourable, particularly in view of the low level to which stocks had declined in the United States.

This last circumstance, together with the fear shown by some United States importers that manoeuvres for higher prices would occur, was the main factor influencing the exceptional increase in coffee exports during June, when almost one million more bags were shipped than in the same month of 1954. Furthermore, Government policy, which it was thought would lead to lower prices, did not cause any reduction. The surplus of 6 million bags is a serious problem, but immediate prospects suggest relatively normal market conditions, at least for the rest of 1955.

Coffee problems, and their repercussions upon the over-all economic situation of Brazil, should be considered over both the short and the long term. Over the short term the need arises to dispose of the burden of accumulated stocks which creates financial difficulties and inflationary pressures. Over the longer term, the nature of the problem does not change, although it will probably become more serious when coffee production increases as a result of future harvests from the new plantations in the State of Paraná. The low production costs in this zone will place Brazilian coffee in a better position to compete with the African product, but this cannot take place so long as the authorities are determined to continue to protect marginal producers and the planters of São Paulo, whose production costs are higher. The only remaining solution to the problem lies in extending consumer markets.

Brazil and the proposed International Coffee Agreement

The foregoing is useful as a background to explain the official Brazilian position in the negotiations taking place with other producers to undertake joint defensive action of coffee and its markets.

The first steps towards an agreement were taken in New York early in 1955, and were based on regulating the supply of coffee by restricting sales and establishing reserve or buffer stocks; the Brazilian quota was placed at 15.3 million bags. But subsequent plans for shipping the new harvest—estimated at 17.7 million bags—showed that Brazil proposed to sell the full tonnage, thereby exceeding its quota. It was thus revealed—with official confirmation—that Brazil had adopted a new position. In brief, Brazil felt that its contribution to the coffee reserve should come from current stocks and not from the new harvest. The argument upon which this position is based is that the establishment of such reserves had been the element which allowed other producer countries to sell their coffee without difficulty and at good prices. Brazil had therefore been the only country to bear the burden of a price-support policy in 1954. When Brazil pegged a minimum price for foreign sales, the other countries of the region continued to export, sometimes at lower prices—despite the higher quality of their product—and were not obliged as was Brazil to accumulate stocks.

The steady increase in these stocks and the prospects for higher production caused Brazil to be the most interested party in the coffee situation. The same cannot be said of the other countries, perhaps because coffee does not exert such strong pressure upon their capacity to

import as in the case of Brazil, or because they are not experiencing such serious economic difficulties. Finally, the size of their harvests will probably create no marketing problems. For some of these countries, coffee is the main export and the prospects of selling their entire output leads them to be primarily interested in the price. Brazil, however, although also concerned with the maintenance of a reasonable price, must in addition solve the problem of the surpluses.

The balance of payments and foreign trade

Notwithstanding the belief that the second half of 1955 will witness normal coffee exports and the maintenance of satisfactory price levels, statistics for the earlier months are unpromising. Even if the recovery of May and June were to continue, it appears improbable that foreign exchange receipts from this source will equal the figures for 1954. Although the quantum of exports might reach the level of the previous year, the lower coffee prices would lead to a lower aggregate value.

Table 3
BRAZIL: VALUE OF EXPORTS AND IMPORTS DURING THE
FIRST FOUR MONTHS OF 1955
(Thousands of dollars)

	1954	1955
<i>Exports</i>		
Coffee	383,379	225,470
Cotton fibre	74,599	45,513
Cacao	10,205	23,263
Others	78,536	115,589
Total	546,719	409,835
<i>Imports</i>		
.....	480,055	464,950

If the figures of table 3 are examined, the magnitude of the fall in the value of coffee exports is at once apparent. The higher sales in May and June may be attributed to the attempt by importers in the United States to re-establish stocks in view of the substantial curtailment during previous months and to ensure against speculative price increases. The prevailing trend throughout the year as a whole has been one of uncertainty as to the continuation of the recovery and as to future official policy, which is at present firmly opposed to any return to official purchases.

These circumstances have aggravated Brazil's balance-of-payments situation, which had become critical at the end of 1954. Although trade arrears have been reduced, commitments for delivery of forward foreign exchange purchases and for servicing charges on the external debt continued to represent a heavy burden, particularly in convertible currencies. Such convertible currency payments, in fact, may be estimated at more than 200 million dollars in 1955, while the aggregate new credit required to establish equilibrium in the balance of payments will be close to 300 million dollars.

During the first months of 1955, official policy has been aimed at encouraging exports through exchange incentives and at restricting imports by reducing the supply of foreign exchange —particularly dollars— at foreign currency auctions.

In January, the variable rate of exchange for exports was suppressed, and —with the exception of coffee— a fixed rate was established for all merchandise, which was additionally classified into four categories instead of two. In February, coffee was placed in the second category. In May, cotton was transferred from the second category (37 cruzeiros per dollar) to the third (43 cruzeiros per dollar). At the end of July, similar measures were adopted for tobacco and semi-finished pinewood, while uranium, iron ore, manganese, industrial quartz, mica, carnauba wax, oil-cakes and hides were all placed in the fourth category (50 cruzeiros per dollar).

The higher rates of exchange for these products have the effect of a partial devaluation of the cruzeiro. This manner of encouraging exports has a number of aspects. First, the differential exchange rate aims at covering higher costs arising from the inflation. Secondly, the strengthening of secondary exports aims at the partial offsetting of the decline in coffee exports. The establishment of a fixed rate of exchange for coffee eliminates a factor of speculation by exporters; with the variable rate of exchange (permitting the negotiation on the free market of a percentage of the exchange accruing from exports) they had restricted sales in anticipation of greater devaluation of the cruzeiro. This measure was combined with the suspension of official purchases, which had made it more advantageous to sell stocks to the *Instituto Brasileiro do Café* before exporting. Finally, the monetary devaluation adopted lessens the influence of what has been called “exchange confiscation”, which consists of the difference between the rate of exchange given to planters and the high rates on the auction market, the latter being those which are used for the purchase of imported capital goods. Even in official circles, this confiscation has been qualified as unjust and unconstitutional.

Statistics for the first four months of 1955 show a substantial increase in secondary exports, but they were insufficient to offset the sharp decline in shipments of coffee and cotton (see table 3). In addition, it is believed that the stimulus of the exchange rate cannot accomplish any major increase in secondary exports because of deficiencies in transport and storage. It thus appears that only a pronounced recovery in coffee sales can reduce to any great extent the present difficulties in the balance of payments.

As regards imports, since February there has been a decline caused by the influence of credit restrictions and the reduction of foreign exchange on the auction market. Nevertheless, the decline is relatively small in relation to the first four months of 1954 (see again table 3), and a greater reduction cannot be made without compromising over-all economic activity and the consumption level of certain essential foodstuffs. For example, wheat purchases, which reached 28.8 million dollars during the first four months of 1954, stood at 17 millions during the same period of 1955.

In contrast, imports of liquid fuels, which weigh so heavily in the balance of payments, show a decrease of some magnitude, which is attributable to progress ac-

complished in petroleum refining. For the moment, however, imports of wheat and fuels, added to the financial obligations referred to earlier, leave but a narrow margin for other imports.

The prospects for maintaining the level of economic activity, especially in the industrial sector, are somewhat more favourable by virtue of facilities offered to foreign investment, and which has already led to imports of capital goods financed by investors themselves.

The monetary situation and the inflation

The establishment of coffee stocks had an inflationary effect, despite the fact that official purchases, made with the product of exchange rate differentials represented an indirect form of taxation. During the final months of 1954 and early in 1955, the value of such purchases rose from one thousand million cruzeiros to more than 9 thousand millions. This was an inflationary measure to the extent that the accumulated stocks were not sold and that imports became substantially more expensive. The funds used to purchase coffee stocks consisted of a money supply taken out of circulation (foreign exchange acquisitions by importers) which was later returned to circulation through the purchase of the *Instituto Brasileiro do Café*. But importers were obliged to depend upon credit and the coffee reserves were not transformed into foreign-exchange income which could increase the capacity to import.

On the other hand, the contribution of coffee to the development of the inflation also came from the credit financing offered by the *Banco do Brasil* to planters and exporters. During 1954, credits of this nature rose from 2,682 million cruzeiros to 8,768 millions. The purchases by the *Instituto Brasileiro do Café* permitted these loans to be liquidated, but since financing is carried out on the basis of prices fixed by the Government and the problems on world markets reduced exports, suppliers preferred to sell their coffee to liquidate their debts.

This policy has been abandoned, but other inflationary pressures remain and there are certain threatening factors whose effect will depend upon the course of events. The main pressure came from public finances. The deficit anticipated in the Federal Budget is for 8 thousand million cruzeiros, provided that the proposed economies of 7 thousand millions are realized, which appears unlikely. To this must be added the deficits in State budgets which are expected to amount to some 4 thousand million cruzeiros.

The Federal Budget was adopted with a deficit of only 3.2 thousand million cruzeiros, but it is thought that revenue has been over-estimated and that expenditure will be higher, partly through the increased salaries which must be paid to public employees this year.

Some changes in credit policy are also apparent. At the end of 1954, dispositions had been taken which tended to moderate credit expansion, one of which raised the obligatory reserves of the banks. These measures assisted in containing the monetary expansion and during the first quarter of 1955 loans of the *Banco do Brasil* were almost stabilized, including the credit granted to other private banks through the *Carteira de Redescontos* and by the *Caja de Movilização Bancária*. Loans by private banks to the public also showed a slight decrease. As a

result, the increase in the money supply during the first quarter amounted to only 0.9 per cent, as compared with 3.2 per cent for the same period in 1954.

Table 4
BRAZIL: EVOLUTION OF THE MONEY SUPPLY
AND OF BANK CREDIT

(Millions of cruzeiros)

A. Money supply			
End of month	Monetary circulation	Deposits	Total
1954 December	48,800	103,300	152,100
1955 March	48,600	104,400	153,000
April	59,500	164,700 ^a	22,200
B. Bank credit			
End of month	Public sector	Private sector	Total
1954 December	56,000	163,200	219,200
1955 March	58,300	162,600	220,900
April	59,500	164,700 ^a	224,200

SOURCE: *Superintendencia da Moeda e Crédito.*

^a Estimate.

Table 4 shows that during the first quarter there were no issues and that the rise in the money supply was almost exclusively caused by loans to the public sector. From April, credit to the private sector once again began to increase. At the beginning of May, the measure dealing with obligatory bank reserves was repealed, so that these reserves returned to 4 per cent for sight deposits and to 3 per cent for time deposits while the rediscount rate, which had been fixed at 8 per cent, returned to 6 per cent.

Higher wages have continued to exert pressure upon both costs and prices. It is estimated that between September 1954 and April 1955 the increment was somewhat more than 60 per cent, while the cost of living increased by only 14 per cent. But the rise in wages—decreed in May 1954—has not ended, since adjustments are still being made in the different salary levels in accordance with the new minimum wage. Moreover, the delayed action of higher wages may influence prices and the cost of living during the course of 1955. In April, the cost of living in the Federal District had already risen by 2.2 per cent above that of the preceding month.

In summary, it is thus apparent that the major sources of inflationary pressure are public finance and wages. But there is also the risk that other forces will contribute to accelerating the inflation. The relaxation of restrictions on credit has created facilities for an expansion of lending. If foreign investment or substantial loans are lacking, the rate of investment prior to 1953-54, when it had declined sharply, cannot be restored. The exchange system may also become a factor in the inflation if the reduction of imports continues, earnings from exchange differentials diminish and if bonuses on exports are raised, which appears to be the objective of the authorities. Such bonuses will be inflationary in nature unless a substantial increase is made in the premium on the rate of exchange assigned to some imported products which at present enjoy differential treatment, *inter alia*, wheat and newsprint. This alternative, however, would also represent a factor in raising the prices of the commodities concerned.

Finally, there remains the unknown future policy for coffee. To maintain receipts in the coffee sector and to avoid the depressive effects of a renewed fall in exports upon the economy as a whole, the Government may decide to reinstitute official purchases and to accumulate stocks; this can be accomplished only through inflationary methods, if, as may be foreseen, profits on the exchange rate suffer a major decline.

COLOMBIA

The recent coffee situation

Coffee accounts for 9 per cent of Colombia's income, a proportion which rises to 17 per cent if subsidiary activities are taken into account. It contributes 35 per cent of fiscal revenue and more than 90 per cent of foreign exchange received by the exchange control office. Colombia's production represents 20 per cent of the world aggregate.

These data are sufficient indication of the havoc which fluctuations in prices and demand could cause in the economy of this country. It is thus appropriate to outline briefly the nature of those fluctuations. After a sharp rise to more than 90 cents per pound, in February coffee prices again dropped to 52 cents. A slight recovery later enabled the price to rise to between 60 and 64 cents.

The most direct and apparent consequence of the price trend during recent months is the following. With exports reaching 5.6 million bags—a normal figure for which provision is made in the draft international coffee agreement—and fetching a price of 60 cents per pound,

foreign exchange income would drop by about 200 million dollars in comparison with 1954. If the volume of exports were to remain at the 1953 level, the loss would be negligible; but exports during that year were abnormally large and there is no reason to expect the situation to be repeated in 1955.

In 1954, the Government tried to prevent the coffee boom from producing an extraordinary expansion of the domestic economy on the basis of an increase in monetary income which, though initially benefiting the coffee sector, would later spread to the other sectors with the consequent inflationary risks. The measures adopted⁶ did not prevent a sizeable expansion of the money supply, and if prices rose only moderately, this was due in part to the considerable increment in imports fostered by the Government through the elimination or relaxation of restrictions. But the latent disequilibrium involved in this solution was brought to light as soon as market and price conditions for coffee changed.

⁶ See *Economic Survey of Latin America, 1954, op. cit.*

The drop in exports, together with the maintenance of the import level, caused a deficit in the balance of payments. The postponement of many payments prevented this deficit from affecting international reserves, which stood at more than 260 million dollars in December 1954. But in January and February 1955 losses were sizeable and by mid-June such reserves had declined to some 110 million dollars, a level which limits the possibility of resorting to reserves should the situation deteriorate further, and which is already very near to the legal minimum of 25 per cent in relation to currency in circulation. The possible repercussions of this situation could affect all the aspects of the Colombian economy—balance of payments, income, investment, the level of activity and of employment, and public finances.

The Government has adopted several measures aimed at preventing the risks inherent in this situation. Mention should be made of the resolution adopted in February, which provides for the maintenance of the income of the coffee sector through the purchase of this commodity at a minimum profitable price.

The 1954 boom—based on a rise in coffee prices—was considered abnormal, and it was believed that the economy of the country should not have adjusted itself to an artificial and transitory price level. Such a sharp increase as occurred in this year arouses expectations which are soon proved false and also has adverse effects on demand. For this reason, producers prefer stable prices and markets. If stability were achieved at present price levels or at the probable export levels for this year, the situation would be satisfactory, or at least not so unfavourable. Moreover, it has already been noted that the Colombian economy seems to be in a better position than others to face long-term prospects for coffee. As for the recent crisis, it should be recalled that the results obtained in 1954 were exceptionally good; the gross product, income and investment reached high levels, industrialization achieved an accelerated rate of growth and the fiscal year closed with a surplus.

Available data for the first five months of 1955 indicate that the volume of coffee exports has dropped by about 27 per cent in relation to the same period of 1954.⁶

The International Coffee Agreement

Most of the short-term prospects hinge on the agreement between Brazil, Colombia and other coffee-producing countries, which is still being negotiated by the first two countries. The agreement is based on the control of supply by means of the establishment of export quotas and the formation of a reserve fund with surpluses. Colombia's quota was pegged at 5.65 million bags.

It has already been noted that Brazil's position with regard to the way in which the coffee reserve stocks should be constituted is contrary to withholding any part of the last crop. This position has already taken form in the recent shipment regulations which make provision for larger exports than the basic quota. The Brazilian policy plays a decisive role in Colombian coffee exports,

and naturally in the price situation. The attitude adopted by the authorities of Brazil and the success of the International Agreement are therefore of particular importance to Colombia. On the other hand, the reaction of United States importers towards a control of supplies aimed at stabilizing prices at about 60 cents per pound still remains to be seen. But this level seems reasonable and new restrictions of demand are not expected from its maintenance. This price and the volume of exports forecast in the draft agreement might be considered normal from the Colombian point of view.

Exchange reforms

The variations of coffee prices and exports have been determinants of the recent exchange reforms. Owing to the rise in prices, the exchange rate for coffee exports had been frozen at 2.38 pesos per dollar. At the beginning of 1955, when prices and volume declined, the rate was raised to 2.50, which was, and still is, the basic official rate for exports and imports.

In February an important reform was introduced into the import system whereby a stamp tax equivalent to 3, 10, 30, 80 and 100 per cent⁷ was applied to each of the five import categories respectively, and the list of import prohibitions was reinstated. Practically all customs privileges for official and semi-official organizations were cancelled, and various quotas for travellers, students, etc. were also suppressed. If necessary, the revenue from this tax would be used to cover the loss arising from coffee purchases at the minimum price.

This measure was supplemented in May by two others of no lesser importance. One of the latter established that, in the future, merchandise belonging to categories 2, 3 and 4 may only be imported with dollars purchased on the free market; the export vouchers—established in favour of certain secondary exports—are eliminated and exporters of products other than coffee, bananas, hides, petroleum and platinum are allowed to sell their foreign exchange on the free market, which will also receive the exchange income from unrecorded capital transactions, tourism, fares, etc.

The other measure (4 May) provides for a barter or compensation system. The value of import registrations to be authorized in the future will be payable in exchange derived from exports to the same country from which the imports are obtained. This is valid only for imports of the preferential and first categories (raw materials and capital goods).

This system, as a whole, is considered to be the most stringent that could be applied and capable of achieving equilibrium in the trade balance of the current year (excluding payment arrears). On the one hand, in theory, the barter system will adjust imports to exports with each country as regards Colombia's basic exports and those essential imports which are included in the preferential and first categories.

The possibility was also borne in mind that the coffee market might expand in countries interested in selling to Colombia. A similar adjustment will have to take place in the free market area, and supply and demand will determine the rate of exchange, which at present fluctu-

⁶ According to data published in the *Revista del Banco de la República* and in the *Journal of Commerce*, the volume of coffee exports in January-May 1955 reached 1.9 million bags, as against 2.6 millions in the same months of 1954.

⁷ Over the basic rate of 2.50 pesos.

ates around 4 pesos to the dollar. If it is considered that merchandise belonging to the fourth category must pay a stamp tax of 100 per cent over the basic exchange rate of 2.50 in addition to customs duties, the dollar for this group of imports stands at about 7 or 8 pesos.

To what extent these surcharges will affect demand for non-essential imports is as yet unknown. At the time that these free exchange and barter measures were taken, the pressure of demand was still very strong and in the first five months of the year, while exports declined by some 140 million pesos in relation to the same period of 1954, imports increased by 150 millions.⁸ This was the decisive factor in the adoption of the new regulations, the organization and procedures for which were also utilized to effect temporary closings of the import registry (one of these lasted for almost a month). Up to the end of May the exchange office purchased foreign exchange worth 174.8 million dollars and sold 333.6 millions.

Data are not available for June, but there is every indication that imports have declined appreciably. Owing to seasonal causes, coffee sales increased during the second half of the year and it is hoped, moreover, that United States demand will expand with the reconstitution of stocks. It is interesting to note that the barter system involves the adjustment of payments, and not of actual imports, to the exports to each country, so that the possibility of an accumulation of debts is not discarded in so far as suppliers may grant credit to Colombian importers.⁹

Fiscal, monetary and credit policy

The Government policy has been summarized by the Minister of Finance in the following statement:

"... it is necessary to maintain full employment and the stability of the domestic economy and at the same time prevent both inflation and deflation. For this purpose, domestic coffee prices will be kept constant to prevent the producer from suffering any loss of purchasing power; the industrial sector will be stimulated so that entrepreneurs can continue to employ their workers; the exchange rate for raw materials will be maintained...; public expenditure in national currency will be kept at the same level so that unemployment may be avoided and development stimulated. All these measures are in harmony with each other and have the same end in view: maintenance of full employment and of the level of income."

The hopes thus expressed have been embodied in the measures described above and in others concerning fiscal, monetary and credit policy.

The Government has stressed that it has no intention of curtailing public expenditure. It should be recalled that the current budget was planned with a deficit and that investment represents about 35 per cent of expenditure. During the first quarter of 1955, public income reached the sum of 556.3 million pesos (including the surplus carried over from the previous year); as regards current

⁸ SOURCE: *Monthly Bulletin of Statistics*.

⁹ According to the regulations adopted, the system presents two aspects. Aggregate barter between countries may give rise to disequilibria, owing to an excess of imports over exports. When a certain limit is reached the *Oficina de Registro de Cambio* suspends payment to the country concerned. Barter between individuals may avoid this risk. Under such a system, should imports not be compensated by equivalent exports within a term of six months, the importer will lose his guarantee previously deposited with the Government unless he hands over the compensatory balance to the *Banco de la República*.

expenditure, there was a surplus of 149 million pesos during this period. In an official report, the Comptroller points out that on 30 June the budgetary surplus had reached 347 millions.

The coffee situation has so far had no serious repercussions on fiscal income, notwithstanding the elimination of the differential coffee tax, but it is logical to assume that the same will not be true in the second six months of the year, since the expected decline in imports will lower customs revenue.

The realistic credit policy of the *Banco de la República* has adapted itself to changing circumstances. In April the legal minimum reserve limit of commercial banks was raised from 18 to 23 per cent, an increase which would become effective on 18 April and 18 May in two quotas each of 2.5 per cent. The additional reserve requirement of 40 per cent of any increase in deposits was reinstated. A certain deficiency in the money supply required the abolition of the first of these measures. Thus, only the 40 per cent additional obligation was left in force. In the first four months of 1955 the means of payment (excluding Government deposits) had declined by 136 million pesos, but in May there was an increment of 62 millions. (See table 5.)

Table 5

COLOMBIA: MONEY SUPPLY AND BANK CREDIT

(Millions of pesos)

End of month	Money supply a	Loans to the public sector	Loans to the private sector
1954			
September	1,660	396	1,357
December	1,847	344	1,492
1955			
March	1,702	348	1,665
May	1,772	470 ^b	1,634 ^b

SOURCE: *Banco de la República* and International Monetary Fund, *International Financial Statistics*.

^a Does not include Government deposits.

^b On 30 April 1955.

External factors evidently contributed to the decline in the money supply. On the other hand, if the evolution of bank loans is observed, a rising trend will be noted for the first quarter. In April, although loans to the public sector increased, those to the private sector declined. Credit conditions have been normal for production activities. During the first half of the year the loans granted to the *Federación Nacional de Cafeteros* for purchases from producers rose from 154 to 259 million pesos.

Prices have been subject to contradictory influences, as has the cost of living, and by mid-year no definite trend was apparent. During the first months there was a small rise which was virtually cancelled out in June.

In order to appreciate immediate prospects, two factors must be taken into account. First, official policy is oriented towards the maintenance of the monetary income of all sectors; and secondly, prices of imported articles

are rising owing to restrictions and to the shortage of foreign exchange. It has also been seen that there will probably be a budget deficit, and furthermore many of the proposed investments are not directly or immediately productive.

Meanwhile, the *Banco de la República* is following a prudent policy, considerable supplies of imported goods were accumulated before restrictions were applied, an excellent crop is expected, and finally there is no pressure from trade unions for a wage increment. In this last respect, it should be noted that although wage indices are not available, there are sufficient indications that real wages, after rising for several years, have deteriorated slowly since 1950.

Conclusions

All the developments analysed show that no great repercussions have been felt from the coffee crisis during the first half of the year, and that if expectations are fulfilled, there will be no serious effects in the second half.

The deterioration in the terms of trade will undoubtedly influence the income level, and the very favourable results obtained in the previous year will not be repeated. But it may be expected that a normal level of industrial activity will be maintained, since supplies of raw materials will be adequate and greater credit facilities will be available. Moreover the Government's intention of maintaining the income level in all sectors will prevent a weakening of monetary demand; in addition, public investment will continue to be large. Exchange restrictions and taxation of imports will protect domestic production, either directly by diminishing competition from foreign products, or indirectly by channelling demand towards other domestic commodities. Building activities have maintained their usual rate, and agricultural production is expected to exceed the previous year's level.

Over the short term, the greatest uncertainty lies in the evolution of coffee exports. In June, 600 thousand bags were exported and this was considered quite satisfactory. The continuation of this recovery will largely depend on Brazil's policy, whether or not the agreement is ratified.

SOME ASPECTS OF THE RECENT EVOLUTION OF CUBA'S ECONOMY

1. INTRODUCTION

The purpose of the present note is to give a brief description of some aspects of the evolution of Cuba's economy during the post-war period and particularly in the years 1952-54. The final part of this paper is devoted to the appraisal of official economic policy during those three years, and to a very tentative examination of some of its probable future implications.

The initial part contains a very cursory outline of the evolution of the Cuban economy until the end of the war. The observations made are intended only to permit the reader to place recent events and some of the country's current problems within the proper historical perspective.

Since the beginning of the century, Cuba's economic development has been inextricably bound up with the evolution of the foreign market for sugar. The dependence of this country upon its basic export industry can clearly be appreciated from the fact that at present the industry in question provides from one-quarter to more than one-third of aggregate gross income. In addition, it contributes 84.0 per cent of the capacity to import, and it provides employment for not less than 30.0 per cent of the active population.

Until the end of the 1920's, the continuous expansion of foreign demand for sugar and the substantial improvement in its relative price brought about a significant rise in Cuba's net *per capita* income, despite considerable demographic growth. This process came to an end during the first half of the 1930's when world demand for sugar declined sharply.

Since then, Cuba's economy has remained stagnant. More than cursory evidence seems to indicate that fixed capital has grown at a slower rate than the population. However that may be, it is nevertheless easy to prove¹ that in 1931-55 fixed capital grew at a much less rapid rate than

¹ To this end, it is sufficient to examine import statistics, which show that the volume of imports of capital goods (including building materials) in the period 1931-35 dropped to less than half the corresponding level for the previous 25 years. This is conclusive proof that the domestic capital goods industry still plays a secondary role in the supply of these commodities.

during the preceding quarter-of-a-century.² One of the paradoxes in Cuba's history is that the volume of savings generated by the economy in that period would have been sufficient to increase the country's stock of fixed capital, at a much faster rate than was in reality obtained. This subject will later be discussed in more detail.

The increment in net *per capita* income registered in the last 25 years, and particularly during the post-war period, constitutes, in large measure, a mere return to the income levels already attained by Cuba in the past. What is still more significant, the increase has been due to the same cause—the growth of world demand for sugar—that gave rise to similar phenomena in other periods.

The preceding considerations imply that the rise in income was due more to a fuller utilization of existing capacity than to its expansion. From the 1930's until recently, official economic policy made no marked contribution to the mitigation of the depressive effects of external factors nor to the acceleration of the country's rate of development.

The crisis generated in 1952 wrought a profound change of direction. The maintenance of the level of income, or, to be more precise, the compensation (through an increase in public investment) of the deflationary pressures exerted by the export sector, became its prime objective.

2. EVOLUTION OF THE CUBAN ECONOMY UP TO THE END OF THE WAR

Before the depression, the cyclical downswings were short-lived, and when they occurred, the economy always adjusted itself to the unfavourable conditions of the world sugar market in such a way as to maintain external stability. In other words, a contraction in the volume of sugar exports, a deterioration in its relative price, or

It is also true that demographic growth was more intensive during the first quarter of the present century than during the next 25 years. In compensation, capital goods requirements merely for replacement increased substantially with the course of time.

² Needless to say, the changes in the composition of fixed capital have not been very significant.

both, was always accompanied by a decline in income and by a reduction of domestic activity to the extent required for the preservation of stability in the country's foreign accounts.

The depression of the 1930's, notwithstanding its intensity, did not, as in other countries of the region, bring about any basic changes in the mechanism of adjustment of the economy. The level of net *per capita* income therefore dropped, falling to approximately 52.0 per cent of its average for the quinquennium 1925-29.

The cyclical decline in world demand for sugar removed the incentives for investment, which had formerly come from abroad.³ In addition, the very mechanism whereby the Cuban economy adjusted itself to the foreign situation prevented other activity sectors from creating compensatory incentives. The country therefore began to emerge from the depression without any apparent substantial modification in the structure of production.

It should be noted that the under-utilization of the installed capacity in the sugar industry—which was already apparent at the end of the 1920's, notwithstanding the high volume of production—reached exceptional levels, as did the degree of unemployment.

If, on the supply side, there were no important alterations in the structure of domestic production, still less substantial were the changes in demand. The distribution of income probably did not alter to any significant extent, and the consumption pattern of the population remained the same. In other words, the country's capacity to generate a given volume of savings at a specific level of income continued unchanged.

No great insight is needed to conclude that the right conditions had been created for income to increase—when world demand for sugar recovered—with practically no expansion of capacity, that is, without the investment in fixed capital of large part of the savings generated by the productive effort of the community.

In fact, this was just what happened when a recovery in the world market for Cuban sugar did set in. Both the government and the private sector invested a large though indeterminate proportion of their savings in the accumulation of international assets, particularly gold and foreign exchange. The special circumstances arising from

³ The loss of these incentives became more marked when external demand for sugar later remained stationary.

the war contributed to a more marked development of this process. It is pertinent to note that public holdings of liquid assets rose from 1 million dollars in 1937 to 232 millions in 1945.

3. THE EVOLUTION OF THE CUBAN ECONOMY IN 1946-52

a) General observations

Two clearly distinct periods can be observed in the recent evolution of Cuba's economy, namely, 1945-52 and from 1953 onward. During the first of these, external factors tended to increase income while internal forces were inclined to act as break in the process of expansion. In the subsequent period the situation was reversed. Autonomous public investment—and to a lesser degree private capital formation—began to play a dynamic role.

In both periods, as was traditionally the case, it was the sugar industry that felt the primary impact—at first positive and later negative—of the external factors. For this reason it is worth while to bring out the salient features of the evolution of world demand for Cuban sugar during the last ten years.

After the 1920's, this demand ceased to grow, or more precisely, it tended to decline. Disregarding the cyclical factors which affect its level, and concentrating on its long-term determinants, it can be seen that the main causes of this phenomenon are the following: 1) the growing income-inelasticity of demand and the relatively moderate rate of increase in the population in the countries with the highest standard of living, including the two largest importers of Cuban sugar, the United States and the United Kingdom; 2) the continuous and marked expansion of domestic production in some of the main importing countries—for example, the United States—or in their possessions or territories; 3) the tendency towards self-sufficiency in sugar production in under-developed countries where consumption rises at a relatively high rate, and even in those in which this does not occur.

In the years immediately following the war the slow recovery of this industry in some countries (both exporting and importing) kept world supplies at a lower level than total demand. Since the Cuban industry possessed an ample unutilized capacity, the deficit was to a large extent covered by exports from this country.

b) Behaviour of income and investment

Between 1945 and 1952 exports rose from 3.7 to 5.0 million tons,⁴ that is, by 36.0 per cent. The expansion of the activity of the sugar sector followed a parallel course, since stocks accumulated in the early post-war years were not particularly large.

The gross product of the sugar sector more than doubled between 1945 and 1952, while that of the rest of the economy rose by only 30 per cent. If 1946 is taken as a point of reference, the relative increase in the product in these two sectors stood at 85 and 28 per cent respectively. This unequal evolution shows that the economic branches mainly supplying the domestic market lagged behind those which depend on foreign markets. (See table 1.)

Table 1

CUBA: AGGREGATE GROSS PRODUCT OF THE SUGAR SECTOR AND OF THE REST OF THE ECONOMY

Year	Gross product			Gross product		
	Aggre- gate	Sugar sector	Rest of the economy	Aggre- gate	Sugar sector	Rest of the economy
	(Millions of pesos at 1945 prices)			(Growth indices) 1945 = 100		
1945	1,245.6	303.9	941.6	100.0	100.0	110.0
1946	1,346.5	390.8	955.7	108.1	128.6	101.5
1947	1,533.8	495.0	1,038.8	123.1	162.9	110.3
1948	1,485.0	512.4	972.6	119.2	168.6	103.3
1949	1,545.7	442.8	1,102.9	124.1	145.7	117.1
1950	1,628.1	468.1	1,159.2	130.7	154.3	123.1
1951	1,743.0	486.2	1,256.8	139.9	160.0	133.5
1952	1,835.7	608.1	1,227.6	147.4	200.1	130.4
1953	1,733.2	434.3	1,298.9	139.2	142.9	137.9
1954 ^a	1,835.8	408.1	1,427.7	147.4	134.3	151.6

Sources and methods:

Aggregate gross product: see sources, table 2.

Gross product of the sugar sector: This has been obtained by evaluating the physical volume of sugar production at 1945 prices, in accordance with the value added by the industry in that year. The index of the physical volume of production was based on annual tonnage figures (see *Memoria del Banco Nacional de Cuba, 1953-54*, p. 270 and previous annual reports of this Bank.

Gross product of the rest of the economy: The difference between the total gross product and that arising from the sugar sector.

^a Provisional figures.

At all events, the aggregate gross product rose at an average annual rate of 5.4 per cent until 1952, despite yearly fluctuations which were sometimes very sharp. The *per capita* product in-

⁴ In fact, exports rose to a much higher level in other years of the period, standing at 5.9 million tons in 1948 and at 5.4 millions in 1954.

creased at a rate of 3.3 per cent, which exceeds the average for Latin America, without, however, being exceptionally high. (See tables 2 and 4.)

Table 2

CUBA: GROSS INCOME AND PRODUCT, AND THE TERMS OF TRADE IN RELATION TO 1954

(Millions of pesos at 1945 prices)

Year	Gross income	Gross product	Terms of trade effect
1945	1,245.5	—	1,245.5
1946	1,332.1	— 14.4	1,346.5
1947	1,534.4	0.6	1,533.8
1948	1,407.1	— 77.9	1,485.0
1949	1,506.2	— 39.5	1,545.7
1950	1,685.9	57.8	1,628.1
1951	1,800.5	57.5	1,743.0
1952	1,835.7	—	1,835.7
1953	1,625.0	—108.2	1,733.2
1954 ^a	1,707.0	—128.8	1,835.8
Average rates of growth by periods:			
1946-52	5.7		5.4
1952-53	—11.5		—5.6
1953-54	5.0		5.9
1946-54	3.5		4.1

Sources and methods:

Gross income: Obtained by expressing the geographic gross product series in constant values at 1945 market prices. This latter was obtained from the *Memoria del Banco Nacional de Cuba*, Havana, p. 258. It was used to deflate the retail price index of foodstuffs, which was obtained from the same source. The figure included for 1954 is an estimate of the *Banco Nacional de Cuba*, *op. cit.*, p. 117.

Gross product: This is the quantum of goods and services produced internally, evaluated at 1954 prices, which was obtained by deducting the terms of trade effect from gross income.

Terms of trade effect: Advantage or disadvantage obtained by the country through the variation of its terms of trade in relation to 1945. The indices used for this calculation were estimated by ECLA. For a comprehensive explanation of the method and concepts, see *Economic Survey of Latin America, 1951-52*, general note at the end of Chapter I.

^a Provisional figures.

Cuba's experience was unlike that of almost all other Latin American countries in that the expansion of gross income did not outstrip that of the gross product. This was due to the fact that in the period under review Cuba's terms of trade⁵ either has negative effects or remained practically neutral, except in 1950 and 1951, while as a general rule they showed a marked improvement for the remaining countries. According to the data in tables 2 and 4, the gross income increased by 5.7 per cent annually and *per capita* income by 3.7 per cent.

⁵ In relation to 1945.

Table 3

CUBA: GOODS AND SERVICES AVAILABLE FOR CONSUMPTION AND INVESTMENT
(Millions of pesos at 1945 prices)

Year	Total	Consumption	Investment						
			Total	Capital goods imports	Real value of new construction	Miscellaneous domestic investment expenditure	Inventory changes	Total fixed capital	Total
								As percentage of total available goods and services	
1945.....	1,104.7	1,069.7	35	16	33	15	-29	5.8	3.2
1946.....	1,180.2	1,079.2	101	40	37	16	8	7.9	8.6
1947.....	1,404.2	1,252.2	152	83	31	30	8	10.3	10.8
1948.....	1,317.0	1,181.0	136	82	41	28	-15	11.5	10.3
1949.....	1,430.8	1,292.8	138	66	42	25	5	9.3	9.6
1950.....	1,596.7	1,431.7	165	76	54	26	9	9.8	10.3
1951.....	1,720.7	1,536.7	184	99	53	34	-2	10.8	10.7
1952.....	1,830.9	1,571.9	259	96	45	33	85	9.5	14.1
1953.....	1,557.4	1,444.4	113	65	57	23	-32	8.4	6.7
1954 ^a	1,722.9	1,532.9	190	64	64	27	35	9.0	11.0

Sources and methods:

The total of available goods and services was calculated by adding the surplus of imports over exports to the gross product (in Cuba this figure has been negative for the whole of the period under review).

Gross investment: Figures obtained from the *Memoria del Banco Central de Cuba, 1953-54*, p. 262, *et seq.* Current values were expressed in 1945 pesos by utilizing deflators for each type of investment.

a) Consumption: A residual figure calculated by deducting aggregate investment from total available goods and services.

b) Capital goods imports: Deflated by the unit value index of imports calculated by ECLA.

c) Real value of new construction: Expressed in constant values utilizing the average of the indices employed in the deflation of the other series.

d) Miscellaneous domestic investment expenditure: Deflated by utilizing the average of the indices employed for the previous subjects.

^a Provisional figures.

Table 4

CUBA: PER CAPITA GROSS INCOME, GROSS PRODUCT AND AVAILABLE GOODS AND SERVICES

(Pesos at 1945 prices)

Year	Gross product	Gross income	Available goods and services		
			Total	Consumption	Investment
1945.....	250	250	222	215	7
1946.....	265	262	232	213	19
1947.....	296	296	271	242	29
1948.....	281	266	249	223	26
1949.....	286	279	265	239	26
1950.....	295	306	290	260	30
1951.....	310	320	306	273	33
1952.....	320	320	319	274	45
1953.....	296	277	266	246	20
1954 ^a	307	286	288	256	32
Average rate of growth by periods:					
1946-52.....	3.3	3.7	5.7	4.5	17.3
1952-53.....	-7.5	-13.4	-16.6	-10.2	-55.6
1953-54.....	3.7	3.2	8.3	4.1	60.0
1946-54.....	2.0	1.5	3.8	2.6	13.6

Sources and methods:

Based on tables 1, 2, and 3. The figures for total population utilized in these calculations are ECLA estimates, based on the latest censuses.

^a Provisional figures.

As to available goods and services, the first point worth recording is that they constituted a smaller share of the gross income than in other Latin American countries. The causes of this phenomenon will be discussed later. The only fact to be noted now is that available goods and services increased faster than the gross income and gross product between 1946 and 1952, owing partly to the gradual decline in Cuban investment abroad.

An examination of the distribution of goods and services between consumption and investment shows that the share of the former has fluctuated only slightly, except in 1946, around a very high average of 89 per cent. From another angle, this same fact indicates that the resources employed in the expansion and renewal of the stock of capital did not exceed very modest limits. In fact, fixed investment absorbed only 10 per cent of available goods and services, the remaining 1 per cent corresponding to inventory changes. (See table 3.)

The coefficient of gross investment in fixed capital is still lower, since gross income remained at a higher level than available goods and services throughout the period under analysis. This coef-

ficient of 9.3 obtained from the figures of table 5 compares very unfavourably with that prevailing in other Latin American countries, as shown by the following data prepared by ECLA on the basis of official statistics:

Countries	Per capita	Gross fixed invest-
	gross income	ment as percentage
	(Annual average for 1946-52)	
	Dollars at 1950 prices	Percentages
Argentina	494	18.7
Brazil	181	15.7
Chile	304	13.1
Colombia	327	18.6
Cuba	344	9.3
Mexico	204	13.4

After depreciation is deducted a net investment rate of 5.3 per cent is obtained, which, according to very tentative estimates, probably resulted in a rate of growth of the stock of fixed capital slightly higher than that of the population, which was 1.7 per cent. If this figure is accurate, a previous statement could be rectified in the sense that the stock of capital per inhabitant has declined during the last quarter century⁶ and the aggregate stock probably increased very little.

In many Latin American countries gross domestic savings (including external financial services and the terms of trade effect) exceed geographic investment. Cuba constitutes no exception to this rule, but a distinctive feature of its economy is that the former exceeds the latter by a larger margin than that registered in almost all the other countries of the area.

The difference between the absolute level of these two variables is generally due to the fact that remittances of profits by foreign companies and the servicing of the external debt absorb more resources than those which are received from abroad in the form of credit, direct investment, etc. It might be assumed that Cuba constitutes an extreme case in point. This is not really true, although the inflow of foreign capital is small and remittances of profits and the servicing of the external debt absorb about 12 per cent of the capacity to import.

⁶ It was in the post-war period that capital formation proceeded at the most vigorous rate recorded since the beginning of the 1930's. If the rate of net investment stood at only the low level indicated in the text, it is likely that during the crisis and war years there was a net geographic disinvestment. This explains the statement made above.

Table 5

CUBA: COEFFICIENTS OF GROSS AND NET GEOGRAPHIC INVESTMENT, GROSS DOMESTIC SAVINGS, FINANCIAL SERVICES AND THE TERMS OF TRADE EFFECT, 1945-54

(As a percentage of total gross income)

Year	Gross domestic savings, financial services and the terms of trade effect	Fixed geographic investment	
		Gross	Net
1945	14.1	5.1	2.4
1946	20.0	7.0	4.4
1947	18.4	9.4	6.2
1948	21.6	10.7	7.4
1949	16.8	8.8	4.5
1950	11.6	9.2	4.7
1951	11.4	10.3	5.3
1952	14.4	9.5	4.6
1953	17.8	8.9	4.0
1954 ^a	17.8	9.1	3.5
Averages for periods:			
1946-52	16.3	9.3	5.3
1952-53	16.1	9.2	4.3
1953-54 ^a	17.3	9.0	3.8
1946-54 ^a	16.6	9.2	5.0

Sources and methods:

All the figures in this table are expressed in relation to gross income, obtained from table 2, column 1.

Gross domestic savings, etc.: See sources to table 7.

Gross geographic investment: See sources to table 3; inventory changes are excluded.

Net investment: Obtained by deducting depreciation charges (see *Memoria del Banco Central de Cuba, op. cit.*, p. 264); this series was deflated by an index of the weighted average used to deflate gross investment.

^a Provisional figures.

In the case under review, the difference between gross domestic savings, financial services and the terms of trade effect, on the one hand, and geographic investment, on the other, is to a large extent explained by the fact that an appreciable share of the savings generated in the Cuban economy, far from being used to raise internal productive capacity, is hoarded or invested abroad.

The information summarized in tables 6 and 7, despite its limitations, illustrates these statements. Throughout the whole period 1946-52, geographic investment represented during only one year more than 90 per cent of gross domestic savings, financial services and the terms of trade effect taken together, while its average share reached only 56 per cent. Remittances of profits and amortization of the external debt—particularly the former—absorbed about 14.5 per cent of the total, while 2.9 per cent was devoted to increasing official and private bank holdings of gold and foreign exchange. The balance, or 16.5

per cent, constitutes the share hoarded by private individuals or invested abroad.

It was precisely the appreciable volume of international liquid assets accumulated during the war and early post-war years that permitted the Government to initiate a compensatory policy in 1954, without incurring the immediate risk of inflation. But before this point is dealt with it is advisable to consider some events in 1953 and 1954.

4. THE SITUATION IN 1953

In 1952 sugar production reached a peak. Simultaneously world demand for this commodity declined and the volume of sugar exports contracted by 8 per cent in relation to the previous year. Prices dropped still further, this being the main cause of the deterioration of the terms of trade as compared with 1951.

Table 6

CUBA: FIXED GEOGRAPHIC INVESTMENT COMPARED WITH DOMESTIC SAVINGS, FINANCIAL SERVICES AND THE TERMS OF TRADE EFFECT, 1945-54

(Millions of pesos at 1945 prices)

Year	Fixed gross geographic investment (A)	Gross domestic savings (B)	Financial services (C)	Terms of trade effect (D)	Total of cols. (B), (C), and (D) (E)	Fixed geographic investment (col. (A)) as a percentage of col. (E) (F)
1945....	64	154	22	—	176	36.4
1946....	93	215	38	14	267	34.8
1947....	144	228	55	— 1	282	51.1
1948....	151	188	38	78	304	49.7
1949....	133	190	24	39	253	52.6
1950....	156	215	39	— 58	196	49.6
1951....	186	235	25	— 57	206	90.3
1952....	174	228	36	—	264	65.9
1953....	145	150	31	108	289	50.2
1954 ^a ...	155	174	..	129	303	51.2

Sources and methods:

Col. (A): See table 3.

Cols. (B), (C) and (D): The total of these columns (col (E)), is equal to that part of the gross geographic product not absorbed in domestic consumption. It thus includes all domestic capital goods purchases—geographic investment—plus the quantum trade balance (see note to col. (K) in table 7 for an explanation of this term).

^a Provisional figures.

The simultaneous occurrence of an exceptional harvest and the contraction in foreign sugar sales led to the accumulation of large stocks, but not to a reduction of gross income. In fact in 1952 this latter reached a peak for the post-war years.

Nevertheless, it should be noted that the increase in public investment, financed partly by the resources accruing from a domestic loan, contributed during that year to the rise in gross income.

In the following year the traditional mechanism of adjustment was set in motion. Sugar production was severely restricted. The deflationary effect of this measure was further aggravated by the sharp deterioration in the terms of trade and by the curtailment of the public investments which were financed in the form described in the preceding paragraph.

The primary deflationary impact—that deriving from export activities—spread to the rest of the economy, with results which need to be described only in their over-all aspects. In 1953 the gross product at current prices declined by 13.5 per cent and at constant prices by 5.6 per cent in comparison with the previous year. Gross income declined even more, mainly owing to the deterioration in the relative price of sugar.

The impact of the decline of income on effective demand was offset to some extent by the redistribution of the former in favour of the wage-earning class which resulted from the freezing at the level of the previous year of the wages paid to the sugar workers.

In Cuba, the redistribution in favour of the wage earners—other things being equal—should provoke a drop in the demand for imports, since their marginal propensity to import is lower than that of the higher income-groups. The simultaneous action of two restrictive forces on the demand for imported goods, namely, the contraction in income and its redistribution, explain the exceptional decline of imports in 1953 and the attainment of a large surplus on current account.

The decline in current fiscal revenue, according to incomplete data, was followed by a restriction of virtually the same proportion in public expenditure. No information is available, however, on the way in which this reduction was distributed between current expenditure and investment.

5. THE SITUATION IN 1954 AND OFFICIAL POLICY

External factors, considered as a whole, again exerted a depressive influence during 1954. The quantum of exports declined slightly and the deterioration in the terms of trade, particularly of sugar, set in again. Stocks of sugar rose once more although current output was restricted by the Government to a lower level than that of 1953.

Table 7

CUBA: DOMESTIC SAVINGS, FINANCIAL SERVICES AND THE TERMS OF TRADE EFFECT, 1945-54

(Millions of pesos at 1945 prices)

Year	Gross geographic investment											
	Total	Gross domestic savings	Fixed investment				Inventory changes	Variation in official and banking reserves	Financial services	Variation in private holdings of foreign assets and their investment abroad	Terms of trade effect	Quantum trade balance
			Total	Value of new construction	Capital goods imports and miscellaneous domestic investment expenditure							
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)		
1945	176	154	35	33	31	-29	130	22	-11	-	141	
1946	267	215	101	37	56	8	51	38	63	14	166	
1947	282	228	152	31	113	8	67	55	9	-1	130	
1948	304	188	136	41	110	-15	-17	38	69	78	168	
1949	253	190	138	42	91	5	-2	24	50	39	115	
1950	196	215	165	54	102	9	-11	39	61	-58	31	
1951	206	235	184	53	133	-2	18	25	36	-57	22	
1952	264	228	259	45	129	85	-56	36	25	-	5	
1953	289	150	113	57	88	-32	5	31	32	108	176	
1954 ^a	303	174	190	64	91	35	-21	..	5 ^b	129	113	
(As a percentage of the total)												
1945	100.0	87.6	19.9	18.7	17.6	-16.4	73.9	12.5	-6.3	-	80.1	
1946	100.0	80.6	37.8	13.8	21.0	3.0	19.1	14.2	23.7	5.2	62.2	
1947	100.0	80.8	53.9	11.0	40.1	2.8	23.8	19.5	3.2	-0.4	46.1	
1948	100.0	61.8	44.7	13.5	36.1	-4.9	-5.6	12.5	22.7	25.7	55.3	
1949	100.0	75.1	54.5	16.6	36.0	1.9	0.8	9.5	19.8	15.4	45.5	
1950	100.0	109.6	84.2	27.6	52.1	4.5	-5.6	19.9	31.1	-29.6	15.8	
1951	100.0	114.0	89.3	25.7	64.6	-1.0	8.7	12.1	17.6	-27.7	10.7	
1952	100.0	86.4	98.1	17.0	48.9	32.2	-21.2	13.6	9.5	-	1.9	
1953	100.0	51.9	39.1	19.7	30.5	-11.1	1.7	10.7	11.1	37.4	60.9	
1954 ^a	100.0	57.4	62.7	21.1	30.0	11.6	-6.9	..	1.6 ^b	42.6	37.3	
(Average percentage by period)												
1946-52	100.0	84.6	66.1	17.9	42.7	5.5	2.9	14.5	18.1	-1.6	33.9	
1952-53	100.0	68.4	68.6	18.3	39.7	10.6	-9.7	12.1	10.3	18.7	31.4	
1953-54 ^a	100.0	54.8	50.9	20.4	30.2	0.3	-2.6	..	6.3	40.0	43.7	
1946-54 ^a	100.0	77.1	62.7	18.4	39.9	4.4	1.6	14.0 ^c	15.6	7.6	38.8	

Sources and methods:

- Col. (A): Total of cols. (B), (H) and (J).
 Col. (B): Total of cols. (C), (G) and (I); see explanation of col. (B) in table 6.
 Cols. (C), (D), (E) and (F): see table 3.
 Col. (G): Variation in official and bank reserves of gold and foreign exchange. These are composed of the "net foreign balance of banks" and "dollars held by banks"; see the *Memoria del Banco Central de Cuba, op. cit.*, pp. 401 et seqq. Current values are expressed in constant 1945 dollars by deflating with the index of the unit value of exports calculated by ECLA.
 Col. (H): Net remittances of profits, interest and amortization on foreign investment. Figures were obtained from the International Monetary Fund, *Balance of Payments Yearbooks* and unpublished statistics. The same index was used as a deflator as in the case of col. (G).
 Col. (I): Residual figures obtained by subtracting cols. (G), (H) and (J) from col. (K).
 Col. (J): See the second column of table 2.
 Col. (K): Equal to the total of cols. (G), (H), (I) and (J). The quantum trade balance was calculated by ECLA as the difference between the value of exports and imports of goods and services expressed in 1945 prices; these figures were obtained from the publications of the International Monetary Fund. The deflators used to convert the series to constant values were the unit value export and import indices calculated by ECLA.
- ^a Provisional figures.
^b Excludes financial services of col. (H).
^c Average for 1946-53.

Government policy, in other aspects of economic activity, was aimed at offsetting the deflationary effects on the foreign situation. Available information shows that the budget deficit was larger than in 1953. In addition, extraordinary public investment, that is, investment financed by funds obtained through domestic loans, rose to an estimated 50 million pesos, which is 23 millions more than in the previous year.⁷

⁷ The increment was greater in real terms since prices declined between 1953 and 1954.

In addition to these direct measures, secondary steps (for instance, a more liberal credit policy) were taken in order to stimulate private investment in certain activities, particularly building.

Undoubtedly the official compensatory policy contributed effectively to the increase in gross income registered in 1954. The most interesting aspect of this policy, however, is not its immediate efficiency but its probable future consequences.

Government investment in Cuba is restricted to very limited fields of activity. Public resources

are generally invested in sanitary works (water supply, sewers, etc.) buildings and, above all, in road and highway construction. Only exceptionally does public investment cover other fields. The types of investment just enumerated have several characteristics in common; for one, their execution involves the employment of a large number of workers. The manpower requirements of these investments measured either in absolute or in relative terms by far exceed those of other types of investment.

It is evident that when the Government distributes its capital expenditure as it does, it creates in the short run a large volume of employment than that which would result if investment were channelled towards agriculture or industry. In this way the public sector becomes the absorber of labour unemployed⁸ as a result of the decline in foreign demand for sugar without its being forced to face the problems—for instance, revision of its tariff policy—which would induce investment in other sectors at present outside its sphere of interest.

Secondly, the product-capital ratio of these investments is one of the lowest among the ratios obtained in the different sectors of the economy.⁹

Thirdly, these investments do not tend to modify the structure of production¹⁰ and, in particular, they do not contribute directly to the replacement of imports. It is true, however, that by affecting transport costs, investment in roads and highways may improve the degree of utilization of resources and of installed capacity. It may also lead to the

⁸ The word unemployment is used in its widest sense, since in the most important sectors of Cuba's economy, such as the sugar industry, this means a reduction in the working hours of wage-earners, and not a reduction in the number of workers employed.

⁹ This is due to several factors, such as inadequate valuation of the product, chronic under-utilization of capacity, particularly in the transport sector, etc., which need not be examined here.

¹⁰ These investments tend to increase the volume of services which neither directly nor indirectly—save for transport services—enter international trade.

enlargement of the latter or to the exploitation of new resources. Thus, indirectly, investment in roads may be conducive to import replacement. This is not the case, or at least it is only true to a very limited extent, of investment in sanitary works, public buildings, etc.

There are, however, clear indications that the capacity of the transport system is under-utilized.¹¹ In this respect the following facts are worth mentioning. First, the country possesses a vast and integrated railway system and quite a large road network; and, secondly, the volume of railway freight transport has been declining since 1952, while the same is true, since 1951, of the number of lorries in circulation. If idle capacity already exists in the transport system, any further expansion would have little effect as an indirect means for import replacement.

In brief, it might be tentatively stated that the types of public investment usually made in Cuba tend to augment or maintain the level of income and the volume of employment, when not financed by taxes, but they do not alter the structure of production of goods. That is to say, these investments tend to rise or maintain effective demand without modifying the import coefficient.

The increase in the volume of this kind of public investment when the capacity to import declines causes a disequilibrium in the balance of payments which in this case is solved by a loss in reserves.

All this leads to the conclusion that if the capacity to import does not recover in the future and if private investment is not increasingly channelled towards import replacement activities,¹² the maintenance of the present compensatory policy may lead to a continuous loss of official exchange holdings. It might well be that Cuba will find itself in this situation.

¹¹ This observation is valid only for the country as a whole but not for certain regions considered isolatedly.

¹² In 1954 the reverse occurred, since investment in building came to represent a higher share of total investment.

Three sociological aspects of economic development

This work is merely tentative and introductory in scope. It attempts to place in a sociological perspective the data gathered in the course of a statistical study on manpower problems, in the hope that from this fresh viewpoint, it may be possible to discern the contours of several of the more important socio-cultural questions accompanying economic development.

The task is limited in two ways. There can be no thorough mapping-out of all the intricate sociological highways and by-ways of economic development; suffice that it indicates some of the main routes. But even these cannot be travelled their full length unless the preliminary survey sights its target and a more extensive analysis is later undertaken.

Nowadays, no one would deny that economic development is accompanied by a social process which becomes all the more disturbing when there are fewer possibilities of reducing it to simple and immutable formulae. Without disparaging the validity and usefulness of other ways of broaching the question, its treatment would gain great impetus if it were possible to formulate with a fair degree of clarity several salient points which are part of—or not far removed from—the economist's special range of interest. Such is the aim and, at the same time, the limitation of these pages.

Another purpose of the present report is to train the various lines of thought expressed in two recent works—completely distinct from each other—on one and the same problem. Thus, this study represents a modest though purposeful step towards the cross-fertilization of various disciplines, a process universally recognized as the most effective means of exploring the no-man's land between the frontiers of the traditional sciences.

This is no place for a methodological justification of such a purpose, but it might perhaps briefly be recalled that the concept of a social system or what the philosophers call "the circularity of all things human" are in themselves sufficient foundation for any attempts of this kind.

In fact, whatever the starting-point for an examination of human life and provided that such an analysis does not stop at an arbitrary stage, the point of departure will surely be reached once again after a complete circle has been traversed. The circularity of human affairs constitutes both a danger and an advantage for research. The danger lies in the very essence of conceptual construction, which is unavoidably abstract in nature, and therefore this aspect will recur constantly notwithstanding the logicians' warning against the so-called "fallacy of displaced concreteness". The advantage is that at any moment it is possible to view the whole question from complementary angles, thus ultimately making the choice of starting-point immaterial.

In sociological terms, society is never a mere conglomerate of actions and processes, but tends rather to become or achieve a system, even though this objective may never be completely attained. This is a permanent challenge to both theory and practice, since no part of the social whole can be fully understood unless consideration is given to the remaining aspects in which it is integrated or tends to become integrated; and, moreover,

any action brought to bear at any one point is sooner or later transmitted in successive waves to the remainder. However, because each particular social science cannot always take account of the whole system in its various dimensions, it must inevitably operate with those fragments which most narrowly concern it and so build analytical models which are valid in so far as they are not taken to represent reality itself; for reality is a concrete and integral whole, far outstepping the bounds of any model.

Apart from explaining the existence of different specialized branches, the fact that the social sciences necessarily develop along these lines requires that the limited perspectives of each shall complement and integrate the others and that the interpretation of the results derived from a particular discipline or investigation be appraised from different viewpoints, thus placing them within a wider framework. In this respect, though this is not the only possible procedure, when the results of a specific investigation are translated into the terms of a different discipline, it is possible, at the analytical level, to bring out the essentially systematic nature of social reality.

Manpower surveys undertaken from an economic viewpoint are justified by their intrinsic value; this point need not therefore be stressed. What is of interest is to open a new line of approach, since if such studies are viewed from a more properly sociological angle, not only can they emphasize in their own terms some of the main social aspects of any economic development policy, but they also call for a strict definition of the concepts indispensable to their orderly arrangement and understanding.

In their general significance, these social aspects are not peculiar to under-developed countries alone, since they reflect the conditions of contemporary society as a whole. They are therefore the expression of the need for adjustment to entirely new material conditions, particularly technical conditions, which everywhere require some degree of synchronization. But in the light of their practical application, in relation to the effort made by some countries to accelerate a lagging economic development, they acquire more precise characteristics worthy of closer attention. In fact they appear as definite social bottlenecks which, like their economic counterparts, prevent the normal and unobstructed flow of the desired economic process.

The use of an economic concept with a new content and within a social framework is due to no desire for limitation; on the contrary, it arises from concern for exactitude, since this concept, as will be seen, has an operational significance. In the face of urgent politico-economic action, certain social facets may appear as obstacles which must be overcome.

From the more leisurely, theoretical approach these same facets are lost to view among the numerous conditions which have to be analysed and systematized in any treatment of the social assumptions of economic development. But when it is a question of concrete programming in which practical requirements and the rational counsels of theory both have a place, it is advisable to construct a concept which will give such facets a precise outline consisting of some few definite

elements and, as far as possible, measurable or at least susceptible of rough estimates. This is the operational significance of the concept of social bottlenecks; as with those of an economic or technical nature, the question is to localize them, to discover their components and to appraise their seriousness. In this respect, although they are not easy to eliminate (and of course less so than technico-economic obstacles) once they have been defined a stimulus exists for seeking the means to mitigate them, thus little by little contributing to their disappearance.

This concept is of singular importance as an instrument to solve the problems of economic development in those countries which are already fairly well advanced or still in an intermediate stage. Many of the difficulties they encounter are no longer due to the decidedly negative influence (as is the case in some Latin American countries) of certain cultural or institutional traditions, or to individual attitudes and values, but to the inevitable social adjustments arising from their own desire to speed up economic development.

In addition, not only are economists familiar with the term, but the idea is implicit in some of their analyses. A phenomenon of this kind explains or helps to explain—for example—the fact that the effect of the inflationary stimulus takes a different form according to the degree of development.

A study of the structure of employment and occupations from the sociological point of view shows that there are

three broad social aspects of economic development (disregarding other minor questions for the moment) which require different types of economic and psycho-social analyses. From this perspective, in fact, economic development may be considered as: 1) the adjustment of a society to new functions; 2) the creation of new patterns of living within the society, and 3) the formation of new social strata. These are the questions which the present paper attempts to outline.

The first two aspects require a micro-analysis, since they refer to individual action or finite social relationships; while the third necessitates macro-analysis since it is the social structure as a whole with which it deals. A more detailed analysis would make it necessary to resort to different psycho-social approaches. The problems of adjustment can be studied through a psychology of automatism, though this is not the only way of tackling them. On the other hand, all questions involving new patterns of living require the help of a social psychology and fall within the field of the sociology of relationships and of sociometric research. Finally the third aspect will inevitably lead to the classic subjects of structural or historical sociology. This line of thought will not be followed here, since only an initial panoramic exploration will be attempted and stress will be laid on the fact that these phenomena are to a certain extent social obstructions to the economic process.

I

SOCIAL ADAPTATION TO NEW FUNCTIONS

Data on the employment structure and occupations of a country, if extended over a certain period, give the most adequate idea of what economic development implies as a phenomenon of social change. It is primarily a question of changing an institution, in this case the economic institution; and the change may be large or small according to whether there are complete structural transformations or merely minor amendments not affecting the over-all pattern. But in every case it is soon evident that these changes will inevitably transform the other institutions of the same society. Therefore the adjustment effort to be exerted by its individual members is not limited to the initial sphere of transformation but is extended and branches out to very different and apparently distant sectors.

It is not necessary to linger over this point nor to rebut the objection that a unilateral criterion is being used, since the course of the process outlined above is set at the point of departure, and there is nothing to prevent other starting points from being chosen and a different course set.

For present purposes, on the contrary, it is advisable to bear in mind the significance of any institutional change. In effect, an institution is a complex or orderly pattern of functions required for persistence and growth, which from the individual point of view appear as different roles to be played. The change in an institution therefore consists in a modification of the functions which support it or of the reciprocal links between them. For the individual each social role involves certain material aspects and a complex of human relationships, varying in scope,

which are not limited merely to the necessary distribution of rights and obligations; every institutional change consequently will imply greater or lesser alterations for the individual at the different levels already indicated.

From the sociological viewpoint and at the most abstract level, society is only a systematic pattern of roles and functions which must be fulfilled in order that it may subsist. It is also a commonplace that such roles take precedence over the individual, on whom they are imposed very often with complete disregard for the peculiarities of his personal fate. In order to make these statements completely intelligible and acceptable, numerous comments and reservations would have to be made, but they will have to suffice as they stand in view of what follows, since it is only a question of defining the scope of the phenomenon of "induced" change implied in the acceleration of economic progress in the under-developed countries. This phenomenon in reality involves two factors. First, the process implies the continuous creation of roles and social functions far in advance of the necessary individual support. Expressed in another way, the creation of new social roles very often anticipates the training of the number of individuals who will be fit to play them. This temporal distance between the creation of new roles and functions and the training of individuals to carry them out is the origin of the first social bottleneck, which varies in intensity according to the inherent complexity of each function.

But in the second place, given the conditions of modern life, it is no longer possible to await the slow, spontaneous disappearance of such maladjustment, as was possible in

other periods. The reasons are above all the almost total lack of any ascribed status of functional importance outside the family today, and the irreparable seriousness of the mistakes which may be made in the technical activity of our society. In previous communities of another type, when a similar emergency arose which was a matter of life and death to society, the common expedient was to resort to the principle of heredity and to fill any vacancies by ascription. In present society, which is ruled by the principle of functional adequacy, of the knowledge and skills peculiar to each task—worth or merit from the viewpoint of status—, the former procedure is no longer utilizable without some risk, and the only possible solution is to find the best means for selecting and training as the work progresses. The induction of an economic change should be accompanied by a parallel induction of the necessary social transformation. In other words, economic programming should contain the indispensable minimum of sociological programming required to foresee and forestall any possible social obstacles which might stand in the way.

By order of complexity, the adjustments required from a society for the creation of new functions seem to be the following, purely from the socio-economic perspective.

1. Simple modernization of existing activities

This is not a matter of creating new roles or completely new activities, but of modifications in the methods of their execution, requiring an adjustment from the individual in the shape of new habits and automatisms. An examination of the data available on the structure of employment and occupations reveals some of the main features. The best known case is that of agricultural mechanization, in which the traditional tasks remain the same although different methods are used. It is advisable to consider this example in some detail. The recent introduction of modern methods into agricultural operations may be perfectly evaluated by the mechanization process, which in turn is measured by the expansion of the tractor park. In Latin America tractors numbered 35 thousand in 1938/39, 64 thousand immediately after the war, i.e. in 1945/46, and about 190 thousand in 1953. These changes are still greater if consideration is given only to the block of countries where mechanization has made the most rapid strides (Argentina, Brazil, Mexico, and Uruguay). For the region as a whole, 20 per cent of the arable land is already being cultivated with tractors, but in Uruguay, which is relatively the most advanced country in this respect, the proportion rises to 80 per cent. These few data emphasize the adjustment effort already made and that which will be required in future for the maintenance of the trend. The mechanization process creates a large mass of drivers and mechanics in the farm environment, and requires from all some degree of familiarity with agricultural machines. Until now this process has predominated in large holdings, except in Mexico, and has thus transformed the work habits of the employees. But the establishment of agricultural machinery pools in some countries (Brazil, Chile, Cuba and Peru) not only brings

the benefits of progress to small-holders, but it introduces a new professional category into the rural milieu, since the drivers and mechanics fulfil a public function.

The same is true when internal improvements—use of mechanical apparatus, electricity, etc.—are introduced into handicrafts and homecrafts, and productivity is not only increased but with the incorporation of a new automatism a different mental attitude is brought to bear on the same task. The interest shown in some countries in these small forms of development is based to a large extent on the educational effects obtained.

A similar adjustment, although on a smaller scale, is required when obsolete equipment is replaced in existing industries. The workers must then adapt their skills to more modern mechanism, without thereby abandoning their previous activities.

The other two most important cases in this connexion are represented by the modernization of trade and bureaucracy, both public and private. Even a comprehensive series of brief references will suffice at present to indicate the full significance of the changes which economic development involves in both cases. It is enough to bear in mind that it is not so much a question of the creation of new functions as of the alteration, whether gradual or abrupt, of traditional ones. No better illustration could be furnished than the development of office technique in industrialized countries, through the continuous introduction of new and faster typewriters, filing and classification devices, calculating machines, tabulators etc., not to mention the new electronic calculating equipment. It has been observed that even the physical characteristics of offices are changing and becoming similar to those of factories: it is possible that the typical desk will be replaced by a moving belt which will make the office worker's task similar to that of the factory hand.

The serious problem of public administration in under-developed countries largely calls for reforms of this type—of functional adjustment rather than simple expansion—for its solution, but this is not the place to describe them in detail.

2. Change of activity within the same field

This aspect is particularly interesting from the development perspective, although in practice it is sometimes confused with the preceding one. The typical example is the conversion of a home-craftsman or an artisan into an industrial worker within the same activity: textiles, ceramics, etc. In this case it is not only a question of an adjustment to new working techniques, but, what is sociologically still more important, of a change in social status which requires wider readjustments in other spheres of behaviour. All statistics on the disappearance of home-crafts industries should be interpreted from the sociological angle as the expression of this adaptation effort. The Andean countries provide a good illustration. For example, a rough analysis of the development of industrial man-power in Colombia since the 1918 census shows the following significant changes in the nature of industrial employment.

Year	Total industrial labour force	Manufacturing industry				Building
		Total	Factory industry	Handicrafts and small industry	Home-crafts	
1918	480	465	35	120	310	15
1925	465	440	47	158	235	25
1930	455	410	75	185	150	45
1938	522	436	100	236	100	86
1945	600	500	135	295	70	100
1950	690	570	170	360	40	120
1953	780	630	193	409	28	150

NOTE: Man-power figures in thousands.

A similar case is that of the change in the position of casual workers when they become permanently employed. This change influences the gradual disappearance of the marginal population. In Latin America, a typical example is that of the building industry, where stability of employment varies greatly from country to country resulting in different degrees of productivity. A final example, also in Latin America, is the change from small to large mining operations.

3. Change of occupations

Social adjustment is much greater in this case than in the previous ones, since it implies not only the transference to a new environment, but the total transformation of material activities and human relationships. The classic example is the shift of rural labour to non-agricultural types of employment. This shift has reached tremendous proportions in Latin America.

The following table presents a rough estimate of the magnitude of this shift in relation to the total agricultural and non-agricultural population in 1925-50.

Population	1925		1950		1925-50	
	Number	Percentage of total	Number	Percentage of total	Increase	
					Number	Percentage
Agricultural ...	59,400	63.7	84,238	54.5	24,838	41.8
Non-agricultural	33,920	36.3	70,443	45.5	36,523	85.0
Total.....	93,320	100.0	154,681	100.0	61,361	65.8

NOTE: Population in thousands.

The changes in the labour force can be estimated as shown in the table appearing in the next column.

Another type of transference to a new environment are the inter-regional migrations of the population. These generally include a marginal population which in its region of origin is unable to rise above a mere subsistence level, and therefore tries to settle on virgin land or seeks new and better-paid employment. Suffice it to recall that

Labour force	1925		1950		1925-50	
	Number	Percentage of total	Number	Percentage of total	Increase	
					Number	Percentage
Agricultural ...	20,370	62.1	28,282	53.2	7,912	38.8
Non-agricultural	12,437	37.9	24,886	46.8	12,449	100.1
Total.....	32,807	100.0	53,168	100.0	20,361	62.1

NOTE: Man-power figures in thousands.

in Brazil this kind of movement has assumed such significance that it more than counterbalances the decline in international immigration in the receiving areas.

4. Creation of new roles and functions

As the title indicates, these are entirely new activities requiring maximum social adaptation. This is where the greatest temporary disequilibrium may arise, although it is also the easiest to determine, between the creation of new roles and functions and the necessary training of the individuals for their fulfilment.

Given the wide range of functions necessary for the subsistence of a modern economy, only some few examples will be given, in the order of their importance to countries undergoing a development process.

a) There is first the question of training a modern entrepreneurial class in the main branches of economic activity. To speak of such training is in no way unreasonable since the problem is posed in the same terms, though for different reasons, in more advanced countries. As Sargant Florence has said, one hundred years ago it would have seemed grotesque to discuss the problem of entrepreneurial training which is today of vital importance.

b) Secondly comes the training of the professional strata, according to present exigencies, in the various fields of the economy—the executives whose work at present ranks second only to that of managers and directors. A similar significance attaches to the training of a bureaucracy able to face present-day economic problems and rapid social changes.

c) The third aspect comprises the very complex category consisting of technicians and specialists at an intermediate level. They are indispensable in every kind of enterprise and must be available in large numbers in order to attain the successive targets of economic development. Among these are all personnel whose function is the direct supervision and control of operatives and machines: overseers, mechanics, assemblers, etc; and also book-keepers and other staff with a moderate degree of specialization for administration and laboratory work.

d) Finally, at the level of manual labour, skilled workers, particularly for the operation of special machinery, and highly skilled artisans.

One of the most arduous tasks which the Latin American societies must face if they do not wish to retard their economic development is that of foreseeing the obstacles which may beset the rapid creation of all these functions and of promptly solving any temporary disequilibria which may appear.

II

THE CREATION OF NEW PATTERNS OF LIVING

If at first sight economic development may appear as the continuous formation of roles and functions, it is also, to a still more complex degree, the creation of new patterns of living. In the rapid review of the principal functional alterations, the technical and professional aspects of the adjustment effort required from the individuals of a society were only roughly glimpsed. In order to perceive this aspect clearly it should not be forgotten that an occupation is not only a method of work but is also a distinctive style of individual life. A brief reference to this point is the best possible introduction to the present theme. In the analysis of an occupation, such as that made by industrial sociologists, not only the implicit working routines, but also the distinctive social milieu in which these take place and the influence which they exert on the non-professional activities of the individual, should be borne in mind. The result of all these factors is what is called the pattern of professional life. But it is also evident that the adjustment of the individual to this behaviour complex is in itself a much slower process than mere professional training.

As a first approximation it may be contended that these patterns of living are only the uniform repetition, collectively or as a whole, of similar professional modes of life. This, however, involves two consequences. First, when new roles and functions are developed within a society, new ways of life are necessarily created. Secondly, their complete assimilation tends to be relatively slow. But ways of life such as social behaviour patterns or mores do not produce their full effects—personal, social or economic—until they are firmly established.

The full significance and scope of the creation of new modes of life can now be appreciated from the standpoint of economic development, since the greater delay in their stabilization and the greater adjustment effort required may constitute a more serious social obstacle to economic development than those already described. This is also a question of the rhythm of adjustment, of delays, anticipated movements and synchronization, but it is much more difficult to control, although not totally impossible, as will be seen, in some aspects.

It might be considered that a way of facilitating this task would be to compare the two broader patterns of living, the rural and the urban, whose various elements are thought to be generally known. But this is an illusion the dispelling of which might serve to pose the problems now confronting us in their full scope. At first sight, for instance, the urbanization process in Latin America may seem to be relatively rapid and encouraging, in so far as it is analysed in relation to economic development. In effect, in 1950 about 41 per cent of the aggregate population was represented by urban dwellers, of whom in turn about 45 per cent were found in large cities of more than 100 thousand inhabitants. The following statistics show the velocity of this process, which has become sufficiently marked in the last ten years to justify the prediction that in the near future the urban population will comprise more than 50 per cent of the total.

Population	1925		Increase			
	Increase Total	Percentage of total	1950		1925-50	
			Total	Percentage of total	Total	Percentage of total
Rural	63,259	67.8	91,330	59.0	28,071	44.4
Urban	30,061	32.2	63,351	41.0	33,290	110.7
Total.....	93,320	100.0	154,681	100.0	61,361	65.8

NOTE: Population in thousands.

These figures, however, tell only a small part of the story, since in themselves they express nothing about the intensity and stabilization of the corresponding ways of life. To ascertain these it would first be necessary to make an analysis of the occupational structure of urban units, so as to show whether they resemble the traditional patterns of typical modern cities. Two urban centres with the same population may in fact represent two very different patterns of living. Other indices, such as those on consumption, would shed still greater light on the question. But when all such data were assembled, it would still be necessary to appraise the moulding force of the traits which combine to form the social character within a specific urban form. It should be recalled that what is of interest is the moment of complete assimilation of a way of life by a sufficiently large mass of individuals, in so far as only from then on are the full effects felt. This is not meant to discourage an optimistic interpretation of certain phenomena, but is intended as an indication of the fertile field for investigation which has been opened, and which must be explored if the progress of economic development is to be correctly construed.

1. Patterns of living and consumption

What has already been said about the contrast between rural and urban patterns of living will be repeated in an attempt to describe other modes or styles of life which are of equal importance to the socio-economic interpretation of development, ranging from the sum of ways of life peculiar to a specific type of civilization, to those which are characterized by certain key occupations—the entrepreneur, the foreman, etc.—through others which are proper to certain social strata of decisive significance from the economic viewpoint. This is a vaster subject than can be dealt with here, and one which could be examined in the proper place only by compiling a relatively complete list of the necessary studies. But however interesting this might be, it would not serve the purposes of this article, which is mainly concerned with showing the link between purely sociological considerations of the patterns of living and the questions which economists must study for purposes of development.

Fortunately this link is not difficult to find and is not entirely *terra incognita*. Consumption is an essential component of any way of life, and, together with the structure

of demand which it originates, it provides the link between economic considerations and some of the results already obtained from an analysis of patterns of living. It is therefore advisable to consider this point in some detail.

All these patterns of living, whatever their magnitude, are composed of three different elements, which may be termed the cultural, social and material, in order to avoid using esoteric, though more exact, terminology. The individual immersed in a pattern of life and obedient to its conventions accepts certain beliefs—ways of apprehending or feeling the world, or larger or smaller pieces of reality—, enters into personal contacts—the so-called human relationships—and uses these and other, material objects, that is finished goods and material means of production. It should be recalled, in addition, that the essential characteristic of these ways of life, as of every collective phenomenon, is their compulsive or obligatory nature. When they are fully established, they impose themselves even in the tiniest details on the individual who desires to live according to social norms, and therefore mould or shape him even if he is not fully conscious of the process. Consumption is only the economic obverse of the prevailing ways of life, and it is congruent, point for point, with each of its elements. It depends on ideas and convictions, it is stimulated and provoked by social relationships and it becomes apparent through the use of material goods. In turn, the consumption patterns are also compulsive, and they exert constant pressure on personal tastes and inclinations. This, however, is only fully true when the ways of life have become stable. This is why, for instance, the Duesenberry theory of the influence exerted on the consumption function by certain forms of emulation can be valid only to the extent allowed by the socio-economic structure and is therefore not true of the specific structure of under-developed countries,¹ since in these, according to the terms of this article, the corresponding way of life has not yet been stabilized.

If instead of going this roundabout way, the procedure were adopted of starting from consumption and accepting the most common description of its determinants, identical results would be achieved. Of the series generally used: level of income, acquired habits, status consciousness, and level of aspirations, at least three would make it necessary to revert, with some degree of detail, to the general subject of patterns of living.

What is the general significance of the connexion between the social adjustment required and the rapidity of the economic process? Here it is advisable to discuss some facts which are perhaps already well-known.

As to the different ways of articulating this connexion, the following should be mentioned: the volume and structure of consumer demand; the volume and structure of savings; the nature and extent of stimuli or incentives which support human effort; and the values, both material and spiritual, by which the quality of the work is defined.

There is no need to insist on the aspects of consumption already mentioned; but it is interesting to stress that the

patently multiple character of the links between ways of life and economic development makes the problem extremely complex and not always susceptible of statistical analysis.

In this way, a single phenomenon of change in the ways of life may be favourable or unfavourable to economic development, depending upon the other prevailing circumstances. First of all, naturally, consideration should be given to the general economic conditions of the country in question, but still more important are the conditions produced by a co-ordinated process arising from a programme which gives rigid priorities to specific sectors of production. Two alternatives may arise. First, the too rapid growth of certain consumer trends may take place at the expense of other goods and services which are considered of crucial importance for economic development. Secondly, and conversely, an insufficient demand may exist for certain goods and services, consumption of which might possibly have a potentially stimulating effect of a general nature. It is always a question of maladjustment between the consumer demand and the needs and possibilities of the economy, with negative and disturbing effects on its development.

The problem constitutes one particular aspect of the social adjustment already defined. The adaptation of a community to a new consumption pattern may sometimes be extremely quick, but since at other times it may be both slow and fraught with difficulty, it is necessary to ask what are the possibilities of applying the consumer education so much in vogue at present, which is undoubtedly most urgently needed in under-developed countries and which ultimately requires conscious intervention in the sluggish processes of creation and stabilization of the ways of life.

2. Stages in the development of demand

The consideration of ways of life through their concrete expression in the structure of demand makes it possible to outline the temporal phases of its development, which, although they may be mutually entwined in practice, are of interest for analytical purposes. Such an attempt will also make it possible to divert into one single stream of logic the isolated question previously dealt with. Social adjustment in the sphere of occupational shifts reappears in a new guise, the typical case being the transfer of agricultural labour to industrial occupations, which is considered crucial for development problems. This concept makes it possible to appraise with greater precision what has already been explained about the relative slowness of the stabilization of the ways of life when viewed from the economic perspective. This not only stresses the points at which social and economic bottlenecks are most likely to appear, but it stimulates the discovery of those strategic interventions which have been called "consumer education". Finally, this concept may show the economist, who habitually tends to consider the direct relationship between *per capita* income and the demand for various commodities and services, that he will do well to remember also the fact that demand for groups of commodities generally arises in accordance with socially-conditioned stages of development.

These stages are the following:

¹ Nevertheless Duesenberry's "demonstration effect" plays a very important role in the propagation of the consumption habits of industrial countries in those less developed. To a certain extent this is the cause of the structural disequilibria in the balance of payments attendant upon economic development. Cf. Ragnar Nurkse, *Problems of capital formation in under-developed countries* (Oxford, 1953) and Celso Furtado, "Capital formation and economic development", in *International Economic Papers*, N° 4, p. 124.

a) Concentration

There is hardly any more important factor in the creation of new ways of life, with their radical repercussions on the structure of demand, than the concentration of the population in large centres. This is the beginning of the so-called "urbanization process", and it is also the reason why large cities grow more rapidly than medium-size and small towns.

This process is a result of the fact that demand for labour in industry and services is much more intense than in agriculture. In addition, the large cities attract the rural population, particularly its marginal sectors. In the final analysis it is the exodus of this population which causes the autonomous growth of the cities, although this fact contains a wealth of sociological implications which cannot be discussed here.

b) Stabilization

A large share of the rural population which arrives in the cities in search of other than agricultural occupations initially constitutes a mass of semi-skilled labour used for casual and varying tasks. In other words, this mass lacks specialization and adequate stability in relation to the many specific branches of economic activity. Since even the marginal population in towns has a relatively higher income than a large proportion of country-dwellers, it is better able to satisfy the most urgent dietary needs, a large part of this former rural population having had very low nutritional standards. It cannot be expected, however, that when the surplus rural population moves to the cities chronic sub-nutrition of the marginal population will quickly disappear. This will be possible only after employment has become stabilized, when new forms of demand begin to be created.

Stabilization depends to a large extent on the general level of economic activity and consequently on the stage of the business cycle prevailing and on the economic policy in force. Thus, stabilization will be relatively quicker in times of prosperity and will be delayed during periods of depression.

This stabilization of the occupations concerned arises concurrently with specialization and with the development of branches of activity which can provide more permanent employment; that is, the new situation coincides with the period when unskilled labour becomes adjusted to new types of employment requiring some skill or a minimum training.

In certain cases the process of stabilization may coincide with or follow on concentration, but more often the disparity between both processes gives rise to a large floating reserve of under-employed labour which constitutes the main source —apart from unemployment in the stricter sense of the term— for the development of industries and services.

Stabilization results in better wages and new and higher requirements. At this time, when dietary exigencies have been more or less adequately covered, city life channels consumption towards an improvement in clothing. In addition, demand for other services and cultural goods also begins, although only at a relatively low level.

c) Domiciliation

The rapid growth of cities necessarily entails an acute housing shortage, reflected in an abnormal density of inhabitants per unit of housing, or in the proliferation of slums, districts which are called by different names in the various Latin American countries. This tragic phenomenon has been described repeatedly since the time when an analysis was first made of the human consequences of the industrial revolution, and it still ranks first in any social policy, owing to its complex repercussions. Further comment would be out of place here.

In general, once the urban population achieves occupational stabilization at higher income, it begins to be possible to apply private and public capital to an improvement in housing, either directly by the construction of cheap dwellings for the working classes, or indirectly by the creation of new residential districts for the middle classes so that their former dwellings may become available to the lower income-brackets.

The entire process of proper housing for city dwellers has great social significance, since perhaps for the first time many of them can have an adequate home, and channel the demand towards new types of goods and services, which, while improving their standard of living, are at the same time an important factor in social stability.

d) Extension of comforts

In most cases, the satisfaction of minimum housing requirements is the first step in the expansion of demand for a wide range of durable goods. The two phenomena are not always exactly parallel, but a detailed analysis will not affect the general thesis from the sociological point of view. Incidentally, in industrial countries there has been a significant link between the economic and social consequences of the production of some of these goods, which has resulted in the gradual emancipation of women.

It is probably at this stage that status or standard-of-living consciousness begins to be formed. This converts the mass of consumers into one homogeneous body which can respond in a uniform and foreseeable manner to the successive changes in the market. In other terms, a truly integrated market is then established, which is equally accessible to all social classes.

e) Private transport

The last phase in the development of demand and in the transformation of ways of life begins when an interest is aroused in individual means of transportation. It is not pertinent to describe such a process here. It is sufficient to indicate that the purchase of these means has vast implications for all aspects of existence —work, recreation, culture, etc.— and that it is necessarily reflected in the structure of demand.

Reasons of time and space forbid detailed consideration of the expansion in the demand for public services which accompanies the final stages of this process. But the most important element must be mentioned, namely that in them the concept of the future appears. As with individuals, who can plan their lives only when there is a

minimum of security for the future, in the major forms of collective life it is the emergence of thought for the morrow which perchance represents the moment of true stabilization. In the economic sphere the arrival of this stage is of vital importance for the whole process of development, since the propensity to save, interest in social security schemes and last, but not least, the intensification of the demand for education, all depend on it. Individual and collective investments in development undoubtedly represent one of the most powerful tools for the adaptation of a society to new ways of life.

The foregoing should not be interpreted as a denial of the possibility of similar progress in the rural environment. But conditions in Latin America and the rapid urbanization have made it advisable to stress the significance of this process. The best illustration, with which these considerations will close, is the interpretation of all these statements in the light of some statistical analyses presented in a recent ECLA study² on consumption in urban and rural communities in Colombia. The following table shows the percentage distribution of the private consumption *per capita* of the rural and urban population in Colombia in 1953.

² See *Analyses and Projections of Economic Development. III. The Economic Development of Colombia* (document E/CN.12/365).

Population	Unpro- cessed foodstuffs	Manufac- tured goods	Services	Total
Rural	51	36	13	100
Urban	33	38	29	100

The significance of these data is still more apparent if consumption figures are compared by assigning a value of 100 to the rural milieu.

Population	Unpro- cessed foodstuffs	Manufac- tured goods	Services	Total
Rural	100	100	100	100
Urban	151	248	530	234

It may also be noted that the *per capita* value of housing and education services is 10 and 9 times greater, respectively, in the urban than in the rural zones.

III

THE NEW SOCIAL STRATIFICATION

The central idea of this section has already been touched upon in the two previous ones, since if economic development involves the continuous formation of new roles and functions and the concomitant creation of new ways of life, the result of these processes is a different arrangement of social strata for society as a whole. All economic development therefore necessarily implies a new social stratification.

The perspective now to be used, however, represents a higher and more complex level, since it is necessary permanently to view the social structure as a whole. The risks incurred in this type of macro-analysis are in direct relation to the simplifications required, but if they are kept in mind, it is worth while venturing a bird's eye-view because of its general informative value as regards the broad relationships between the phenomena already studied. Such is the result of examining the network of social stratification from the viewpoint of economic development, which is seen to be confronted by many difficulties demanding recognition, by social obstacles reflecting unfavourable arrangements of social strata. So vast are the dimensions of the problem that they would lead to complete discouragement were it not for the instrumental and simplifying nature of the working concepts.

Apart from the polemical element, which can never be wholly eliminated, the subject of stratification constitutes an extremely complex field. Varying factors need to be considered, such as status, income, occupation and power, and, depending upon the requirements of research, different combinations may be studied and different methods applied. A brief outline can be made in this article; its

schematic nature is required by shortage of space, but all complications derived from excessive theoretical refinement and all unnecessary details must perforce be eliminated.

The thesis should therefore be postulated with all clarity. The comparative study of the occupational structure in countries at different stages of economic development shows that in those where development is less advanced a fundamental phenomenon exists, with a dual aspect; first, that social stratification tends not to be economically integrated at the national level, and, secondly, that a social class which at present wields a decisive influence in industrialized countries, namely, the so-called new middle class, is totally lacking or at best only nascent. This class is characterized by its functional diversity, by its dependence on income accruing from an occupation and by the nature of its work, which deals with symbols or with the co-ordination of the activities of other individuals.

1. Social stratification in under-developed countries

An attempt will be made to sketch, in broad outline, the characteristics of social stratification in the under-developed countries, standing as they do at the point of transition between more advanced nations and traditional and primitive communities.

In primitive societies stratification in fact presents a homogeneous aspect, whatever the predominating formative factor. This factor may be the blood line or family ties, or the land with its fundamental relationships of

ownership and neighbourhood, or the status ascribed to the main occupations. What is important, without, however, going into the subtleties of specialized analysis, is the uniform nature of the stratification criteria during more or less lengthy periods of social stability. Against this homogeneity, which is also characteristic of more advanced countries, the situation of countries in process of development appears to possess an essentially heterogeneous and complex stratification. That is to say, numerous isolated vestiges of traditional and primitive stratifications tend to become firmly embedded in the new fabric created by the exigencies of modern life. There is no need to stress that the complications resulting from this situation vary according to the stage of development attained by these countries. Generally speaking, it may be said that three parallel systems of social stratification are found in under-developed countries: 1) the old residual forms which in the Latin American countries may be either primitive or a result of the colonial period; 2) intermediate patterns of recent origin which are doomed to disappear under the conditions of modern life, and 3) new emerging forms, which are adjusted to these conditions.

The existence of such a mixture creates a typical social bottleneck in under-developed countries which hampers economic development in various ways and can be overcome only through a slow technical and cultural process. The trend is always towards greater simplicity, since stratification in more advanced countries always presents a simpler structure, so simple in fact that it can be assessed by one criterion only, namely income distribution.

It should be recalled that modern society is integrated as follows: first, by the formation of a country-wide market for goods and services which stimulates the formation of a common pattern of tastes and preferences; secondly, by the formation of a labour market, also at a national level, owing to the intense mobility of the labour force, and thirdly by the creation of a stratification in accordance with income and a standard of living corresponding to the different occupations.

When the modern social structure reaches its full functional integration, it continues to maintain a close relationship with the structure of economic development. But as long as this stage has not been reached and anachronistic vestiges persist, the social structure will continue to offer serious obstacles to rapid development. A false structure produces a vicious circle of negative conditions for economic progress, which often persist, notwithstanding the co-existence of naturally favourable conditions.

2. The situation in Latin America and the problem of the middle-classes

An examination of the data provided by existing studies on the structure of employment and occupations in Latin America reveals that stratification, at present and as a whole, displays the characteristics peculiar to under-developed countries which have been described elsewhere. Only a brief outline will be made of the results of such an examination.

For the moment, it will be sufficient to bear in mind the percentage distribution of total man-power (59 per cent of the active male population was employed in

agriculture or in connected activities in 1950) in order to obtain a preliminary view of the still considerable importance of relatively primitive economic patterns and of their corresponding social structures.

The data on the agrarian structure show to what extent the agricultural population of many Latin American countries is forced to live in extremely primitive conditions. A major share of this population farms extremely small holdings, which, in addition, are in most cases distributed over vast areas with insufficient means of communication and where the nearest markets do not yet possess all the modern characteristics developing in towns and in more densely populated areas. All this does not take account of the still numerous remnants of primitive or semi-primitive jungle communities.

On the other hand, the agricultural sector continues to bear the weight of the inertia of its colonial past. This structure is characterized by the coexistence of large holdings with the help of numerous hired labourers and of small-holdings, whose farmers, be they owners, tenants or share-croppers, can achieve a standard of living which only barely permits them to satisfy subsistence needs.

With certain well-known exceptions, medium-size family farms whose production is guided by market requirements such as constitute the basis of the agrarian economy in the United States and a large part of Western Europe are only very rarely found in Latin America. Thus from the sociological viewpoint there is practically no middle class in the agricultural sector, and this is a typical feature of most Latin American rural communities. This social class is already in existence or is just beginning to emerge in some of the more advanced regions, where it is composed mostly of European immigrants who have brought not only their techniques and work capacity, but also the traditions of their class. Similar reasons explain the scanty contribution of fishing and forestry activities to the development of a middle-class in the rural environment.

The rapid expansion of industry in Latin American countries would seem to imply the existence of a strong middle-class, made up of small entrepreneurs, professional workers, and well-paid specialists, as was the case in more advanced industrial nations. But this does not seem to be true at present. Industrialization has in fact created an entrepreneurial class, while some small- and medium-scale industrialists already constitute a middle-class with all the traditional characteristics, but their number is very limited. In addition, a major part of these persons, who in the European tradition, for example, would definitely adopt the living patterns of the middle-class, take advantage of the business opportunities provided by deficiencies in the market, shortage of technical skill, privileged political situations, etc., to participate in the modes of living of the upper-classes, thanks to rapid and abundant earnings. Although this point is very interesting from the socio-economic point of view, no further comments will be made, since all that matters is that this phenomenon places a further restriction on the possibilities of creating a middle-class with stable traditions.

Moreover, the artisan group, which in Europe and the United States made a substantial contribution to the formation of the middle-classes, is virtually non-existent in Latin America, since it still occupies a very low level with the characteristic features of the lower groups from which it springs.

As to professionals and medium grade specialists—that is to say, technicians of all kinds, who in industrial countries form a substantial proportion of the dependent middle-class—they are found in small numbers in the industries which have developed in Latin America. It is to be hoped that such technical cadres may be formed with greater speed when the metallurgical industry, basic chemical industries, production of mechanical and electrical equipment, etc., are further developed in Latin America.

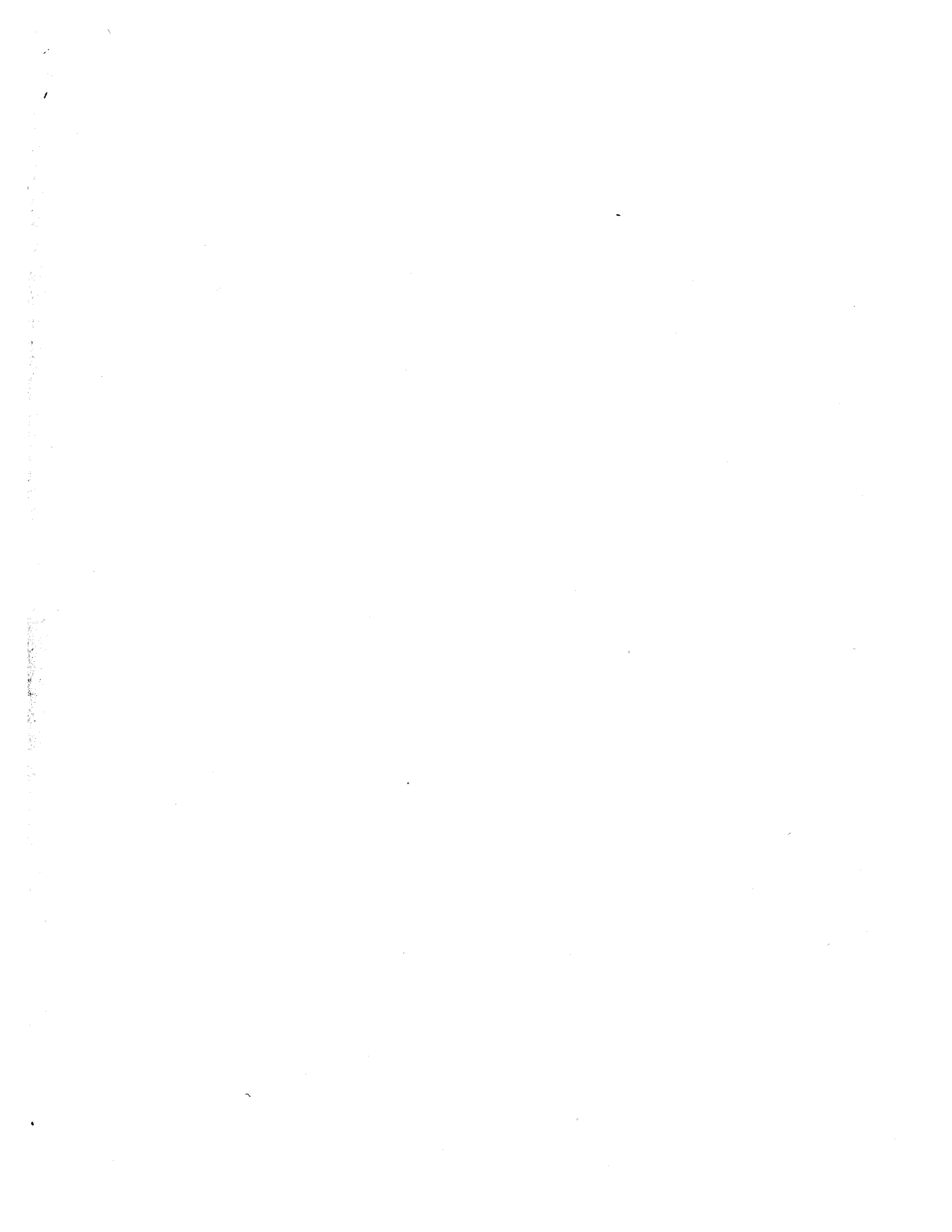
All this is equally applicable to the formation of the upper strata of the working-class, which are indispensable in modern industry because of their functions in transmitting technical and educational notions and in providing personal contracts. Socially, they also constitute an intermediate link which pushes the new generation of working-class at least up into the new middle-class. The present state of Latin America's industry has not yet created sufficiently large demand for this type of occupation, which includes foremen, and various types of highly skilled workers. Apparently, mining and building activities (for example in Venezuela) have stimulated the formation of a large number of well-paid technicians, who in these more advanced countries have reinforced the volume and stability of the middle-classes and of the upper strata of the working-class.

This brief outline of the over-all situation in Latin America confirms the extreme numerical weakness of the middle-classes—both old and new—emerging from sectors concerned with the production of goods. Most of the existing class is related therefore to the services sector, i.e., commerce, public administration and other

personal and communal services. The services sector is not only more developed than the industrial, but in addition it produces a relatively greater proportion of the middle social strata than agriculture and industry. There is thus disequilibrium within the Latin American middle-class itself, which, aggravated by the burden of family tradition, does not permit it to make the necessary adjustments required for economic development.

This means that in addition to quantitative deficiencies in stratification there are others of a qualitative order, which are more difficult to analyse, but which are reflected in the difficulties of effecting a rapid adjustment to new economic conditions. As is well known, the essential characteristic of the middle-classes in modern industrial countries is their high elasticity, which makes them plastic and malleable in the light of the continuous transformations of technical progress. Considered as a whole, it is improbable that the Latin American middle-class with its current structure will be able to react in the best possible way and to the extent required by the economic development target. This is one of the points requiring the most intelligent guidance if it is to be adequately moulded and strengthened.

The next question, which will be left for another study, is the examination of the changes wrought by economic development in the social stratification as measured by the distribution of income; it is not so important to stress the unequal distribution of income in economically backward countries as to analyse the utilization of such income, which in turn also reacts on development possibilities.



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