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PUBLIC FINANCE DEVELOPMENTS IN LATIN AMERICA

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PUBLIC FINANCE DEVELOPMENTS

INTRODUCTION

Due to paucity of economically meaningful information this chapter had to be restricted primarily in scope. The difficulties encountered in obtaining a clear picture point out once more that without accurate data on the fiscal activities of the countries of the region an assessment of the effect of those activities on the economies of the countries is impossible.

In analysing the over-all effects of the financial transactions of the central governments on the economy, one of the first requirements would be the ascertaining of the over-all deficits or surpluses which not only would reflect the transactions of the governmental sector in a narrower sense, but the net results of public undertakings and funds as well. With the multiplicity of autonomous or semi-autonomous institutions generally having their own separate budgets and very often their own independent sources of revenue, the consolidation of the financial results of all these varied activities has become an indispensable pre-requisite for a proper appraisal of their economic significance. In many countries it is almost impossible to arrive at such a consolidation due to the absence of data concerning the activities of some agencies or their inadequacy for purposes of eliminating intra-governmental transactions. Thus, the existing data do not permit an adequate assessment in quantitative terms of the over-all deficits and surpluses. Nor do they permit the drawing of definite conclusions with respect to the changes in the sources of revenues, destination of expenditures and the size and composition of the public debt. This

/should be

should be borne in mind when reading the following paragraphs.

It seems that on the whole deficits during 1950, although smaller than in previous years, were still prevailing in most of the countries under consideration. There are, however, some notable exceptions, such as Mexico and Peru, where for the first time in many years, surpluses appeared in central governmental accounts. Taking these accounts alone, expenditures seem to be in Argentina and Brasil at a level about 10 to 15 per cent above the level of revenue other than borrowing. In Bolivia and some of the other Latin American countries, the relative magnitude of the deficits appear to be somewhat larger.

When considering the deficits shown by central government accounts it has to be borne in mind that their inflationary effect has been somewhat mitigated by the accumulation of substantial surpluses notably of social security institutions especially in Argentina, Brazil and Chile, which in most instances have received contributions, mainly in the nature of employment taxes, which were substantially higher than their current outlays for benefits and other services. On the other hand, if increased expenditures, even though financed by taxation, are accompanied by a liberal credit policy, it is likely that their effects will be inflationary.

The major factor in the increase of central government expenditures has been the rise in prices. The expansion of the government activities was a factor of varying influence. The direction of those expenditures has changed in favor of public works and economic development and against national defense; the share of social services had experienced no variations in the majority of the countries.

There has been a continued increase in government receipts in most countries of Latin America. In their search for increased revenues most governments have relied principally on such measures as increases in the rates of existing taxes both direct and indirect, introduction of new taxes and improvement in tax machinery. In 1950 the bulk of these changes have been effected in the field of indirect taxes through increased and new import and export duties, higher sales or turnover taxes and excises on specific commodities. These developments are

/reversing already

reversing already to some extent the trend of the rising importance of direct taxes as sources of revenue. In some countries, notably Bolivia and Peru, supplementary levies such as export taxes have had to be introduced for the more effective taxation of foreign enterprises which are one of the most important sources of tax revenue. There has been at the same time a growing tendency in many countries to increase tax incentives as a means of stimulating investment. However, tax revenues to central government accounts did not keep pace with the rise in expenditures mainly because of the low taxable capacity of the economies; the inflexibility of the tax base; the growing complexity of government operations which has impeded coordination of expenditures and receipts policies, and lack of effective tax administration.

As a consequence of increasing expenditures and lagging current receipts, domestic government debt has risen considerably in most Latin American countries. However, in some cases the increase of the internal debt has been due to repatriation of the foreign debt which has shown a substantial decline. The ratio of the public debt to the net national income appears to be lower in Latin America than in more developed countries.

/CHAPTER I

CHAPTER I GOVERNMENT EXPENDITURE

The level of Government Expenditure

The continued rise in price levels in recent years was the major contributory factor to the increased central government expenditure shown in Table 1 below. Expansion of government activities was another factor of varying importance which led to higher levels of government outlay. This was largely an outgrowth of more vigorous pursuance by government of policies aimed at the acceleration of economic development and at the expansion of social services.

A by-product of the assumption of these new responsibilities by governments has been the growth and expansion of autonomous public agencies whose operations, however, are not recorded in the central government budget. In most countries capital contributions and transfers of a part of earmarked tax receipts to those agencies are the only items appearing in the budget. At the same time payments of those agencies to the public usually exceed the receipts transferred to them through the central government budget. This excess of expenditure is usually financed by other revenues not recorded in the budget such as earmarked tax receipts collected directly by the agencies. As a consequence, the data shown in Table 1 which consist largely of budget figures, tend to understate^{1/} to some degree, varying from country to country, both the volume and year-to-year change in government expenditure. This is particularly true in Argentina, Brazil, Chile and Mexico where the operations of autonomous agencies are important relative to total government expenditure. In Argentina, as indicated below, budget expenditure for 1949 and 1950 including the Five-Year Plan amounted to approximately only 60 per cent of total government expenditure. The transactions of the autonomous agencies accounted for the remaining 40 per cent.

^{1/} There is additional downward bias in the 1950 figures owing to the use of estimates which are generally lower than the actual figures.

Table 1. Central Government Expenditure, Selected Years

(In millions of national currencies)

Countries	1938 or 1938/39	1944 or 1944/45	1947 or 1947/48	1948 or 1948/49	1949 or 1949/50	1950 or 1950/51
Argentina	1,276.8	2,490.8	4,220.3	7,076.3	6,464.2E	7,504.2E
Bolivia	391.0	1,198.0 ^{d/}	1,310.0	1,985.0	2,125.0E	3,044.0E
Brazil	4,735.4	10,398.0	13,393.2	15,695.6	20,727.0	22,290.4E
Chile ^{a/}	1,545.3 ^{d/}	4,533.5	10,112.1	13,186.8	15,755.6	15,649.6E
Colombia	83.9 ^{a/}	199.2 ^{d/}	363.9	412.1	411.6	422.4E
Coste Rica	35.9	68.1	96.7	114.9	125.4	108.2E
Dominican Republic	12.1	26.4	73.2	90.7	79.6	.
Ecuador	142.9	303.1	659.4	652.6	712.2	.
El Salvador	22.3	25.2	51.8	56.8	77.8E	110.0E
Guatemala	11.1	18.3	32.3	45.9	47.0E	41.5E
Haiti	28.6	32.2 ^{c/}	75.6	93.3	106.9	105.7E
Honduras	10.9	11.1 ^{c/}	.	26.5	20.2E	.
Mexico	537.0	1,463.8	1,667.0	2,302.6	2,551.3E	2,746.0E
Nicaragua	.	69.4 ^{d/}	87.0	75.8	69.6	80.0E
Panama	10.0	24.7	36.3	33.0	31.6	32.2
Paraguay	12.8 ^{a/}	26.8	51.4	79.0	70.0E	113.0E
Peru	265.4	665.6 ^{d/}	1,075.7	1,065.6	1,391.4	1,644.5E
Uruguay	91.5	122.4	190.1	231.5	258.9	294.0E
Venezuela	283.3 ^{c/}	437.7	1,451.9	1,946.0	1,860.7	1,631.8E

a/ Data to 1948 and after are not comparable to those of previous years because of changes in the budgeting system.

b/ 1937.

c/ 1936/37

d/ 1945

e/ 1943/44

E/ Estimated or provisional figures.

Note: Central government expenditure includes gross expenditure of public undertakings and of government monopolies and debt redemption, but exclude expenditure of autonomous agencies.

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/Expenditures

	<u>Expenditure</u>	
	(In millions of pesos)	
	1949	1950
	Estimates	
<u>Argentina</u>		
Central government ^{1/}	4,319.6	5,536.1
Five-Year Plan	1,672.0	1,267.9
Autonomous Agencies ^{2/}	4,094.1	4,661.9
Total	10,085.7	11,465.9
Central Government Expenditure as percentage of total expenditures	60	59

Similarly, in Chile as indicated below expenditures as shown in the budget until 1946 was approximately 60 per cent of total government expenditure. In recent years, however, the government has endeavoured to incorporate certain transactions within the budget which were previously not included. Among them are transfers of unmarked receipts to autonomous agencies. This accounts largely for the increase in budget expenditure in 1948 relative to total government expenditure.

	<u>Expenditure</u>			
	(In millions of pesos)			
	1940	1944	1946	1948
<u>Chile</u>	C l o s e d A c c o u n t s			
Central Government reported expenditure	2,281.6	4,533.5	7,264.7	13,486.8
Consolidated expenditure ^{3/}	3,700.2	7,796.7	12,165.8	13,345.0
Central Government Expenditure as percentage of total expenditures	62	58	60	73

^{1/} Central Government expenditure shows net after deductions of transfers to autonomous agencies amounting to 472.6 and 700.2 million pesos in 1949 and 1950 respectively.

^{2/} Includes only administrative expenditure of the Institute for Trade Promotion (IAPI) thereby greatly understating total expenditure of this agency which makes sizeable outlays for food subsidies and other purposes.

^{3/} Based on unpublished data furnished by the competent authorities in Chile.

In order to ascertain the real growth in government services, the rise in prices has to be taken into account. The lack of relevant indicators of the changes in the prices of foods and services purchased by the government permits only a rough approximation, on the basis of which it appears that government activities have expanded after 1938 in most of the Latin American countries, but, as it should be expected, at quite different rates in every instance.

Changes in the Composition of Expenditure

The composition of government expenditure for nine Latin American countries in recent years is shown in Tables 2 and 3. Wherever possible, data are also shown for a pre-war year in order to determine whether any significant changes have taken place over the decade of the forties. The data in Tables 2 and 3 refer only to central budgetary expenditure and do not include the activities of autonomous institutions other than those financed through contributions from the general budget.

/Table 2.

Table 2. Composition of Government Expenditure in Latin America
Selected countries and years
(in millions of national currencies)

National Defence	Social Expend- iture			Public debt service	Other current expenditure	Invest- ments	Total
	Educa- tion	Health Social Welfare	Public				
<u>Argentina</u>							
1938	252.8	206.4	133.0	170.8	275.2	238.6	1,276.8
1944	857.6	256.4	123.6	313.3	597.5	342.4	2,490.8
1947	1,255.2	429.7	458.2	369.4	979.0	728.8	4,220.3
1948	2,115.4	609.7	516.7	390.6	1,523.6	1,920.3	7,076.3
1949E	1,341.0		577.6	421.8	1,258.3	2,154.0	6,464.2
1950E	1,663.2	347.8	1,214.1	517.7	1,309.1	1,922.3	7,504.2
<u>Brazil</u>							
1938	1,441.8	265.5		996.3	707.8	1,244.0	4,735.4
1944	4,398.9	608.3		1,515.6	1,927.6	1,947.4	10,398.0
1947	4,646.8	1,078.8		5,479.1		2,168.5	13,393.2
1948	4,772.8	1,493.6		6,371.2		3,058.0	15,695.6
1949E	5,739.7	2,178.6		6,831.4		4,619.1	19,368.8a
1950E	6,318.0	2,447.6		1,155.6	6,263.7	6,103.5	22,290.4
<u>Chile</u>							
1937	468.1	258.3	84.4	6.0	507.9	220.6	1,545.3
1944	1,308.5	759.9	339.2	9.3	1,685.1	431.5	4,533.5
1947	2,200.3	1,415.1	575.6	48.0	4,445.0	1,428.1	10,112.1
1948	2,220.8	1,748.2	926.9	1,006.3	5,095.3	2,489.3	13,486.8
1949	2,831.3	2,320.7	1,040.5	1,044.7	5,622.7	2,895.7	15,755.6
1950E	2,855.2	2,351.6	1,132.9	866.1	5,460.1	2,983.7	15,649.6
<u>Colombia</u>							
1937	12.8	6.2	5.0	12.6	25.2	22.1	83.9
1945	26.0	12.1	11.6	33.3	60.6	55.6	199.2
1947	48.0	19.8	18.9	39.6	99.8	137.8	363.9
1948	57.4	20.8	19.6	51.3	123.5	139.5	412.1
1949	71.2	23.8	20.6	74.0	149.7	72.3	411.6
1950E	69.9	36.1	23.9	61.8	.	.	422.4
<u>Haiti</u>							
1937/38	7.5	2.3	2.6	.	.	4.0	28.6
1943/44	7.7	2.7	2.8	3.5	11.9	3.6	32.2
1946/47	11.5	5.4	4.3	2.1	18.9	7.2	49.4
1947/48	13.7	8.1	5.3	10.7	23.2	14.6	75.6
1948/49	15.1	9.9	7.7	10.3	40.6	9.7	93.3
1949/50	17.2	11.0	9.2	10.4	51.7	7.4	106.9

(continues)

Table 2. (continued)

National Defence	Social Expenditure			Public debt service	Other current expend- iture	Invest- ments	Total
	Educa- tion	Public Health Welfare					
<u>Honduras</u>							
1936/37	2.1	0.4	0.3	.	.	.	10.9
1943/44	2.3	0.9	0.4	.	.	.	11.1
1948/49	6.3	1.9	1.3	0.8	13.3	2.9	26.5
1949/50E	3.3	2.2	1.5	1.1	10.7	1.4	20.2
<u>Panama</u>							
1938	.	.	.	.	.	2.3	10.0
1944	.	3.9	3.4	0.7	9.6	7.1	24.7
1947	.	6.9	5.6	2.3	11.0	10.5	36.3
1948	.	7.4	5.5	2.1	11.0	7.0	33.0
1949	.	8.0	5.6	2.9	9.2	5.9	31.6
<u>Peru</u>							
1938	49.7	17.7	5.3	36.2	87.0	69.5	265.4
1945	176.6	57.9	44.2	48.9	249.1	88.9	665.6
1947	214.7	140.6	71.8	74.0	455.2	119.4	1,075.7
1948	212.3	138.3	79.5	68.4	439.8	127.3	1,065.6
1949	319.1	179.6	90.0	72.8	520.5	209.4	1,391.4
1950E	351.2	227.9	113.5	115.4	581.2	255.3	1,644.5
<u>Venezuela</u>							
1936/37	35.8	17.3	14.4	.	151.9	65.9	285.3
1947/48PR	109.2	89.7	83.7	9.4	512.1	622.8	1,426.9
1948/49PR	128.5	123.9	94.8	1.2	738.8	858.8	1,946.0
1949/50PR	187.2	125.5	123.9	1.1	771.1	651.9	1,860.7
1950/51E	172.0	122.2	122.6	0.8	673.1	541.1	1,631.8

Sources: Same as Table 1.

a/ Estimates used as no breakdown available of actual results.

E/ Estimates

PR/ Provisional Results.

/Notes:

Notes: (Table 2.) Composition of Government Expenditure -
Selected Countries and Years

National Defence covers current and capital expenditure of the armed forces including for Brazil in 1944 outlay of the special war budget.

Public Health and Social Welfare also covers central government contributions to social security funds.

Public Debt Service includes debt redemption. Chile: up to 1947 includes redemption of floating debt only. Beginning in 1948 includes also contributions to Autonomous Amortization Fund.

Investments Unless otherwise indicated capital outlays of autonomous agencies excluded.

Argentina: Capital outlay under Ministry of Public Works, special accounts, Five-Year Plan (1947-1951) and those financed with proceeds of loans.

Brazil Expenditure of the Ministry of Public Works, of the Valley of San Francisco Committee, of the Conselho Nacional de Petroleo, of the Special Plan for Public Works and Equipment (1944) and of the SALTE Plan which is included in expenditure of the Presidency in the central government budget. Excludes capital outlays of other Ministries.

Chile Capital outlays under budget, special authorizations and special laws. In 1950 capital outlays under budget only. The budget and special authorizations include public works and outlays under: Special Road Fund, Extraordinary Plan for Public Works and also government contributions to the following: Housing Fund, Institute for Industrial and Mining Development, Development Corporation Autonomous Amortization Fund, School Building Construction Corporation, Mining Credit Board and Agrarian Credit Board. Special laws cover outlays under Road Plan, Public Works Plan, Agricultural Plan, Potable Water Works; also includes expenditure for construction of hospitals and hotels, government contributions to Mining Credit Board and other miscellaneous outlays.

Colombia covers both real and financial investments. Real investments consisting of public works under the Ministry of Public Works and under other ministries and transfers to Autonomous Institutions (Council of National Railroads, National Railroad Fund, Municipal Development Fund, Industrial Development Institute and others). Financial investments consist of capital contributions to Industrial Development Institute, Agricultural Industrial and Mining Credit Bank, National Institute for Water Utilization and Electrical Equipment and other agencies.

Haiti Expenditure of Ministry of Public Works and for year 1937/38 expenditure under Public Works Contract of 1938.

Honduras: all ascertainable capital expenditure under different Ministries.

Panama: expenditure of Ministry of Public Works.

Peru: Public Works under all ministries, including property repairs, purchase and installation of equipment plus capital contributions to government corporations and credit banks.

Venezuela: all investments in transportation, agriculture and industry plus outlays for aqueducts, sanitary works, buildings, equipment, etc., made by the central government; outlays by provinces out of funds allocated by the central government also included.

/Table 3.

Table 3. Distribution of Government Expenditure in Selected Countries

Percentages

	National Defence	<u>Social expenditure</u>		Public Debt Service	Other Current Expenditure	Invest- ments
		Education	Public Health Social Welfare			
(In percentage of total)						
<u>Argentina</u>						
1938	19.8	16.2	10.4	13.4	21.5	18.7
1944	34.4	10.3	5.0	12.6	24.0	13.7
1947	29.7	10.2	10.9	8.7	23.2	17.3
1948	29.9	8.6	7.3	5.5	21.5	27.1
1949E	20.7	11.0	8.9	6.5	19.5	33.3
1950E	22.2	11.3	16.6	6.9	17.4	25.6
<u>Brazil</u>						
1938	30.4		5.6	21.0	16.6	26.3
1944	42.3		5.9	14.6	18.5	18.7
1947	34.7		8.1		40.9	16.3
1948	30.4		9.5		40.6	19.5
1949E	29.6		11.2		35.3	23.8
1950E	28.3		11.0	5.2	28.1	27.4
<u>Chile</u>						
1937	30.3	16.5	5.5	0.4	32.9	14.3
1944	28.8	16.8	7.5	0.2	37.2	9.5
1947	21.8	14.0	5.7	0.5	44.0	14.1
1948	16.5	13.0	6.9	7.3	37.8	18.5
1949	18.0	14.7	6.6	6.6	35.7	18.4
1950E	18.2	15.0	7.2	5.5	34.9	19.1
<u>Colombia</u>						
1937	15.2	7.4	6.0	15.0	30.0	26.3
1945	13.1	6.1	5.8	16.7	30.4	27.9
1947	13.2	5.4	5.2	10.9	27.4	37.8
1948	13.9	5.0	4.8	12.4	30.0	33.9
1949	17.3	5.8	5.0	13.0	36.4	17.6
1950E	16.5	8.5	5.7	14.6	.	.
<u>Haiti</u>						
1937/38	26.2	8.0	9.1	.	.	14.0
1943/44	23.9	8.4	8.7	10.9	37.0	11.2
1946/47	23.3	10.9	8.7	4.3	38.3	14.6
1947/48	18.1	10.7	7.0	14.2	30.7	19.3
1948/49	16.2	10.6	6.3	11.0	43.5	10.4
1949/50	16.1	10.3	8.6	9.7	48.4	6.9

(continues)

Table 3. (continued)

National Defence	<u>Social Expenditure</u>		Public Debt Service	Other Current Expenditure	Invest- ments
	Education	Public Health Soc.Welf.			
(In percentage of total)					
<u>Honduras</u>					
1936/37	19.3	3.7	2.8	.	.
1943/44	20.7	8.1	3.6	.	.
1947/48	.	.	.	.	.
1948/49	23.8	7.2	4.9	3.0	50.2
1949/50E	16.3	10.9	7.4	5.5	52.9
<u>Panama</u>					
1938	.	.	.	.	23.0
1941	.	20.0	15.7	18.6	22.1
1944	.	15.8	13.7	2.8	38.9
1947	.	19.0	15.4	6.3	30.3
1948	.	22.4	16.7	6.4	33.3
1949	.	25.3	17.7	9.2	29.1
<u>Peru</u>					
1938	18.7	6.7	2.0	13.6	32.8
1945	26.5	8.7	6.6	7.3	37.4
1947	20.0	13.1	6.7	6.9	42.3
1948	19.9	13.0	7.5	6.4	41.3
1949	22.9	12.9	6.5	5.2	37.4
1950E	21.4	13.9	6.9	7.0	35.3
<u>Venezuela</u>					
1936/37	12.6	6.1	5.0	.	53.3
1944/45	9.5	6.9	5.8	.	.
1947/48PR	7.7	6.3	5.9	0.1	36.1
1948/49PR	6.6	6.4	4.9	0.1	38.0
1949/50PR	10.1	6.7	6.7	0.1	41.4
1950/51E	10.5	7.5	7.5	0.1	41.2

Sources: Same as Table 1

/In general,

In general, social insurance payments are effected by autonomous bodies in nearly all countries under review. In certain countries (e.g. Chile, and, to a lesser extent, Argentina, Brazil and Venezuela), a substantial amount of investment or development expenditure is also effected by autonomous institutions. Consumer prices subsidies and production subsidies are a third type of government expenditure which is not reflected or only partly reflected by the central budget figures. In Argentina, for example, consumer price subsidies have been financed in part, in recent years, out of the profits of IAPI, an autonomous government trading corporation. Production subsidies in many countries are effected indirectly by granting favoured exchange rates to importers of raw materials and capital equipment. A second type of production subsidy, also widely used in Latin America, is the favoured export rate designed to encourage marginal exports that would not otherwise be produced and sold. In Mexico production subsidies have generally taken the form of partial or full tax exemptions on the part of certain enterprises.

For these reasons the data in Tables 3 and 4 must be interpreted with caution. While in general they may serve to indicate the direction of changes in the structure of government expenditure for the nine countries shown, they do not reflect with sufficient accuracy the magnitude of these changes. Additional difficulties in this respect arise from the fact that the classification of expenditure shown in the official accounts is intended primarily to serve administrative purposes and does not lend itself to analysis in terms of economically significant categories. Thus, it has not been possible, on the basis of the available data, to separate government expenditure on goods and services from transfer payments, such as interest on the public debt, contributions to the autonomous social security funds, pensions, etcetera.

In these circumstances, it is impossible to assess with any degree of accuracy the role played by Latin American governments in the redistribution of income by way of direct transfer payments. Broadly speaking, it may be said that no significant changes have taken place

/in this direction

in this direction since the pre-war period. It should be noted in this connexion that the scope of government as direct redistributor of income is extremely limited in most Latin American countries. Despite substantial increases in recent years, internal government debt is still relatively small compared with national income in most of these countries.^{1/}

Further and more important from the point of view of its income redistribution effects, a very small proportion of the internal debt is held by private individuals and institutional investors in practically all Latin American countries. Consequently, the direct income redistribution effects of the increase in domestic public debt in recent years have been small in view of the fact that most of it has been absorbed by the central bank and by other official credit institutions.

The inflationary effects of this type of borrowing have had more important and more pervasive effects on the redistribution of income through a continuous and pronounced rise in the level of prices than by way of changes in the level of interest payments. Actually, the inflationary price rise in most Latin American countries has progressively devalued the internal public debt with the result that interest payments now absorb a relatively smaller proportion of total government expenditure than was the case in the immediate pre-war period. The percentages shown in Table 3 unfortunately do not indicate the magnitude and in some cases even the direction of these changes. This is due to the fact that the public debt service expenditure entered in the general budget accounts generally include only part of the total debt service. Foreign debt and domestic floating debt service is often effected out of extra-budgetary funds. For those countries which were in partial or complete default on their foreign debt service, the figures for recent years, after resumption of payments, tend to distort the picture by showing apparent relative increase in public debt interest payments (e.g., Colombia). It should be also noted that the percentages shown in Table 3 also include ordinary amortization payments though these have been relatively small for the period under review.

^{1/} See section on public debt below.

Defence outlays have tended to decrease relative to total expenditure in most of the countries shown since 1944.

The proportion of total central government expenditure devoted to social services, i.e., education, public health and public assistance, has remained fairly stable since the pre-war period in five of the countries shown in the table. Significant increases in this category have, however, taken place in Brazil, Honduras, Panama and Peru.

The most significant change in the pattern of expenditure in recent years has been the rise in outlays for public works and economic development. The percentages relating to this item are shown under "investments" in Table 3. These figures do not give an accurate picture of the trends in the various countries, except perhaps for Colombia, Peru and Venezuela, where the bulk of development expenditure is included in the general budget. In the case of Chile and, to a lesser extent, Argentina, the figures shown underestimate the contribution of central government finances to capital formation, as a substantial proportion of investment expenditure is effected by autonomous agencies outside of the budget.

The increases indicated by the figures may be attributed to the facts that: a) in recent years most governments have placed greater emphasis on economic development than heretofore; b) the possibilities of obtaining materials and equipment for the governments' development plans have been greater in recent years than during the war and immediate post-war period; c) the cost of goods and services purchased by the various governments has increased owing to the general rise in prices in the post-war period both at home and abroad.

In many countries in Latin America, the increased emphasis on economic development has not materialized into comprehensive government plans under the direction of a single central authority, but has resulted into the expansion of the activities of the various government departments concerned and of the autonomous development corporations.

Somewhat more ambitious and integrated programmes have been put into effect by Argentina and Brazil. These are the Argentine Five-Year Plan which will expire in 1951, and the Brazilian SALTE Plan, which was initiated in 1949 and is expected to be completed by the end of 1953.

/Both plans

Both plans give particular emphasis to the development of transportation, electric power and public health facilities. Colombia is another country which has recently adopted a comprehensive programme of government expenditure for economic development.^{1/} This programme is based on the recommendations of an Economic Mission of the International Bank which conducted a comprehensive survey of the Colombian economy in 1949. An integral part of the program is the adoption of fiscal and monetary policies designed to facilitate a balanced economic growth.

^{1/} Presidential Decree number 384, 8 February 1950.

CHAPTER II

GOVERNMENT REVENUE ^{1/}Developments in Total Government Revenue

Recent years have seen a continuation of the long-range trend of rising government receipts. This trend is clearly indicated by the revenue figures given in Table 4 for a majority of countries. It will be noted that in some instances estimated revenues for 1950 appear to have declined over previous years. These are, however, only estimates which, on the basis of past experience, have been found to diverge considerably from actual results. It can be assumed that the estimates are subject to an upward revision owing to the continuing inflation in the countries concerned during 1950. In addition, the rise in the value of foreign trade in the latter half of 1950, brought about by the changed international situation, will increase government receipts which consist in most countries largely of tax revenues derived from foreign trade transactions.

As indicated in Table 5 both tax and non-tax receipts have continued to rise, with the latter still forming only a relatively small but often varying segment of total revenues. In relation to total receipts, non-tax revenue has shown such variation largely because of the inclusion of unforeseen receipts which may or may not be recurrent, so that no valid generalisation applicable to the various countries under consideration can be made.

The substantial rise which has occurred in recent years in the tax revenues of many countries as shown in Table 5 is attributable to a number of common factors whose importance varied with the countries concerned. Among the more important factors are: a) increase in rates of existing taxes and introduction of new taxes; b) expansion of the tax basis due both to increased real income and higher prices; c) administrative improvements in the tax collecting machinery.

^{1/} Both budgetary and extrabudgetary receipts have been taken in account wherever possible as indicated in Table 1.

Table 4.

Government Receipts of certain Latin
American Countries for Selected Years

(in millions of national currencies)

Country	Taxation Receipts	Total Receipts
<u>Argentina^{a/}</u>		
1938	949.0	1,008.4
1944	1,283.4	1,506.7
1947	3,007.2	3,565.0
1948	3,642.7	4,404.1
1949 E	4,064.4	4,116.0
1950 E	5,469.8	5,316.9
<u>Brazil</u>		
1938	2,562.4	3,879.8
1944	6,609.7	8,311.4
1947	11,667.0	13,853.0
1948	12,150.0	15,699.0
1949	13,716.0	17,917.0
1950 E	16,617.1	18,775.0
<u>Chile^{b/}</u>		
1937	1,265.9	1,436.7
1944	3,499.7	4,089.4
1947	7,299.4	9,978.8
1948	11,955.8	14,379.3
1949	13,425.1	15,823.2
1950 E	12,741.0	15,649.6
<u>Colombia</u>		
1937	70.7	85.8
1945	143.0	169.0
1947	254.2	293.1
1948	269.4	320.1
1949	315.9	380.2
1950 E	371.3	422.4
<u>Costa Rica</u>		
1938	27.3	37.5
1944	36.6	52.8
1947	49.6	88.0
1948	74.2 E	90.1
1949	.	125.4
1950 E	.	108.2

/Dominican Republic

Table 4. Government Receipts of certain Latin American Countries for Selected Years

Country	Taxation Receipts	Total Receipts
<u>Dominican Republic</u>		
1938	.	11.9
1944	.	24.6
1947	.	73.8
1948	.	89.2
1949	.	79.3
<u>Guatemala</u>		
1937/38	11.0	12.5
1943/44	14.3	16.8
1946/47	27.3	40.3
1947/48	30.6	39.6
1948/49 E	33.4	43.6
1949/50 E	37.3	41.5
<u>Haiti</u>		
1937/38	25.3	28.1
1943/44	37.8	42.4
1946/47	61.3	65.3
1947/48	72.4	78.8
1948/49	73.1	83.1
1949/50	97.3	109.1
<u>Honduras</u>		
1936/37	6.7	10.9
1943/44	7.5	11.2
1947/48	10.1	26.1
1948/49	10.6	27.8
1949/50 E	8.5	20.8
<u>Mexico</u>		
1938	364.1	430.3
1944	1,116.0	1,275.3
1947	.	2,054.7
1948	.	2,002.1
1949 E	.	2,410.0
1950 E	.	2,597.0

/Panama

Table 4. (continued)

Country	Taxation Receipts	Total Receipts
<u>Panama</u>		
1938	5.7	10.0
1941	10.4	16.6
1944	14.6	25.5
1947	21.0	33.6
1948	20.8	32.0
1949	20.9	31.9
<u>Peru</u>		
1938	125.1	180.4
1945	398.6	514.3
1947	714.8	929.9
1948	810.7	1,056.6
1949	1,098.3	1,435.1
1950 E	1,352.2	1,644.5
<u>Venezuela</u>		
1936/37	235.9	253.6
1944/45	569.8	613.1
1947/48 P	1,392.4	1,558.6
1948/49 P	1,789.8	1,963.3
1949/50 P	1,662.0	1,885.2
1950/51 E	1,526.4	1,632.0

Sources: Same as for Table 1.

a/ Total receipts do not include the share of tax receipts assigned to provinces, municipalities and autonomous agencies shown under taxation receipts.

b/ Data for 1948 and after are not comparable to those of previous years because of changes in the budgeting system.

Notes:

E = Estimates;
P = Provisional Results.

Other figures relate to closed accounts unless otherwise indicated. Fiscal years: coincides with the calendar year in Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama and Peru. Begins 1 July in Guatemala, Honduras and Venezuela. Begins 1 October in Haiti.

/Unless otherwise

Unless otherwise indicated total receipts cover budget receipts of the central government including gross revenues of monopolies and public undertakings and excluding receipts of autonomous agencies and loan proceeds. Taxation receipts exclude consular fees unless otherwise indicated.

Argentina Total receipts exclude whereas taxation receipts include tax receipts earmarked to municipalities, provinces and autonomous agencies.

Brazil Total receipts include revenues of the war budget and public works plan other than loan proceeds. Receipts from extraordinary taxes estimated at 300, 278 and 242 million cruzeiros for the years 1947, 1948 and 1949 respectively have been excluded. Taxation receipts include harbor fees from 1947 to 1950.

Chile Total receipts include revenues shown under special laws and for 1947 profits from revaluation of gold reserve of 830.9 million pesos. Revenues of railways are excluded.

Total taxation receipts do not cover all government tax revenues as some earmarked tax receipts are not recorded in the budget. Tax revenues earmarked to the road fund but included in the budget have been broken down from 1947 onwards as follows: two thirds included under customs duties and one third under land tax. Tax arrears are also included.

Colombia Total receipts include only net operating results of government salt mines and national railroads.

Costa Rica Extrabudgetary receipts included after 1945. Transactions of the Pacific Electric Railroad excluded beginning in 1949.

Dominican Republic Total receipts include both ordinary and extraordinary receipts.

Haiti Beginning with 1944/45 receipts of telephone, telegraph and hydraulic services excluded from total receipts. Transactions of non-fiscal accounts also excluded.

Honduras Includes both extraordinary and earmarked receipts.

Mexico Includes both ordinary and extraordinary receipts. Only net results of the national railroads are included.

Panama Excluding non-budgetary receipts consisting mainly of refunds, of revenues, of hospitals and of loan proceeds.

Peru Includes trust funds (cuentas de orden) and extrabudgetary receipts. Taxation receipts include consular fees.

Table 5. Receipts of certain Latin American countries
by major categories for selected years.
(in millions of national currencies)

	Taxation					Non-tax receipts	Total receipts
	Income and wealth	Taxes on commodities and services		Total Taxation Receipts	Total		
		Customs	Other taxes on commodities & services				
<u>Argentina: a/</u>							
1938	192.9	328.8	427.3	949.0	259.1	1,008.4	
1944	532.5	95.7	655.2	1,283.4	553.8	1,506.7	
1947	1,373.7	515.1	1,118.4	3,007.2	1,302.2	3,565.0	
1948	1,826.5	465.7	1,350.5	3,642.7	1,685.0	4,404.1	
1949 E	1,818.2	534.5	1,711.7	4,064.4	1,353.8	4,116.0	
1949 P	2,325.9	330.2	2,326.5	4,983.6			
1950 E	2,229.9	423.8	2,816.1	5,469.8	1,753.8	5,316.9	
<u>Brazil:</u>							
1938	287.3	1,052.5	1,222.6	2,562.4	1,317.4	3,879.8	
1944	2,237.2	902.4	3,470.1	6,609.7	1,701.7	8,311.4	
1947	3,901.9	1,876.4	5,888.7	11,667.0	2,186.0	13,853.0	
1948	4,195.0	1,650.3	6,304.7	12,150.0	3,549.0	15,699.0	
1949	4,785.0	1,700.0	7,231.0	13,716.0	4,201.0	17,917.0	
1950 E	5,322.0	1,995.0	9,300.1	16,617.1	2,157.9	18,775.0	
<u>Chile:</u>							
1937	232.9	724.4	308.6	1,265.9	170.8	1,436.7	
1944	1,362.8	854.0	1,282.9	3,499.7	589.7	4,089.4	
1947	2,960.2	1,784.1	2,555.1	7,299.4	2,675.4	9,978.8	
1948	5,164.6	2,117.5	4,673.7	11,955.8	2,423.5	14,279.3	
1949	5,247.0	2,717.7	5,460.4	13,425.1	2,398.1	15,823.2	
1950 E	4,700.8	2,520.9	5,519.3	12,741.0	2,908.6	15,649.6	
<u>Colombia:</u>							
1937	16.7	35.0	19.0	70.7	15.1	85.8	
1945	64.3	42.5	36.2	143.0	20.0	163.0	
1947	124.9	67.1	62.2	254.2	38.9	293.1	
1948	137.5	60.2	71.7	269.4	50.7	320.1	
1949	177.2	44.4	94.3	315.9	64.3	380.2	
1950 E	179.4	67.4	124.5	371.3	51.1	422.4	
<u>Haiti:</u>							
1937/38	0.5	22.6	2.2	25.3	2.8	28.1	
1943/44	3.7	31.0	3.1	37.8	4.6	42.4	
1946/47	4.8	52.4	4.1	61.3	4.0	65.3	
1947/48	9.5	58.2	4.7	72.4	6.4	78.8	
1948/49	10.4	59.2	5.1	74.7	8.8	83.1	
1949/50	11.2	80.2	5.9	97.3	11.8	109.1	
<u>Honduras:</u>							
1936/37	-	4.6	2.1	6.7	4.2	10.9	
1943/44	-	3.3	4.2	7.5	3.7	11.2	
1947/48	-	7.2	2.9	10.1	16.0	26.1	
1948/49	-	7.4	3.2	10.6	17.2	27.8	
1949/50 E	-	6.1	2.4	8.5	12.3	20.8	
<u>Panama:</u>							
1938	0.3	3.3	2.1	5.7	4.3	10.0	
1941	0.6	5.8	4.0	10.4	7.2	17.6	
1944	2.5	5.6	6.5	14.6	10.9	27.2	
1947		9.3		21.0	12.6	33.6	
1948	3.6	8.7	8.5	20.8	11.2	32.0	
1949	3.5	9.1	8.3	20.9	11.0	31.9	
<u>Peru:</u>							
1938	37.2	51.2	36.7	125.1	55.3	180.4	
1945	203.0	98.7	96.9	398.6	115.7	514.3	
1947	395.9	185.4	133.5	714.8	215.1	929.9	
1948	440.9	203.9	165.9	810.7	245.9	1,056.6	
1949	541.8	319.4	237.1	1,098.3	336.8	1,435.1	
1950 E	762.1	297.7	292.4	1,352.2	292.3	1,644.5	
<u>Venezuela:</u>							
1936/37	64.5	107.3	64.1	235.9	17.7	253.6	
1944/45	332.3	110.1	127.4	569.8	43.3	613.1	
1947/48 P	908.1	265.1	219.2	1,392.4	166.2	1,558.6	
1948/49 P P	1,187.7	339.2	262.9	1,789.8	173.5	1,963.3	
1949/50 P P	1,072.5	330.2	259.3	1,662.0	223.2	1,885.2	

Inflation has contributed in most countries to the rise in central government receipts owing to the existence of income taxes whose yield rose with the rise in money incomes. The introduction in some countries of new taxes on excess profits and capital gains designed to tax more effectively business profits and speculative gains, and the various increases in the rates of both direct and indirect taxes, in quite a number of countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Panama, Peru and Venezuela, are also accountable to some degree for the continuing trend of rising tax yields.

With constantly increasing expenditure governments were compelled to seek other possible sources of additional revenue and to direct attention to the improvement of the yield from existing taxes. It is interesting to note that in the recommendations of practically every mission which has examined the problem of fiscal reforms in various Latin American countries, mention has been made of the increased tax yields which could be obtained from a strengthening of the tax machinery. As far as can be ascertained, improvements in tax administration and enforcement effected inter alia in Argentina, Mexico and Peru, were accountable for some of the noted rise in tax receipts. Notwithstanding their almost constant rise, tax revenues in several countries did not keep pace with the steadily expanding expenditure as indicated in Table 6 below. In some instances even, tax revenues in recent years covered a smaller proportion of expenditure than before the war. There are several factors common to most of the countries under consideration which account for the relative lag in tax receipts, viz.: a) the relatively low levels of economic development of the various economies which place fairly severe limits on the share of the country's output which the Government can secure; b) the flexibility of the tax basis originated in the high proportion of tax revenues derived from indirect taxes and the fact that most of these are levied on a specific basis; c) the rising price level which made it politically difficult to introduce new levies and increase the rates of the old one; d) the growing complexity of government operations, through the creation of independent and semi-independent agencies, which has impeded coordination of expenditure and receipt policies, and e) the lack of effective tax administration.

/In spite

In spite of the attempts made by governments in Latin America to formulate expenditure policies in keeping with expected revenues, the urgent need for economic development and expansion of social services, together with the increasing cost of operations, give rise to heavy expenditure which outstripped tax revenues.

The existence of autonomous agencies and corporations varying in number from country to country and operated independently of the budget of the central government has tended to make very difficult the task of effective coordination of fiscal policy. An additional complication has been the fairly common practice of giving such agencies and local authorities independent sources of revenue by assigning to them the receipts of certain taxes which may or may not appear in the budget. An indication of the magnitude of the problems involved can be gathered from Table 7 which shows the types and approximate number of independent agencies in a number of countries in 1950.

Table 6.

Table 6. Tax Receipts as Percentage of total Expenditure in
Certain Latin American Countries for Selected Years

<u>Argentina</u>		<u>Honduras</u>	
1938	59	1936/37	61
1944	38	1943/44	68
1947	54	1948/49	42
1948	38		
1949		<u>Panama</u>	
<u>Brazil</u>		1938	57
		1941	74
1938	54	1944	59
1944	64	1947	58
1947	87	1948	63
1948	77	1949	66
1949	71		
<u>Chile</u>		<u>Peru</u>	
1937	82	1938	47
1944	77	1945	60
1947	72	1947	66
1948	89	1948	76
1949	65	1949	79
<u>Colombia</u>		<u>Venezuela</u>	
1937	84	1936/37	83
1945	72	1944/45	117
1947	67	1947/48	97
1948	65	1948/49	92
1949	77	1949/50	82
<u>Haiti</u>			
1937/38	88		
1943/44	90		
1946/47	101		
1947/48	86		
1948/49	80		
1949/50	91		

/Table 7.

Table 7. Approximate Number and Type of Autonomous Institutions in Selected Countries of Latin America in 1950

Country	Number of Institutions	Breakdown of Types of Institutions
<u>Argentina</u>	65	15 social security 11 universities and cultural 10 public utilities 6 banking 23 covering economic development, trading and regulatory bodies
<u>Brazil</u>	68	35 social security 16 public credit 8 public utilities 9 regulatory bodies
<u>Chile</u>	25	10 social security 7 banking 8 economic development
<u>Mexico</u>	72	6 credit 3 production 3 transport 5 promotion 55 miscellaneous
<u>Peru</u>	11	5 economic development 2 transport 4 banking
<u>Venezuela</u>	14	1 social security 4 industrial 3 banking 2 regulatory bodies 4 miscellaneous

/A clear example

A clear example of the inflexibility of the tax basis is found in import and export tax revenue. Despite the substantial rise in import prices since 1938, tariff schedules had remained predominantly on a specific duty basis until quite recently, when they were largely changed to an ad valorem basis in many countries. As a consequence, revenues from customs duties did not climb as sharply as receipts from other taxes. In addition, the restrictions on imports imposed by most countries under the impact of foreign exchange difficulties tended to depress still further the receipts of customs duties. A concomitant development which mitigated somewhat the relative decline of customs duties was the levying of surcharges on imports and exports and on foreign exchange transactions. These taxes, together with profits derived from the government purchase and sale of foreign exchange yielded substantial revenues, e.g., in Argentina, Ecuador, Chile, Peru, Mexico, Brazil, Uruguay and Venezuela.

Changes in the Tax Structure

During the period 1938-1948 the tax structure of many countries in Latin America was fundamentally affected by the introduction of various types of income taxes and of increased rates in already established taxes on income. In a number of countries the existing taxes were buttressed by special levies on capital gains and excess profits. In Argentina and Brazil, for instance, the latter tax had originally been introduced as a wartime levy but was subsequently retained as a permanent feature of their tax system. Table 8 shows the status of income taxes in Latin America as of the end of 1950. At the same time the relative burden of customs duties decreased during that period; in the face of rising prices, the specific duties lost in relative importance, while falling imports due to war and subsequent foreign exchange shortage further affected total collections.

/Table 8.

Table 8.

Date of Introduction and Type of Income Taxes in Effect on 31 December 1950 in Latin American Countries

Countries	Date of Introduction	TYPE		
		Non Schedular	Schedular	Partial
Argentina	1932		x(at uni- form rates for all schedules)	
Bolivia	1928		x	
Brazil	1924		x	
Chile	1923		x	
Colombia	1927		x	
Cuba	1931		x	
Costa Rica	1931		x	
Dominican Republic	1949			On busi- ness profits only
Ecuador	1927		x	
El Salvador	1916		x	
Guatemala	1938			on busi- ness profits only
Haiti	1948		x	
Honduras	1949	x		
Mexico	1925		x	
Panama	1934	x		
Paraguay	1931		x	
Peru	1934		x	
Uruguay	1944			on excess profits
Venezuela	1942		x	

/The successful

The successful imposition of the income levies was achieved, however, through a certain selectiveness in their imposition and administration. Income taxes on the more modest incomes of government personnel and other wage and salary earners could be collected in many countries with great efficiency through withholding at the source. Large, often foreign-owned corporations, were also under the scrutiny of income tax collectors. Individuals, however, who drew, often considerable, income from professions and trades and capital invested abroad, were often able to avoid their income tax liabilities to a considerable extent.

Developments of the last two years slowed down the previous rise in the importance of direct taxes. Customs duties started to catch up with the inflationary rise in prices: first, ad valorem surcharges were imposed on imports and exports in a number of countries; then customs duties themselves were increasingly placed on an ad valorem basis. More important, excise duties and sales or turnover taxes were widely strengthened. In one country at least, the Dominican Republic, the general income tax that had been introduced shortly before was abolished in 1950. One of the most interesting features of these developments was the ascendancy of revenues from export taxes and from foreign exchange transactions which were also in the nature of export charges. The rise in the prices of leading export commodities of many Latin American countries brought about a considerable expansion, not only of the base of these taxes, but also of their unit rate.

Principal Elements of the Tax System

(i) Taxes on Wealth and Income

As shown by Table 9 revenues from income, excess profits and capital gains taxes constitute the bulk of the yield from taxes on wealth and income in the various countries studied. This is attributable to the relatively low yields secured from such taxes on wealth as land and inheritance taxes whose rates have remained almost unchanged throughout the period; an additional factor has been that reassessment of land has not kept pace with the rise in land values resulting from the inflation. In some countries, such as Argentina and Brazil, land taxes are, moreover, levied by local authorities.

/There have been

There have been no outstanding changes in the organization of the income tax itself. In most countries it has remained a schedular tax with preferential rates for earned income coupled with a global complementary (sur) tax. A notable exception is Argentina which has introduced a uniform tax rate for all schedules in 1950, thus, apparently, taking a first step toward the substitution of a unitary for the schedular income tax. In this connexion it may be noted that the Dominican Republic abolished its recently introduced income tax altogether in 1950, returning to the earlier combination of capitation tax and business profits tax. The use of capital gains taxes and the incorporation of excess profits taxes into the permanent tax system of a number of larger countries has already been alluded to.

/Table 9.

Table 9. Percentage Distribution of Major Taxes on Wealth and Income of Certain Latin American Countries for Selected Years

Countries	Income, Excess Profits and Capital Gains, Taxes as Percentage of Total Tax Receipts	Taxes on Wealth and Income as Percentage of Total Tax Receipts
<u>Argentina</u>		
1938	14	20
1944	35	41
1947	42	46
1948	44	50
1949	37	47
1950 E	33	41
<u>Brazil</u>		
1938	11	11
1944	34	34
1947	33	33
1948	35	35
1949	35	35
1950 E	32	32
<u>Chile</u>		
1937	12	18
1944	34	39
1947	33	41
1948	37	43
1949	31	39
1950 E	28	37
<u>Colombia</u>		
1937	14	24
1945	34	45
1947	37	49
1948	38	51
1949	41	56
1950 E	36	48
<u>Haiti</u>		
1937/38	2	2
1943/44	10	10
1946/47	8	8
1947/48	13	13
1948/49	14	14
1949/50	11	11

(continues)

Countries	Income, Excess Profits and Capital Gains, Taxes as Per- centage of Total Tax Receipts	Taxes on Wealth and Income as Percentage of Total Tax Receipts
<u>Peru</u>		
1938	11	30
1945	25	51
1947	23	55
1948	27	54
1949	24	49
1950 E	19	56
<u>Venezuela</u>		
1936/37	..	27
1944/45	9	57
1947/48 P	24	63
1948/49 P	26	64
1949/50 P	28	64
1950/51 E	24	58

(ii) Taxation of Foreign Business Enterprises

The special position of foreign traders and investors in the economy of many Latin American countries has had a notable impact on their tax systems, both in the introduction of special levies designed to tax them effectively and in the provision of special incentives to attract them into the countries. Their importance in the tax schemes of these countries is characterised chiefly by three facts: they constitute the element with the largest incomes, in an economy in which many incomes are too small to be reached effectively by the income tax. Secondly, a large portion of their income is sooner or later expatriated and thereby withdrawn from the domestic production process to the extent to which it is not retained by tax collection. Finally, in many countries they are engaged in the exploitation and exportation of depletable natural resources whose contribution to domestic economic development must thus largely proceed through the investment in development projects of tax revenues drawn from such enterprises.

/Countries

Countries which rely for the bulk of government revenues on large foreign enterprises have found their tax structure dominated by the necessity of devising effective tax measures for such industries. The income tax, while generally applied to such enterprises, has, at the present stage, been found largely insufficient, chiefly for two reasons: a general income tax which covered both the bulk of the taxpayers and the large foreign enterprises must apply comparatively low rates to the latter or leave a large gap of unused brackets between the two groups thus tending to make the rates applicable to the latter appear too high in relation to the rates paid by the other taxpayers; secondly, the administrative task of determining the net profits of an enterprise, much of whose activity is carried on beyond the jurisdiction of the taxing country, is largely beyond the capacity of many tax administrations.

A variety of supplementary levies have therefore been introduced, some of which have outrun the income tax in productivity. Foremost among these is the export tax. In Bolivia this tax provided in 1947 about 40 per cent of total tax receipts as against slightly over 20 per cent for the income tax. In Peru the export tax on mining and agricultural products amounted to about 26 per cent as against 23 per cent for the income tax in 1947, the figures in 1950 being 32.4 per cent and 18.9 per cent respectively.^{1/} Profits derived from foreign exchange control, either directly or as in Brazil and Colombia through the imposition of special fees for licenses and the sale of foreign currencies, have produced important revenues in a number of countries including Argentina, Brazil and Chile.

It is difficult, however, to obtain comprehensive information on the yield of revenue from these sources, as in some countries they are earmarked for special purposes or assigned to independent funds or agencies and are omitted, in whole or in part, from central government budgets. Thus, in Argentina these transactions were carried out

^{1/} The Peruvian system has now been changing by the recent enactment of the new Peruvian Mining Code which substitutes royalties for the export taxes.

/through

through the Exchange Fund (Cargen de Cambio), from which varying amounts were transferred to the general budget for specific purposes. In most of the countries using this system a considerable portion of the foreign exchange purchased at a low rate was made available at similar rates for favoured imports such as foodstuffs, thus in effect using part of the exchange profits for subsidies to these imports. Only the remaining profits were then transferred to the general budget, as in the case of Bolivia, Chile and Ecuador. In Venezuela they were shared between the Treasury and the Central Bank.

Most noteworthy among the tax reforms affecting foreign extracting enterprises was the so-called 50/50 scheme introduced by the Venezuelan Petroleum Law of 1948. This law provides for a variety of taxes on petroleum enterprises, among them exploration taxes, surface taxes, income taxes and royalties. These levies are supplemented by a provision under which companies, earning less than 15 per cent of total investment, pay an additional tax so calculated as to bring the total revenue collected from them by the government to 50 per cent of their annual profits.

While the effective taxation of foreign enterprises thus gave rise to important new tax measures in many of these countries, the scarcity of available domestic capital made it appear desirable so as to adjust the tax systems that they would not deter foreign entrepreneurs from investing or reinvesting in these countries. This requirement, however, has lost in practical importance for three reasons:^{1/} first, non-tax considerations (such as free transferability of profits and capital, political and economic stability, continued expansion of attractive investment opportunities in capital-exporting countries) have acquired overriding importance; secondly, schedular tax rates, even in the highest brackets, were generally much lower in the countries of Latin America than in the principal capital exporting countries; thirdly, the problem of double taxation, traditionally the most vexing difficulty confronting the foreign investor, has become less acute in view of the privilege granted investors and traders of crediting from such capital-exporting countries as United States, Netherlands and United Kingdom, all or part of the taxes paid abroad against their higher national income taxes.^{2/}

^{1/} See Efectos de la Tributación sobre el Comercio Exterior y las Inversiones en el Extranjero, Chapter 2 (United Nations 1950.XVI.1).

^{2/} Bilateral agreement for the avoidance of double taxation of income and successions are currently under negotiation between the United States and six Latin American republics, (see International Tax Agreements, volume III World Guide to International Tax Agreements, 1843 to 1951)

There remain complex cases of double taxation, especially in the interrelationship of foreign stockholders in domestic corporations (subsidiaries), to which the detailed provisions in Latin American legislation on the taxation of dividends accruing to foreigners is frequently not sufficiently attuned. In addition, these provisions cover only the direct taxes, making no provision for the problem of frequently heavy indirect taxes, especially turnover taxes and import and export duties. Tax incentives, therefore, have continued to receive much attention on the part of many Latin American governments. The principal aim of these incentives has been to ease the tax burden during the initial period of organization and adjustment. There is now a tendency to avoid blanket tax incentives, especially from income tax, which could give tax privileges even to well established enterprises which were no longer in need of them. Among the more important measures taken by various governments in this direction are:

- a) exemption of new or expanding enterprises from income and allied taxes and of taxes on output, for a limited number of years;
- b) exemption from duties on imports of needed machinery, equipment and materials;
- c) liberalisation of provisions relating to concession grants, to depletion and other allowances in the case of mining and petroleum industries.

With respect to exemption from income and allied taxes, beginning 1 January 1950, Argentina exempted new investments from the payment of the excess profits tax; moreover, undistributed profits are not subject to taxation. Bolivia has adopted legislation which provides for freezing or reduction of national, departmental and municipal taxes levied on the output of public utilities and of food manufacturing enterprises. The Dominican Republic has abolished the absenteeism tax which was levied as a surtax at the rate of 10 per cent on the income tax of individuals and of 20 per cent on that of corporations.

Exemptions from duties on imports have been granted to new enterprises in such countries as Cuba, El Salvador, Guatemala, Haiti and Panama.

Colombia and Peru have recently introduced new petroleum and mining

codes respectively. In Colombia^{1/} the new petroleum code provides that capital invested in the petroleum industry will not be subject to the net worth tax during the exploration period. In addition, more liberal provisions for depletion allowances have been introduced. In Peru^{2/} the new mining code abolishes the rather complex export taxes on mineral products and establishes royalties instead. El Salvador^{3/} recently introduced special concessions to fishing and canning enterprises in an effort to stimulate the development of this industry; these enterprises are exempt from the tax on the exploitation of public waters and the use of fishing craft and equipment, and from export taxes on their output. In order to qualify for these concessions the following conditions must be met: 1) 50 per cent of the capital of these enterprises must be owned by nationals; 2) 80 per cent of the employees must be nationals; 3) priority in the sale of its output must be given to the domestic market.

(iii) Taxes on Commodities and Services

a) Customs duties relative to total tax receipts continued to decline in most countries (see Table 10). The maintenance of tariff schedules on a specific duty basis together with the existence of trade agreements, entered during the war between some countries and the United States which resulted either in the freezing or lowering of duties on certain articles, were the major contributing factors to the relatively low level of receipts from customs duties. At the same time, with the growth of receipts from income and domestic outlay taxes, customs duties became of relatively secondary importance as a source of government revenue. Finally, the imposition in recent years of restrictions on imports varying in severity from country to

^{1/} Decree Law 10 of 4 January 1950.

^{2/} Decree Law 11357 of 12 May 1950.

^{3/} Decree Law 726 of 8 August 1950.

country was an additional element in the relative decline of this revenue item. During the last two or three years, however, several governments have made substantial modifications in their tariff schedules with the dual aim of bringing the rates in line with current prices of imports and exports and of providing protection for new domestic industries. Moreover the considerable increase in price and volume of basic raw material exports, since the middle of 1950 is contributing to a decisive recovery of customs receipts.

b) Other Taxes on Commodities and Services

Rising price levels and increased rates are chiefly responsible for the increased yield of taxes on commodities and services relative to total tax receipts.

The patterns of behavior of the various taxes in this category indicated in Table 11 show, however, such variation, not only from country to country, but also within each country, as to make any attempt at generalization extremely difficult. Certain trends can, nevertheless, be noted such as the relative decline in most countries in the yield of excises levied on specific commodities. In Argentina and Chile this was due to the substantially larger increase in the yield of the general sales or turnover taxes which were in turn the result of higher rates introduced in recent years. In Colombia the relative decline in excises is attributable to the comparatively larger yields of the taxes on foreign exchange transactions and of stamp duties. It is interesting to note that for the majority of the countries the bulk of the yield from excises is derived from levies on the consumption of tobacco, alcohol and fuel products. In addition to these products, Brazil has a levy on textile products which has contributed in recent years between 15 and 18 per cent of the total yield from excises.

/Table 10.

Table 10. Distribution of Tax Receipts of Certain Latin American Countries for Selected Years

Countries	Taxes on Income and on Wealth	Percentages Total tax receipts = 100	
		Taxes on Commodities and on Services	
		Customs	Other Taxes on Commodities and on Services
<u>Argentina</u>			
1938	20.3	34.6	45.1
1944	41.5	7.5	51.0
1947	45.6	17.1	37.3
1948	50.1	12.8	37.1
1949 P	46.7	6.6	46.7
1950 E	40.8	7.7	51.5
<u>Brazil</u>			
1938	11.2	41.1	47.7
1944	33.8	13.6	52.6
1947	33.4	16.0	50.6
1948	34.5	13.6	51.9
1949	34.9	12.4	52.7
1950 E	32.0	12.0	56.0
<u>Chile</u>			
1937	18.4	57.2	24.4
1944	38.9	24.4	36.7
1947	40.6	24.4	35.0
1948	43.2	17.7	39.1
1949	39.1	20.3	40.7
1950 E	36.9	19.8	43.3
<u>Colombia</u>			
1937	23.6	49.5	26.9
1945	45.0	29.7	25.3
1947	49.1	26.4	24.5
1948	51.0	22.4	26.6
1949	56.1	14.1	29.8
1950 E	48.3	18.1	33.6
<u>Haiti</u>			
1937/38	2.0	89.3	8.7
1943/44	9.8	82.0	8.2
1946/47	7.8	85.5	6.7
1947/48	13.1	80.4	6.5
1948/49	14.0	79.7	6.3
1949/50	11.5	82.4	6.1

/Peru

Table 10. (continued)

Countries	Taxes on Income and on Wealth	Taxes on Commodities and on Services	
		Customs	Other Taxes on Commodities and on Services
<u>Peru</u>			
1938	29.7	40.9	29.4
1945	50.9	24.8	24.3
1947	55.4	25.9	18.7
1948	54.4	25.1	20.5
1949	49.3	29.1	21.6
1950 E	56.4	22.0	21.6
<u>Venezuela</u>			
1936/37	27.1	42.6	30.3
1944/45	56.7	18.5	24.8
1947/48 F	62.7	18.2	19.1
1948/49 P	64.2	18.2	17.6
1949/50 P	64.5	19.9	15.6
1950/51 E	58.4	17.9	21.7

/Table 11.

Chile												
1937	2.5	12.1		11.0	25.6	20.4	-	32.7	21.3	100	24	
1944	15.0	10.9	-	7.4	33.3	13.7	-	37.2	15.8	100	37	
1947	12.9	15.3	-	7.2	35.4	15.9	-	32.5	16.2	100	35	
1948	10.8	8.6	-	9.0	28.8	10.3	-	41.3	20.0	100	39	
1949	11.4	7.0	-	7.4	25.8	10.8	-	52.6	10.8	100	41	
1950 E	11.8	6.2	-	8.7	26.7	11.1	-	21.3	40.9	100	43	
Colombia												
1937												
1945			58.9			25.8	1.6	-	13.7	100	27	
1947			27.3		22.9	29.0	-	-	20.8	100	25	
1948			32.6		23.4	24.3	-	-	9.7	100	24	
1949			31.3		32.0	17.5	-	-	19.2	100	27	
1950 E			24.3		47.4	12.0	-	-	16.3	100	30	
			20.2		51.0	11.7	-	-	17.1	100	34	
Peru												
1938			69.5			.	-	21.5	9.0	100	29	
1945			73.2			.	-	24.7	2.1	100	24	
1947			61.0			.	-	35.9	3.1	100	19	
1948			67.5			.	-	30.1	2.4	100	20	
1949			67.3			.	-	31.7	1.0	100	22	
1950 E			78.5			.	-	20.5	1.0	100	22	
Venezuela												
1936/37	34.2	25.0	-	3.6	62.8	26.7	-	-	10.5	100	30	
1944/45	27.4	29.0	-	17.3	73.7	15.1	-	-	11.2	100	25	
1947/48 P	20.5	29.1	-	4.6	54.2	19.1	-	-	26.7	100	19	
1948/49 P	18.6	29.4	-	4.9	52.9	18.8	-	-	28.3	100	18	
1949/50 P	19.7	27.9	-	7.4	55.0	22.7	-	-	22.3	100	16	
1950/51 E	18.1	26.0	-	10.0	54.1	18.8	-	-	27.1	100	22	

a/ Receipts from tax on transfer of funds abroad not ascertainable. b/ Including Stamp Duties. c/ Includes Consular Fees.

Note: E: Estimates. P: Provisional Results.

Table 11. Distribution of Taxes on Commodities and Services in Certain Latin American Countries for Selected Years.
Percentages.

	Excises				Stamps Duties	Tax on transfers abroad	Sales or turnover tax	Other	Total	Taxes on commod. & serv. excl. customs as % or total tax receipts
	Tobacco	Alcohol	Fuel and Lubricants	Other						
<u>Argentina</u>										
1938	25.6	19.0	13.9	15.6	74.1	24.7	-	9.5	1.7	100
1944	22.1	18.5	15.9	14.0	70.5	13.9	-	11.0	4.6	100
1947	18.5	14.4	14.8	16.0	63.7	15.7	-	14.8	5.8	100
1948	18.3	13.4	14.4	16.8	62.9	15.7	-	15.1	6.3	100
1949 P	.	.	.	.	37.9	9.3	-	40.4	12.4	100
1950 E	11.5	7.1	12.4	9.0	40.0	7.4	-	46.1	6.5	100
<u>Brazil</u>										
1938			69.8		19.3	-	-	-	10.9	100
1944			56.1		21.4	16.0	-	-	6.5	100
1947			75.7		24.1	-	-	-	0.2	100
1948 a/			76.9		22.9	.	-	-	0.2	100
1949 a/			77.9		21.9	.	-	-	0.2	100
1950 E			64.4		17.2	10.2	-	-	8.2	100

CHAPTER III SOCIAL SECURITY TRANSACTIONS

In order to properly appraise the net effect of the financial activities of the government, attention needs to be paid to the transactions of the social security funds which are now in the process of rapid expansion. During recent years their transactions have reached a level which gives them economic significance. In a number of countries the scope of these funds has been widened to include broad categories of industrial workers and salaried employees.

In a number of Latin American countries, notably in Argentina and also in Brazil and Chile, the contributions received have greatly exceeded benefits being paid to the insured and administrative expenditures incurred by these funds. In their economic effect the contributions paid by the employees reduce their spendable incomes and have an effect similar to that of taxes or of forced loans. With regard to the contributions being paid by the employers, their effect is similar to that of indirect taxes as they are chargeable as cost of production. As far as the expenditures of the funds are concerned, the cash benefits (economic transfer payments) as well as the administrative charges incurred (payments for services rendered to the insured) represent additions to the private income of the recipients.

In addition to receipts from the public and payments to the public by these schemes, the question of transfers between the central government and the insurance scheme has to be considered. For a proper appraisal of the economic significance of the transactions of the insurance schemes these transfers should be eliminated from central government expenditures and from the receipts of the insurance funds, as they are not directly affecting private incomes.

On the whole, it can be said that the accumulation of substantial surpluses in these funds had a decidedly anti-inflationary effect offsetting to the extent of these surpluses, deficits incurred in the other sectors of government activities. From this point of view it is rather of secondary importance whether the accumulated surpluses of the funds are directly utilised by the government through the sale of government bonds to the insurance schemes or whether the insurance funds

/accumulate large

accumulate large cash balances, while the government at the same time resorts to central bank borrowings to cover its deficits.

The following three major aspects of the activities of the social security institutions are being considered below:

- a) magnitude of social security transactions,
- b) contributions,
- c) Investment policy.

Magnitude of Receipts and Payments

Among the countries where social security receipts are important, Argentina, Brazil and Chile by far head the list.

The coverage of the social security schemes in Argentina was considerably expanded in 1944 and 1946, with the result that the gross receipts of social security funds reached a level of between two to three billion pesos during 1948-1950. In 1948 they represented already more than half of total central government receipts, while by 1950 they are estimated to reach a level three fifths of central government receipts. The absolute amounts received as well as in terms of percentage upon total receipts of the central government for selected years is given below:

Years	Social Security Receipts	ARGENTINA		
		Central Government Net Receipts	Sec.Rec. as % of Central Government Receipts	Holdings of Government Bonds
(in million pesos)				
1944	312	1,507	20.7	.
1946	1,309	1,972	66.4	1,792
1947	1,565	3,565	43.8	2,843
1948	2,339	4,404	53.0	4,624
1949	2,310	4,118 ^a	56.1	6,873 ^{a/}
1950 E	3,239	5,317	60.9	.

Sources: Memoria del Departamento de Hacienda, 1944, Vol. I, p.112; Mensaje del Poder Ejecutivo Referente a la Cuenta de Inversión, 1947; Chapter on autonomous agencies; Memoria de la Contaduría General de la República, 1948, pp.397, 401, 406, 407; Presupuesto General de la Nación, 1950.

^{a/} Figure arrived at by adding the reported 2249 million pesos invested in 1949. Memoria del Banco Central, 1949, p.78.

In the absence of available information with regard to benefit payments which made the calculation of the yearly surpluses of the social security impossible, the last column of the above table representing their holdings of government bonds is significant as an indication of the existence of large surpluses which were available for investments in securities. It also includes the government contribution to these funds usually made in the form of government bonds.

In Brazil the expansion of social security schemes took place in 1938 with continuous increase in scope up to 1946. Surpluses have been substantial throughout the period as shown below:

<u>BRAZIL</u>						
Years	Number of insured (1000 \$)	Total Receipts	Total Expenditure ^{a/}	Surpluses	Total Central Government Receipts	Security Receipts as % of total Government Receipts
(in million cruzeiros)						
1937	895	358.4	123.8	234.6	3,173	11.2
1938	1,846	557.2	160.8	396.4	3,880	14.3
1946	3,193	3,737.2	1,543.2	2,194.0	11,392	32.8
1947	3,324	4,486.1	2,004.8	2,481.3	13,853	32.4
1948	3,153E	5,128.0	2,425.1	2,702.9	15,699	32.6

Source: Anuario Estadístico do Brasil, IBGE, Rio, 1949, p.451

a/ Mainly benefit payments and administrative expenditure.

In Chile the amounts involved in social security transactions are also great, though net surpluses are not as high as in Argentina and Brazil. This may be due to the fact that the social security schemes are older in Chile than in the two other countries and that benefit payments increased through the years of operation. Nevertheless, there are substantial surpluses. Social security receipts represented 38.9 per cent of total government receipts in the year 1947. (See Table 12)

As for the rest of the countries the magnitude of the social security transactions is not as striking as in the three above mentioned countries. Their receipts, expenditure and balances are shown for 1947, the last year for which figures are available.

Contributions

The financial provisions referring to social security in Latin American countries are varied.^{1/}

In Argentina, Bolivia, Cuba, Ecuador, Guatemala, Haiti and Uruguay in addition to the contributions of employers and employees, the governments have earmarked the proceeds of special taxes as their contribution to social security schemes. In the rest of the Latin American countries fixed percentages of government contribution exist. For instance in Brazil an amount equal to 5 per cent of employees' earnings is contributed by the government. In Chile the government contributes 1.5 per cent for manual workers and 4.5 per cent for independent workers; in Mexico and Peru 2 per cent of employees' earnings; 4.1 per cent in Venezuela; and in Panama 0.8 and 3 per cent depending whether they are employees and pensioners or independent workers. Finally, in El Salvador though the present legislation has not determined the rates, the State is required to put up 25 per cent, the workers 25 per cent and the employers 50 per cent of the cost of social security.

In the Dominican Republic employees and employers alone contribute to the cost of such benefits arising from maternity, conditions requiring medical care, sickness, invalidity, old age, and death of breadwinner only.

The employers contribute with a percentage equal to that of the employees in Brazil, Cuba, Haiti, Panama, and Venezuela. In Argentina, Chile, Dominican Republic, Mexico, Peru, El Salvador and Uruguay the contributions of employers are greater than that of the employees. The highest applicable rate for the employers are in Uruguay and Argentina with 11 and 10 per cent of the employees' earnings. The lowest is in Cuba with one half of one percent.

^{1/} International Labour Office - International Survey of Social Security, Geneva, 1950, pp. 207-236.

Investment Policy ^{1/}

The investment of social security institutions in accordance with the rules under which they have been set up must comply with certain conditions of safety, yield and liquidity. In Latin America, the majority of the schemes show preference for investments in government or government-guaranteed bonds. While the yield of government bonds is rather small compared with the usual return on other types of investments, it is possible, however, that considerations of safety are the determinant factor for investments in government bonds.

The countries where the social security legislation specifically enumerates government bonds among the possible sources of investments of social security funds are: Argentina, Brazil, Chile, Costa Rica (the law provides for loans to the government, municipalities, and other State bodies up to 20 per cent of the investments) Cuba, Dominican Republic, Guatemala, Mexico (the law provides that social security funds could invest up to 20 per cent in government bonds and up to 30 per cent in bonds of Mexican industrial undertakings), Panama (up to 20 per cent to be invested in bonds) and Uruguay (where investments of this type could be up to 60 per cent of the social security holdings). In the countries where no maximum or minimum percentage is fixed, it may be assumed that there is no limit for the amount of funds to be invested in government securities. All of the countries include mortgage loans, personal loans and other types of investments such as building constructions among possible investments. In Bolivia, Colombia, Paraguay and Peru, there are no specific provisions covering investments in government bonds or government-guaranteed securities.

The social security institutions covering sickness and old age in Brazil reported 2.2 billion cruzeiros of government bonds among their assets in 1947. In Chile the holdings of government bonds were small, reaching in 1947 only 0.8 million Chilean pesos, due to the social security institutions' policy of investing in real estate and in mortgage loans. In Mexico the investment in government bonds is also small, amounting in 1947 to 16.5 million pesos.

^{1/} Inter-American Conference on Social Security - Rio de Janeiro, 10-12 Nov. 1947. Report of the Secretary-General, ILO, Montreal, 1947, pp.32-89.

Table 12. Receipts and Expenditure of Social Security Funds,
Selected Countries a/

Countries	Contributions from			Other public contributions	Return from investment	Other receipts	Total	Benefits in cash			Cost of administration	Other expenditure	Total	Balance (+) or (-)
	Insured	Employers	Public Authority					Periodical payment	Other	Benefits in kind				
<u>1. Brazil</u>														
1948	1,215	1,215	1,215	a/	312	529	4,486	722	419	194	435	234	2,005	+2,481
<u>2. Chile</u>														
1947	938	2,016	167	158	397	211	3,886	1,462	547	318	367	2,694	+1,192	
<u>3. Mexico</u>														
1947														
a) sickness	9.8	19.5	9.8	.0	0.3	0.2	39.6	2.6	45.3	7.9	3.2	59.0	-19.4	
b) old age	9.8	19.1	9.6	.4	4.1	0.2	42.6	.	.	4.9	39.5	44.4	-1.8	
c) employm. injury	.	10.3	.	.0	0.4	0.1	10.7	2.7	2.8	2.5	3.6	11.6	-0.9	
<u>4. Panama</u>														
1947	2.4		1.5	.0	0.5	0.7	5.0	0.9	0.3	.	.	1.2	.	
<u>5. Vene- zuela</u>														
1947														
a) sickness	9.4	9.4	3.2	.	.	.	22.0	5.9	0.1	14.1	-	20.5	+2.0	
b) employm. injury	-	8.1	.	.0	0.3	.	8.4	1.3	0.2	1.1	-	.	.	

Source: ILO, Yearbook of Labour Statistics, 1947-48, Geneva 1949, pp.259&260

a/ The Taxa de Providencia Social could be a source of public funds though no information is available.

CHAPTER IV CENTRAL GOVERNMENT DEBT

General Trends

The growth and composition of central government debt of the Latin American republics during the 1940's are shown in Table 13. Two major developments may be detected from these data since the pre-war period: 1) a substantial increase in domestic debt in most of the Latin American countries arising in large part from the recurrent budget deficits during this period; 2) an equally substantial decrease in foreign debt for a somewhat lesser number of countries. The decline in foreign debt, except for a few countries^{1/}, has not been sufficient to offset the increase in internal indebtedness. As a result over-all national debt has registered substantial increases in at least fourteen of the twenty Latin American republics^{2/}.

These generalizations are, however, subject to two important qualifications^{3/}. The first arises from the change in the structure of the central government in several countries as a result of the creation of new autonomous government trading, development and credit institutions as well as the expansion of the activities of the old ones

^{1/} Guatemala, Haiti, Honduras, and from all indications, El Salvador, though no recent official internal debt data are available for this country. Cuba might also be included in this group in view of the sharp decline in its foreign debt from 149.1 million pesos in February 1938 to 72.5 millions on 31 July 1950 and the relatively small increase (24.4 millions) in domestic long-term debt over the same period. Recent data on its short-term debt and on results of budgetary operations are not available and, consequently, it has not been possible to obtain a comprehensive picture of its over-all debt position.

^{2/} The six exceptions include the five countries mentioned in the preceding footnote and Venezuela, whose public debt increased slightly relative to its budget revenue and national income.

^{3/} A third qualification, which however applies more to the international comparability of the data in Table 1, rather than to changes over time in the magnitude and composition of the debt of each country, arises from the widely different methods of reporting the domestic debt and of converting foreign debt into national currency in the official statistics of the various countries. Some of these differences, often arising from widely divergent concepts of the national debt and, in particular, of the internal floating debt, are indicated in the notes to Table 13. For these reasons, as well as for others discussed in the text, international comparisons of public debt are often of dubious value. The data in Table 13 may at best be taken as sufficient to indicate the general magnitude of the direct central government debt and its major components for each of the countries under review.

Table 13. Central Government Debt in Latin America, 1938-1950
(In millions of national currency units)

Countries	31 December					
	1938	1945	1947	1948	1949	1950
<u>Argentina</u> ^{1/} (pesos)						
Domestic:						
Long-term ^{2/}	3,145	7,312	10,546	12,174	..	..
Short-term ^{3/}	594	3,396	3,815	5,830	..	..
Total domestic (gross)	3,739	10,708	14,361	18,004	..	..
Foreign	1,055	534	102	67	61	..
Total debt (gross)	4,794	11,242	14,463	18,071	..	..
Long-term (net) ^{4/}	4,018	7,414	9,890	11,235	13,540	14,451 ^{a/}
Short-term (net) ^{5/}	429	2,485	2,499	2,290	2,201	2,192 ^{a/}
Total debt (net) ^{6/}	4,447	9,899	12,389	13,525	15,741	16,643 ^{a/}
<u>Bolivia</u> (bolivianos)						
Domestic	450	753	1,138	1,695	1,968	..
Foreign ^{1/}	2,108	5,292	5,650	5,829	6,008	..
Total	2,558	6,045	6,788	7,524	7,976	
<u>Brazil</u> (cruzeiros) (1939)						
Domestic:						
Long-term	4,944	7,895	10,063	10,417	10,428	..
Short-term ^{1/}	2,541	11,642	6,200	5,300	10,200	..
Total domestic	7,485	19,537	16,263	15,717	20,628	..
Foreign ^{2/}	10,212	7,252	7,228	7,006	5,235	3,671
Total debt	17,697	26,789	23,491	22,723	25,863	..
<u>Chile</u> (pesos)						
Domestic:						
Long-term	1,489	3,866	4,290	4,134	4,279	..
Short-term	24	182	551	414	392	..
Total domestic ^{1/}	1,513	4,048	4,841	4,548	4,671	..
Foreign ^{2/}	2,345	2,642	2,405	2,235	2,149	..
Total debt	3,858	6,690	7,246	6,783	6,820	..
<u>Colombia</u> (pesos)						
Domestic	81	206	334	369	360	..
Foreign ^{1/}	97	102	148	170	152	..
Total	178	308	482	539	512	..

/ (continues) Costa Rica

Table 13. (continued)

Countries	31 December					
	1938	1945	1947	1948	1949	1950
<u>Costa Rica (colones)</u>						
Domestic	31.7	95.4	113.6	..	..	..
Foreign ^{1/}	106.9	150.3	145.8	..	..	160.4 ^{d/}
Total	138.6	245.7	259.4	..	..	..
<u>Cuba (pesos) ^{b/}</u>						
Domestic:						
Long-term	7.6	7.2 ^{a/}	7.1 ^{a/}	..	..	32.0
Short-term	90.0	...	...	..	..	...
Total domestic	97.6	...	...	..	..	...
Foreign ^{1/}	149.1	97.5 ^{a/}	86.5 ^{a/}	..	..	72.5
Total debt	246.7	...	...	..	..	...
<u>Dominican Republic (pesos) (1937)</u>						
Domestic	2.6	...	15.3	25.3	26.1	...
Foreign	15.7	...	1.3	1.1	0.6	...
Total	18.3	...	16.6	26.4	26.7	...
<u>Ecuador (sucres)</u>						
Domestic	25.63	121.93	121.02	111.81	111.45	117.20 ^{c/}
Foreign ^{1/}	369.71	491.31	517.58	530.09	530.63	558.00 ^{c/}
Total debt (in million sucres)	395.34	613.24	638.60	641.90	642.08	675.20 ^{c/}
<u>Guatemala (quetzales) ^{a/}</u>						
Domestic	4.7	2.9	4.8	6.0	14.0	...
Foreign ^{1/}	14.2	3.1	0.8	0.7	0.7	...
Total	18.9	6.0	5.6	6.7	14.7	...
<u>Haiti (gourdes) ^{d/}</u>						
Domestic ^{1/}	3.6	3.6	41.6	37.0	34.4	38.2
Foreign ^{2/}	40.3	49.3	11.3	8.4	5.4	2.4
Total	43.9	52.9	52.9	45.4	39.8	40.6
<u>Honduras (lempiras) ^{a/}</u>						
Domestic:						
Long-term	5.0	3.3	2.7	2.2	1.7	...
Short-term	9.8	7.4	7.7	8.3	9.9	...
Total domestic	14.8	10.7	10.4	10.5	11.6	...
Foreign ^{1/}	5.9	3.1	2.3	1.9	1.5	...
Total debt	20.7	13.8	12.7	12.4	13.1	...

/(continues) Mexico

Table 13. (continued)

Countries	31 December					
	1938	1945	1947	1948	1949	1950
<u>Mexico (pesos)</u>						
Domestic:						
Long-term	173.2	1,063.2	1,558.5	1,958.6	2,040.9	...
Short-term	71.6	134.2	195.8	200.4	226.5	...
Total domestic	244.8	1,197.4	1,754.3	2,159.0	2,267.4	...
Foreign ^{1/}	1,237.9	240.6	240.6	235.5	230.1	...
Total debt	1,482.7	1,438.0	1,994.9	2,394.5	2,497.5	...
<u>Nicaragua (cordobas)</u>						
Domestic:						
Long-term	2.3	3.1	16.3	17.3	6.1	1.7 ^{a/}
Short-term	0.4	1.9	11.3	11.3	30.0	39.0 ^{a/}
Total	2.7	5.0	27.6	28.6	36.1	40.7 ^{a/}
Foreign	23.5	24.2	19.6	18.6	16.5	10.3 ^{a/}
Total	26.2	29.2	47.2	47.2	52.6	51.0 ^{a/}
<u>Panama (balboas)</u>						
Domestic	2.5 ^{a/}	1.3	6.7	10.5	12.1	...
Foreign	17.8 ^{a/}	16.0	15.7	15.5	15.4	...
Total	20.3 ^{a/}	17.	22.4	26.0	27.5	...
<u>Paraguay (guaranies)</u>						
Domestic ^{1/}	33.9	43.8	50.1	75.8	111.7	...
Foreign ^{2/}	31.6	45.2	48.2	45.7	43.4	...
Total	65.5	89.0	98.3	121.5	155.1	...
Accrued interest	3.7	2.5	2.6	2.8	3.2	...
Total	69.2	91.5	100.9	124.3	158.3	...
<u>Peru (soles)</u>						
Domestic:						
Long-term	74.0	249.0	529.1	550.9	549.7	...
Short-term	206.3	709.6	610.8	613.1	692.4	...
Total domestic	280.3	958.6	1,139.9	1,164.0	1,242.1	...
Foreign ^{1/}	498.0	637.4	631.2	514.2	447.4	...
Total debt	778.3	1,596.0	1,771.1	1,678.2	1,689.5	...
<u>El Salvador (colones)</u>						
Domestic	3.5	0.8	2.3	...	...	...
Foreign ^{1/}	33.2	45.9	35.2	...	28.1	26.1 ^{c/}
Total	36.7	46.7	37.8	...	...	...

/(continues) Uruguay

Table 13. (continued)

Countries	31 December					
	1938	1945	1947	1948	1949	1950
<u>Uruguay (pesos)</u>						
Domestic:						
Long-term	250.8	499.7	579.5	637.7	698.9	761.3 ^{e/}
Short-term ^{1/}	12.1	6.8	..	..	..	..
Foreign ^{2/}	147.3	129.4	125.0	122.5	119.6	116.8 ^{e/}
Total debt	410.2	635.9	704.5	760.2	818.5	878.1 ^{e/}
<u>Venezuela (bolivares)^{a/}</u>						
Domestic debt ^{1/}	3.0	24.6	31.0	23.0	22.7	14.5

General Source: United Nations, Department of Economic Affairs,
Public debt 1914-1946. (Lake Success, 1948).

a/ 30 June.

b/ 1938: 28 February; 1945; 1947: 30 June; 1950: 31 July

c/ 31 August.

d/ 1938-1949: 30 September; 1950: 31 July.

e/ Estimates.

Notes and Sources

Argentina

Sources: 1938-1948: Memoria de la Contaduría General de la Nación; 1949, 1950: Statement of Minister of the Treasury in the Congressional debate on the budget estimates for 1951-52, as reported in, International Financial News Survey (International Monetary Fund), Vol. III; No. 15, October 13, 1950, p. 124; Banco Central de la República Argentina, Memoria Anual 1949, p. 89.

Notes: 1/ Data refer to central government debt; however, they do not include the debt of the "autonomous agencies" (autarquías).

2/ Gross debt; i.e., including bonds held by the Treasury. The figures for 1945-1948 also include the debt of the Junta Reguladora de la Producción Agrícola (Administrative Board for Agricultural Production) to the Central Bank and the Banco de la Nación which was consolidated in 1944 and became a direct obligation of the Treasury when the "Junta" was disestablished and its functions were taken over by IAPI (see also footnote 4).

3/ Gross liabilities of the Treasury.

4/ Net long-term debt (domestic and foreign); i.e., excluding bonds held by the Treasury; 1945-1949: including debt of the "Junta Reguladora" referred to in footnote 2/ in the following amounts: 1945: 693.3 million pesos; 1947: 560.4; 1948: 252.6; 1949: 196.6.

5/ Net short-term

- 5/ Net short-term debt, corresponding to the difference between Treasury assets and liabilities.
- 6/ Total amount shown for 30 June 1950 not comparable to those of previous years as "net long-term debt" does not include the debt referred to in footnote 4/, nor the "Bono de Garantía" (Art. 4, Law No. 12, 160) which amounted to 358 million pesos at the end of 1948.

Bolivia

Sources: Communication from the "Dirección General de Presupuesto Crédito Público y Amortizaciones" (20 March 1950).

Note: 1/ Foreign debt, except for £ Sterling 0.13 million in 1938, consists solely of United States dollar obligations; conversion rates: 1938: 100 bolivianos = £ 1; 21.85 bolivianos = 1 U.S. dollar; 1945-1949: 42 bolivianos = 1 U.S. dollar. Figures shown include arrears of interest from 763 million bolivianos in 1938 to 3,485 million in 1949.

Brazil

Sources: Contadoria Geral da Uniao: Balancos Gerais da Uniao; Anuario Estatístico do Brasil; Boletim do Conselho Técnico de Economia e Finanças, July 1950 and August 1950; Banco do Brasil, Relatorio, 1948 and 1949; Brazilian Treasury Delegation, N.Y.

Notes: 1/ Short-term debt; currency in circulation, formerly reported as part of the short-term debt, has been excluded throughout the period under review; 1947-1949: Figures are rounded to the nearest 100 million cruzeiros.

2/ Foreign debt: excluding French franc obligations amounting to approximately 502 million francs throughout the period under review, for which the equivalent amount in United States dollars has been deposited in the Banque de France for the purpose of repayment in accordance with the Acordo de Liquidacao of 8 March 1946. Sterling and dollar debts have been converted at the following rates (in cruzeiros per £ 1 and cruzeiros per 1 U.S. dollar respectively): 1939: 71.06, 16.64; 1945: 67.55, 16.54; 1947, 1948: 72.00, 18.72; 1949, 1950: 69.88, 18.72.

Chile

Sources: Ministerio de Hacienda, Informe sobre el Estado de la Hacienda Pública; Exposición sobre el Estado de la Hacienda Pública.

Notes: 1/ Domestic debt excludes government-guaranteed obligations (garantías fiscales) amounting to 366.6 million pesos on 31 December 1949.

2/ Foreign debt excludes United States Export-Import Bank guaranteed loan, amounting to 1,389 million pesos at the end of 1949.

/Colombia

Colombia

Sources: 1938-1948: United Nations, Department of Economic Affairs, Public Finance Information Papers, Colombia (March 1950); 1949: Departamento de Contraloría, Informe Financiero y Anexos, 1949.

Notes: 1/ Foreign debt includes amounts outstanding in respect of Export-Import Bank credits, as follows (in millions of pesos): 1942: 9.3; 1945: 24.1; 1947: 25.4; 1948: 35.0; 1949: 30.9. Foreign debt in currency of issue (including arrears of interest) amounted to 87.6 million pesos and £ 1.9 million sterling at the end of 1938; 71.2 million pesos and £ 2.3 million sterling at the end of 1949. Rates of conversion used: 1938: 1 U.S. dollar = 1 peso; £ 1 sterling = 5 pesos; 1949: 1 U.S. dollar = 1.96 pesos, £ 1 sterling = 7.92 pesos.

Costa Rica

Sources: United Nations, Department of Economic Affairs, Public Debt 1914-1946, Public Finance Data, Costa Rica 1938-1948. (E/CN.8/31/Annex 23), 14 April 1949; 1950: Revista del Banco Central de Costa Rica, N. 3, September 1950, p. 12.

Notes: 1/ Foreign debt, 1938-1947, includes arrears of interest; 1945, 1947, 1950: including Export-Import Bank loans: 1945: 11.2 million colones; 30 September 1950: approximately 7 million colones at the current official exchange rate (5.67 colones per United States dollar); debt for 1938-1947 converted at the following rates: 5.62 colones = 1 colón; 26.5 colones = £ 1 sterling; figure for September 1950 may not be exactly comparable with those of previous years as no breakdown was given in the source indicated above.

Cuba

Sources: Cuba Económica y Financiera, Havana, August 1950, pp. 18-19.

Notes: 1/ Foreign debt consists of United States dollar obligations shown at parity. It does not include Export-Import Bank credits whose amount outstanding on 31 July 1950 was 9.9 million pesos and obligations under the Sugar Price Stabilization Law which amounted to 3.5 million pesos on 28 February 1938 and had been fully amortized by July 1950.

Dominican Republic

Sources: Secretaría de Estado del Tesoro y Crédito Público, Memoria del Año 1949, Boletín de Hacienda, Vol. III No. 2, July-December 1949, pp. 84-85.

Ecuador

Sources: Banco Central del Ecuador, Boletín, July-August 1950, p.170.

Notes: 1/ Including unpaid accrued interest; including Ex-Imbank loan: 1945: \$ 0.83 million; 1947: 6.59; 1948: 6.91; 1949: 6.34; 1950 (31 Aug): 6.31. Converted at official selling rates, 1938: 1 U.S. dollar = 14.13 sucres; 1945-1950: 13.50 sucres per U.S. dollar.

/Guatemala

Guatemala

Sources: United Nations, Department of Economic Affairs, Public Debt 1914-1946; Public Finance Data, Guatemala, 1938-1948 (Doc. E/CN.8/31/Annex 23, 12 April 1949); 1948-1949: J.H. Adler, E. Schlesinger and E.C. Olson, Public Finance and Economic Development in Guatemala - Report of a New York Federal Reserve Bank Mission to Guatemala in 1950 at the request of the Guatemalan Central Bank (New York 1950).

Notes: 1/ Foreign debt: 1947-1950, consists solely of United States dollar obligations shown at par (1 quetzal = 1 dollar).

Haiti

Sources: Banque Nationale de la République d'Haiti, Rapport Annuel Du Département Fiscal; Monthly Bulletin of the Fiscal Department; United Nations, Mission to Haiti (Report of the United Nations Mission to Technical Assistance), July 1949.

Notes: 1/ Domestic debt includes fiduciary currency (nickel coins) amounting to 3.6 million gourdes.
2/ Foreign debt excludes an Export-Import Bank loan granted in 1941 to the Société Haitiano-Américaine de Développement Agricole on which the principal amount outstanding at the end of 1949 was 3.97 million gourdes.

Honduras

Sources: United Nations, Public Debt 1914-1946; Informe de Hacienda, Crédito Público y Comercio, 1948 a 1949.

Notes: 1/ Foreign debt, consisting solely of sterling obligations; converted at the parity rate of 10 lempiras = 1 pound sterling.

Mexico

Sources: 1945-1949, Compendio Estadístico, 1950.

Notes: 1/ Foreign debt: bonded debt only, excluding floating debt and claims arising from the destruction of foreign assets during the Revolution and from subsequent expropriations of foreign assets. The considerable decrease from 1938 to 1945 is due largely to the reduction of the amount outstanding, on the basis of 1 dollar = 1 peso, in accordance with the agreement with the International Bankers' Committee in November 1942.

Nicaragua

Sources: Revista Trimestral del Banco Nacional de Nicaragua, Vol. IX, Nos. 36-37, January-March, April-June 1950, p. 31.

Panama

Sources: 1938: United Nations, Public Debt 1914-1946; 1945-1949: Estadística Panameña (Contraloría General, Dirección de Estadística y Censo), Vol. 9 No. 1, January 1950, p. 25.

Paraguay

Sources: Banco del Paraguay, División de Investigaciones Económicas. Boletín Estadístico, Nos. 1 and 2 (1949, 1950).

Notes: 1/ Domestic debt includes "Operaciones de Crédito" and "Bonos de Emisión" not classified as internal debt in the original sources; these items totalled 12.8 million guaranies at the end of 1942 and 7.8 million at the end of 1949.
2/ Rates of conversion not indicated in the original source.

Peru

Sources: Contraloría General, Balance y Cuenta General de la República.

Notes: 1/ Foreign debt converted at the following parity rates:
3.57 soles = 1 U.S. dollar; 13.38 soles = 1 pound sterling.

El Salvador

Sources: H.C. Wallich y John H. Adler, Proyecciones Económicas de las Finanzas Públicas, Un estudio experimental en El Salvador, (Mexico, D.F., 1949), pp. 229-237. Foreign Bondholders Protective Council, Report 1946 through 1949, (New York 1950), pp. 192-197.

Notes: 1/ Foreign debt includes Export-Import Bank loan, on which the principal outstanding on 31 December 1949 was 0.97 million colones.

Uruguay

Sources: Contaduría General de la Nación, Revista de Indices Económicos 1946-1950; Reply to Joint United Nations-International Monetary Fund Public Finance Questionnaire (January 1951).

Notes: 1/ Short-term debt, excluding Central Bank advances on current account which are reported net of cash balances held with the Bank.
2/ Foreign debt: excluding amounts outstanding in respect of United States Export-Import Bank loans, as follows (in million of pesos): 1945: 4.15; 1947: 3.64; 1948: 3.32; 1949: 3.04.

Venezuela

Sources: United Nations, Department of Economic Affairs, Public Finance Surveys, Venezuela (New York, 1951).

Notes: 1/ No direct foreign debt outstanding since 1930; Government-guaranteed Export-Import Bank credits to autonomous institutions, net of cancellations and expirations, amounted to 15.5 million bolívares between 1941 and 30 June 1950. Of this total only 8 million bolívares have been disbursed by Eximbank; 4.4 million have been repaid, thus leaving a principal amount outstanding of 3.6 million on 30 June 1950.

/during the 1940's.

during the 1940's. Many of these institutions, particularly those engaged in financing public economic development projects, or in extending loans for similar purposes to the private sector, have the power to borrow on the private market, usually through the issue of securities guaranteed by the central government. Government trading corporations, such as the "Instituto Argentino de Promoción del Intercambio" (IAPI) are authorized to borrow from the commercial banks in the course of their normal operations. The indebtedness of autonomous institutions, being considered as an "indirect debt" of the central government, is not included in the official public debt statements of the various countries and is not reflected in the totals shown in Table 1, which comprise only the direct debt of the central governments. The indirect or guaranteed internal debt of autonomous agencies has become of increasing importance particularly in the larger countries (Argentina, Brazil, Chile and Mexico). Owing to the lack of sufficiently comprehensive data on this type of government debt it has not been possible to take it into account in the present survey. It is reasonable to assume, however, that the inclusion of the debt of the autonomous institutions as part of the indebtedness of the entire central government sector, would affect, in varying degrees, the magnitude of its changes in volume and composition in most Latin American countries, but not the direction of these changes since the pre-war period.

The second qualification arises from the change in the nature of foreign borrowing during the period under review. Most of the foreign loans received by the Latin American countries since the mid-1930's have been of an inter-governmental character and consist largely of credits granted by the United States Export-Import Bank.^{1/}

^{1/} There have also been certain special credits extended by certain war and post-war United States Government Agencies (Lend-lease, Foreign Liquidation Commission, Maritime Commission, etc.). The outstanding indebtedness in respect of these so-called "property credits" for all of Latin America at the end of 1949 was 55 million dollars; Cf. National Advisory Council on International Monetary and Financial Problems, Semi-annual Report to the President and the Congress, October 1, 1949 - March 31, 1950, (Washington, D.C., July 1950), p. 52.

Since 1948 the International Bank has become the second major source of foreign borrowing in Latin America. Most of the Exim Bank credits and all of the International Bank loans have been granted to subsidiary government institutions and, in some cases to private corporations, with the guarantee of their respective governments. Except for certain Export-Import Bank loans granted directly to the governments concerned, the loans of these two agencies are not included in Table 13.

The following account of public debt developments in Latin America since the pre-war period is devoted largely to the direct central government debt of the various countries. It will be treated under the following headings:

Trends, in Foreign Debt,

Changes in the Real Volume of National Debt,

Absorption of Internal Debt.

A final section will, however, deal briefly with the government guaranteed loans of the Export-Import Bank and the International Bank for Reconstruction and Development.

Foreign Debt

The existence of substantial foreign exchange reserves accumulated during the war by most Latin American countries coupled with a desire on the part of several of these countries to improve their foreign credit standing which had been impaired by the defaults of the post-depression era, account in large part for the concerted drive in the post-war period on the part of most of the Latin American Governments to liquidate their pre-war foreign indebtedness, or to offer debt-adjustment plans designed to improve the prospects of uninterrupted service in the future.

By the end of 1949 three countries, Argentina, the Dominican Republic and Haiti had almost fully repatriated their national foreign debt.

Argentina's national foreign debt had been reduced to 61 million pesos at the end of 1949 and to an estimated 37.8 million pesos at the end of 1950 as compared with 1,055 million in 1938. The Dominican Republic's foreign debt was reduced from 15.7 million pesos in 1937 to 0.2 million in 1949. The remaining 0.4 million pesos making up for the total of 0.6 million shown in Table 1 represent the amount

/outstanding

outstanding in respect of Export-Import Bank credits obtained since 1941. In 1947 the Haitian Government redeemed at par all of its foreign bonded debt through the issue of an internal loan of 10 million gourdes.

The reduction of the foreign bonded debt of Brazil, Chile, Colombia^{1/}, El Salvador, Mexico, Nicaragua, Panama, Paraguay^{2/}, Peru and Uruguay was largely the result of the debt-adjustment plans put into operation since the pre-war period and the resumption of service under these plans. These adjustment plans vary considerably from country to country. Generally, they provide for a permanent settlement of outstanding issues, usually by exchanging the old bonds for new ones, in most cases at par and in certain others (e.g. Brazil and Mexico) with considerable reduction of the nominal value of the original issues. The plans usually provide for reduced interest rates and extended maturities, for cancellation of part of the interest arrears and for settlement of the remainder through cash payment or funding into bonds of a new issue.

Of the remaining countries, Cuba had reduced its dollar bonded indebtedness by more than 50 per cent since 1938, through repurchase of three issues between 1948 and 1949 and through regular amortization payments on other issues after the settlement (in 1938) of the debt incurred by the Machado Government, which had been in default since 1933. Honduras' foreign bonded debt consisting entirely of sterling obligations had also been reduced through normal amortization payments from 5.9 million lempiras in 1938 to 1.5 million at the end of 1949

^{1/} The increase of Colombia's foreign debt in terms of national currency shown in Table 1 is due partly to Export-Import Bank loans (from 9.3 million pesos in 1942 to 30.9 millions at the end of 1949) and partly to changes in the rates of conversion, from 1 U.S. dollar = 1 peso and 1 pound sterling = 5 pesos in 1938 to 1.96 pesos per U.S. dollar and 7.92 pesos per 1 pound sterling in 1949.

^{2/} No details on the composition of Paraguay's external debt and the conversion rates used are available so as to be able to explain the apparent increase shown in Table 1. The Paraguayan Government, however, put into operation a debt adjustment agreement on its sterling obligations in 1944 under which it has apparently maintained full redemption and interest service since that time.

Guatemala's external debt decreased from 14.2 million quetzales in 1938 to 0.7 million in June 1949 through normal repayments on its dollar debt and redemption of its sterling bonded debt in 1944 and 1945. The data in Table 13 do not include, beginning in 1947, sterling obligations amounting to approximately 427 thousand pounds sterling, which had remained outstanding after the Government redemption offer on all sterling debt at par plus interest accrued to June 30, 1944, was closed on August 20, 1945^{1/}. These obligations are apparently no longer considered as outstanding by the Guatemalan Government.

Bolivia announced a debt adjustment plan on its dollar bonded debt in 1948 but has not yet placed it into operation. Costa Rica and Ecuador remain in default on their outstanding foreign bonded debt.

Finally it should be mentioned that the Venezuelan Government had repaid its foreign debt by 1930, and, with the exception of relatively small Export-Import Bank credits totalling 15.5 million dollars between 1941 and 1950, had not borrowed abroad since that time.

The repatriation or partial liquidation of the foreign debt, coupled with the substantial increase in domestic debt in most of the Latin American countries, had radically changed their central government debt structures since 1938. This is brought out by the data in Table 14.

Table 14. Relative Importance of Foreign Central Government Debt, 1938 and 1949
(Percentages of total Central Government Debt)^{a/}

Countries	1938	1949	Countries	1938	1949
Argentina	23.7	0.04	Haiti	91.8	13.6
Bolivia	82.4	75.3	Honduras	26.5	11.5
Brazil	57.7	20.2	Mexico	83.5	9.2
Chile	60.8	31.5	Nicaragua	89.7	31.4
Colombia	54.5	29.7	Panama	87.7	56.0
Dominican Republic	85.8	2.2	Paraguay	48.2	28.0
Ecuador	93.5	82.6	Uruguay	35.9	14.6
Guatemala	75.1	4.8			

^{a/} Central government debt as defined in Table 13; the percentages for 1949 would be somewhat higher for certain countries if United States Export-Import Bank credits and International Bank loans were taken into account.

^{1/} Cf. Foreign Bondholders Protective Council, Inc., Report for Years 1946 through 1949, (New York, 1950), p. 234.

It will be noted that for eleven of the fifteen countries for which comparable data are available^{1/}, foreign debt represented more than fifty per cent of total national debt in 1938. By the end of 1949 this was true of only three countries (Bolivia, Ecuador and Panama). The percentages for the remaining countries ranged from 31.5 for Chile down to practically zero for Argentina. These percentages would be somewhat higher for certain countries if Export-Import Bank credits and International Bank loans were included. The foreign debt transfer burden of most of the Latin American republics has been substantially reduced as a result of the reduction in the principal outstanding, lower interest rates on the refunded new issues and extended maturities under the various adjustment plans. The devaluation of sterling in September 1949 was an additional factor toward this end for countries whose foreign debt includes sterling obligations.

Changes in the Real Volume of National Debt

The change in structure of the national debt of the Latin American countries shown in Table 14, as already noted, is also due in large part to the substantial increase in domestic debt. This is true of most countries, with the exception of Honduras, El Salvador and Venezuela, as may be seen from the figures in Table 13 and reflects the recurrent budget deficits of most Latin American republics during the 1940's.^{2/}

The inflationary price rises in Latin America during this period, towards which government deficits were one of the primary contributing factors, particularly in the post-war period, had progressively devalued the domestic public debt. This is brought out by the comparison of the level of national debt (domestic and total), in terms of net national income, in a pre-war year with the same level in 1948 or 1949, for the eight countries for which national income estimates are available (see Table 15).

^{1/}Venezuela is not included in Table 14 since it has no foreign debt other than the small Export-Import Bank loan referred to above.

^{2/} It should be noted, however, that between 1943 and 1947 the increase in domestic debt in Argentina, Haiti and the Dominican Republic was in large part due to the repatriation of their foreign debt.

Table 15. The Level of Central Government Debt, Selected Countries

(In percentage of national income)

Countries	1938	1939	1940	1948	1949
<u>Argentina</u>					
Total	65				59
Domestic	50				59
<u>Bolivia</u>					
Total			64		51
Domestic			7		13
<u>Brazil</u>					
Total		55			18
Domestic		23			14
<u>Chile</u>					
Total			27		7
Domestic			12		5
<u>Colombia</u>					
Total		17		15	
Domestic		8		10	
<u>Mexico</u>					
Total		25			10
Domestic		4			9
<u>Peru</u>					
Total			44		21
Domestic			18		15
<u>Uruguay</u>					
Total	80				53
Domestic	46				45

Sources: Based on data shown in Table 13 and in Public Debt 1914-1946 (United Nations, Department of Economic Affairs, 1948). National income estimates (at factor cost) furnished by the National Income Section of the United Nations Statistical Office.

/It will be

It will be noted that for all eight countries total central government debt as a percentage of national income had decreased as compared with that of a pre-war or an early war year, despite the fact that in all these countries the national debt had increased nominally, ranging from about 46 per cent for Brazil to more than three and a half times for Argentina, over the comparable periods. The percentages relating to internal debt show decreases for four of these countries and relatively small increases for the remaining four, thus indicating that the increase of domestic debt in absolute terms had not kept pace with the rise in money income.

The figures in Table 15 may be taken as rough indicators of the relative decline in the over-all requirements for meeting interest payments on the national debt in Latin America as compared with the pre-war period. This trend is, in all probabilities, true for most of the other countries not shown in the Table. It has not been possible to estimate this decline in absolute terms or in terms of budgetary expenditure because of the lack of sufficiently comprehensive and detailed information on national debt service for most of the Latin American countries. The central budget accounts generally include only part of the debt service which is often shown in a lump sum, no distinction being made between interest and amortization payments.

Absorption of Internal Debt

The ratios shown in Table 15, particularly those for 1949, appear low as compared with those of industrially developed countries (e.g. the United States and the United Kingdom) where the national debt is nearly as high or is in excess of the national income. This comparison is misleading, however, as the conditions of the capital market are entirely different in the two types of countries. In the highly industrialized countries the public debt is widely held by institutional investors, individuals, and commercial banks, whereas in Latin America private investors absorb only limited amounts of public debt. Comprehensive statistics on the ownership distribution of the public debt are not published in Latin America. The rather incomplete data shown in Table 16 for five countries, however, may be sufficient to give a cross-sectional view of the ownership distribution of internal

/public debt

public debt for most of the countries under review.

The data for Guatemala, Mexico and Peru, where the Central Bank and other official credit institutions are by far the predominant holders of public debt, are perhaps more representative of the entire region than those for Brazil and Argentina. In Colombia, for example, public or semi-public institutions absorbed about 80 per cent of the total increase in public debt between 1941 and 1948^{1/}. In Paraguay 81.6 per cent of the domestic national debt was held by the Banco del Paraguay at the end of 1949^{2/}.

The data for Brazil in Table 15 do not give an accurate picture of the condition of the internal government bond market. This is true particularly in the post-war period, during which the Brazilian Government has relied principally on short-term borrowing to finance its budget deficits (see Table 13). Although the long-term debt of the Federal Government had more than doubled between 1939 and 1949, largely through war-time issues, it remained relatively small at the end of latter year (10,428 million cruzeiros) and had registered a negligible increase since 1946. The sizable holdings of government long-term issues by the Social Security Institutes, amounting to approximately 20 per cent of the total at the end of 1947, consisted almost entirely of bonds turned over to the Institutes by the Government in part payment of its contribution to the various social security services.^{3/} The principal source of short-term borrowing in Brazil has been the Banco do Brasil. Since 1946 the second major source has been the forced sale of Treasury bills which exporters are obliged to accept to the extent of twenty per cent of the value of their exports. This measure when first introduced in 1946 was intended to have anti-inflationary effects by absorbing part of the increase in the money supply resulting from the export surplus. The Treasury bills are transferable, however, and have been sold to banks and other institutions and to individuals in the money market. The 20 per cent requirement has placed an undue burden on exporters to soft currency areas particularly during the

^{1/} International Bank for Reconstruction and Development, The Basis of a Development Program for Colombia, (Washington, D.C., 1950), p. 454.

^{2/} Banco del Paraguay, Boletín Estadístico, No. 2, Dec. 1949, p. 2.

^{3/} Report of the Joint Brazil-United States Technical Commission (Rio de Janeiro, February 7, 1949), p. 145.

Table 17. Net Absorption of Government Debt in Argentina, 1946-1949

(In Millions of Pesos)

	1946	1947	1948	1949	Total 1946-1949
Social Security Institutes ^{a/}	521	1,099	1,714	2,249	5,583
Other Official Institutions	291	148	218	890	1,547
Commercial Banks ^{b/}	475	574	397	204	1,650
General Public	-161	-639	-617	-414	-1,831
Total	1,126	1,182	1,712	2,929	6,949
Of which:					
National Government debt	1,096	734	1,497	2,626	5,953
Provincial and Municipal debt	30	448	216	302	996

Source: Banco Central de la República Argentina, Memoria Anual, 1946 to 1949.

^{a/} 1947-1949: excluding bonds tendered by the Government in part payment of its contribution to the social security services.

^{b/} 1947-1949: including the Instituto Mixto de Inversiones Mobiliarias, a semi-public credit institution charged, among other things, with the stabilization of the market for government and private securities through "open market" operations.

period of dollar scarcity, between the middle of 1947 and the end of 1949. Whereas the exporters to hard currency areas, with dollar exchange to sell, were able to dispose of their Treasury bills with the banks at par, exporters to soft-currency areas were obliged to take discounts enabling the banks to realize yields of as much as 12 per cent a year. /

^{1/} United States Department of Commerce, International Reference Service, Economic Review of Brazil, 1949, Vol. VII, No. 53, July 1950, pp. 1-2; Report of the Joint Brazil-United States Technical Commission (Rio de Janeiro, February 7, 1949), p.145.

In Argentina the Social Security Institutes have been by far the predominant source of government borrowing during the post-war period as may be noted from the data in Table 17. During the four-year period, 1946-1949, the Institutes have absorbed 5,583 million pesos out of a net issue of 6,949 millions of central and local government obligations. Actually their purchases were confined entirely to long-term National Government bonds, and accounted for nearly 94 per cent of the net increase in the internal central government debt during this period (5,953 million pesos). This percentage would be somewhat higher if government contributions to the social security schemes in the form of bonds, rather than cash, were taken into account.

The other major sources of government borrowing were the autonomous government institutions (including the Central Bank) and the commercial banks. There has been, on the other hand, a substantial disinvestment in government securities on the part of the general public amounting to 1,831 million pesos over the four-year period.

As a result of these developments the Social Security Institutes have become the principal holder of the Central Government long-term debt, accounting for about 51 per cent of the total at the end of 1949. At the end of 1948 only 27.3 per cent of the national long-term debt was held by private investors (private banks, insurance companies, individuals, etc.), as compared with 41.4 per cent by the Social Security Institutes, 16.0 per cent by the Central Bank and the remaining 15.3 per cent largely by other Government banks (see Table 16).

The basic weakness of the Government bond market in Latin America is due primarily to the generally low level of savings and the consequent scarcity of investment capital. During the post-war period of business expansion, this condition has been further weakened by the heavy demands of private business for credit and capital, resulting in high interest rates against which most Latin American governments have been unable to compete. An additional reason for the weakness of the government bond market has been the traditional preference of the Latin American public for investing in real estate, a tendency which has been accentuated in the recent past by the continuous rise in the general price level since the pre-war period. This rapid price rise has devalorized the internal debt in most Latin American countries, thus causing bondholders to suffer a loss of real income and capital.

Export-Import Bank and International Bank Loans

The leading operations in Latin America of these two institutions up to 30 June 1950 are summarised in Table 18.

Total credits authorised by the Export-Import Bank, net of cancellations and expirations, amounted to \$ 849.1 million since 1934. More than half of this total (i.e. \$ 428.6 million) has been granted in the post-war period between the middle of 1945 and June 1950. This was made possible by the Export-Import Bank Act of 1945 which provided for an increase in the limit for outstanding loans and loan guarantees from \$ 700.0 million to \$ 3.5 billion. Of the total \$ 849.1 million authorised \$ 610.5 million had actually been disbursed by the Bank up to June 1950, of which \$ 257.3 million had been repaid. Net lending by the Export-Import Bank to Latin America therefore amounted to \$ 353.2 million up to the middle of 1950. The principal net borrowers accounting for more than 72 per cent of this total, are Brazil (\$ 100.5 million), Mexico (\$ 77.9 million) and Chile (\$ 76.4 million).

Most of the Export-Import Bank loans to Latin America have been for specific industrial and agricultural development projects and have been tied to exports of materials, equipment or services of United States suppliers. The major exception has been a \$ 125 million credit to a group of Argentine banks granted in May 1950. This credit is guaranteed by the Central Bank of Argentina and bears interest of 3.5 per cent per annum. It is designed to finance the repayment of Argentine commercial debts to United States exporters.

In contrast with the public loans floated on the private foreign markets before the depression of the early thirties, Export-Import Bank credits bear relatively low interest rates. Credits to Latin American countries have been granted for the most part, to autonomous government institutions with guarantees by their respective central governments. Interest rates range between 3.5 and 4.5 per cent with 4 per cent as the predominant rate.

The Export-Import Bank is very likely to continue to play an important role in development lending to Latin America even if primary reliance on this type of lending should be placed in the future upon the International Bank. According to a recent United States Government Report

Table 18. Export-Import Bank and International Bank Loans
to Latin America - June 1950.
(In Millions of Dollars)

Country	Export-Import Bank				International Bank		
	Authorized Credit ^{a/}	Amount Disbursed	Principal Repaid on Loans	Principal outstanding on loans 30 June 1950	Loans Granted	Loans Outstanding Held by Bank	Amount Disbursed
Argentina	125.6	0.6	0.4	0.2	-	-	-
Bolivia	37.0	20.8	2.4	18.5	-	-	-
Brazil	183.1	167.4	67.9	100.5	90.0 ^{b/}	75.0	36.8
Chile	133.1	112.8	36.4	76.4	16.0	16.0	5.5
Colombia	65.0	47.0	24.8	22.2	5.0	5.0	2.8
Costa Rica	7.3	7.3	0.7	6.5	-	-	-
Cuba	56.2	56.2	45.9	10.2	-	-	-
Dominican Republic	3.3	3.3	3.1	0.2	-	-	-
Ecuador	27.8	13.8	2.7	11.1	-	-	-
Haiti	14.7	10.7	6.2	4.4	-	-	-
Honduras	1.0	1.0	1.0	-	-	-	-
Mexico	148.0	129.2	51.3	77.9	60.1	50.1 ^{c/}	12.7
Nicaragua	4.7	4.7	3.4	1.2	-	-	-
Panama	4.5	4.0	2.5	1.5	-	-	-
Paraguay	6.2	6.2	2.5	3.7	-	-	-
Peru	0.4	0.4	0.2	0.3	-	-	-
El Salvador	1.5	1.5	0.6	0.9	12.5 ^{d/}	-	-
Uruguay	14.5	14.5	0.9	13.7	-	-	-
Venezuela	15.5	8.0	4.4	3.6	-	-	-
Total ^{e/}	849.1	610.5	257.3	353.2	183.6	146.1	57.8

Source: Export-Import Bank of Washington, Tenth Semi-annual Report to Congress, Jan-June 1950; International Bank for Reconstruction and Development, Fifth Annual Report 1949-1950.

a/ Cancellations and expirations have been excluded.

b/ Includes a loan of \$ 15 millions granted on 26 May 1950, but not yet effective as of 30 June 1950.

c/ Reduction of \$ 10 million resulted from the refunding of a short-term loan of the same amount granted by the Bank on 16 Jan 1949, out of partial proceeds of a subsequent long-term loan of \$ 26 million granted on 28 April 1950.

d/ Loan granted on December 14, 1949, but not yet effective as of 30 June 1950.

e/ Details may not add up to totals shown due to rounding.

the scope for annual net lending by the Export-Import Bank in the near future ranges between 200 and 400 million dollars a year.^{1/} On the basis of the past record this would mean net lending to Latin America by this institution at an annual rate of between 55 million to 120 million dollars. The Report also recommended that the Export-Import Bank's lending authority be expanded by about 1.5 billion dollars, from the present 3.5 to 5 billion dollars. This would enable the Bank to have sufficient funds available to finance economic development programmes framed on a long-term basis.

The lending activities of the International Bank have been limited in the first few years of its operations. During 1947 the Bank's loans went to Western European countries and were in large part devoted to the general purpose of post-war reconstruction. With the introduction of the European Recovery Program the Bank shifted its emphasis to development loans in underdeveloped areas.

The first International Bank loans to Latin America were granted to Chile in March 1948. Between this date and June 1950 the Bank had granted loans totalling \$ 183.6 million to five countries: Brazil, Chile, Colombia, Mexico and El Salvador (see Table 6). The major recipients have been Brazil (\$ 90.0 million) and Mexico (\$ 60.1). The latter figure includes a short-term loan of \$ 10 million which was refunded out of the partial proceeds of a long-term loan of \$ 26 million granted by the Bank in April 1950.

Practically all of the International Bank loans to Latin America have been granted to finance the foreign exchange requirements of electric power development projects. The exceptions are two relatively small loans to Chile (\$ 2.5 million) and Colombia (\$ 5 million) destined to finance the purchase of agricultural machinery.

The loans have been granted to autonomous government institutions and to private corporations with government guarantees.

Interest on the Bank loans (including commission) ranges between 3.5 and 4.5 per cent with latter rate as the predominant one.

^{1/} Report to the President on Foreign Economic Policies (Washington, D.C., November 10, 1950), pp. 63-66.

During the latter half of 1950 the Bank has granted a \$ 33 million loan to Uruguay for the expansion of electric power and telephone facilities, two loans to Colombia for similar purposes, totalling \$ 6.1 million, and a \$ 10 million to a consortium of Mexican banks and "Nacional Financiera," the official financing agency of the Mexican Government.

The last mentioned loan is in the form of a line of credit under which the consortium will obtain funds for financing the cost of imports required for specific development projects submitted by Mexican firms and approved by both the consortium and the Bank. This new type of loan is primarily intended to meet the needs of smaller private enterprises, whose investment programmes, although individually on a rather modest scale, would as a whole make a significant contribution to the economic development of the country.

