UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

GENERAL

E/CN.12/164/Annex L
1 May 1950

ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA

ECONOMIC SURVEY OF LATIN AMERICA 1949

ANNEX L

PUBLIC FINANCE

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1. Relationship between Fiscal Policy, National Income and Exports.

In more than two decades the public finances of the Latin American countries have experienced wide fluctuations. These fluctuations are shown in table 1 where the overall trend of public finance data is given for selected years.

In order to make the figures comparable, they have all been expressed as percentages of national income, wherever such series are available. Considering that the Latin American economies are of an export character it seemed relevant to express governmental receipts and expenditures as percentages of exports when national income estimates were not available. It should be noted, however, that the relationship between national income and exports has been changing and that in general the relation between the value of exports and national income has been on the decline particularly since the early thirties. During the war years, however, when a contraction of exports took place together with increases in national income, the percentages of fiscal data with national income and with exports differed widely. 1/

The statistical material available is far from perfect and therefore all the figures arrived at should be considered as approximations only. 2/

1/ A comparison between fiscal data, national income and export figures is complicated by the fact that in some countries the fiscal year does not coincide with the calendar year and because the fiscal year reflects in general the country's international trade of the preceding year. Receipts reflect the impact of the level of international trade with one year's delay while there is a considerable time lag until expenditure reflects, for instance, a shrinkage in commodity trade. In the search for trends, however, these considerations can be overlooked.

2/ For instance, government expenditure includes transfer payments such as national debt interest and social security benefits. This tends to over-estimate the magnitude of outlays in relation to national income. Government expenditure tends, on the one hand, to be inflated by the inclusion of public debt amortization and a certain degree of double computation of items belonging to special funds and accounts. On the other hand, however, it seems that this is partly compensated by the

/The distortion

Table 1A. Central Government Finances
Selected years. 1/

Countries	Receipts						
	1928	1931	1938	1946	1947	1948	1949
1. In percentages of national income							
Argentina	8.4	10.2	13.5	10.8	16.7	16.3	..
Brazil	..	8.8	8.7	14.5	14.6	14.3	15.2
Chile	..	17.6	8.3	13.4	15.5	26.4	..
Mexico	10.3 2/	9.0	8.2	15.5	..	13.8	..
2. In percentages of exports							
Argentina	30.3	48.4	85.7	56.5	78.3	96.5	..
Brazil	55.8	51.6	76.1	63.6	63.8	72.3	82.8
Colombia	57.1	55.0	60.4	64.0	68.6	63.1	..
Cuba	40.6	54.6	58.0	..	38.4	..	..
Dominican Rep.	51.7	53.8	80.0	59.7	68.7	75.9	..
Ecuador	78.4	132.4	133.0	92.2	98.6	153.8	..
El Salvador	55.1	65.2	63.0	52.3	53.0	..	..
Guatemala	53.6	60.0	66.7	108.1	76.9	88.0	..
Haiti	38.0	62.2	111.4	57.0	50.3	43.5	..
Mexico	50.7	57.1	52.3	105.0	103.3	77.2	..
Peru	38.7	50.8	52.3	61.8	81.4	81.6	..
Uruguay	58.4	74.4	97.9	110.4	147.2	129.6	..
Venezuela	38.0	28.8	61.0	68.2	63.2	56.3	..

1/ Years correspond to calendar years or to 1928/29, 1931/32, 1938/39, etc.

2/ In 1929.

Notes: Underlined figures are related to budget estimates only
All figures have been rounded.

Source: For explanation see Appendix I. United Nations, Economic Commission for Latin America.

Table 1B. Central Government Finances.

Selected years. 1/

Countries	Expenditure						
	1928	1931	1938	1946	1947	1948	1949
1. In percentages of national income							
Argentina	10.7	13.1	14.4	15.9	16.3	21.6	..
Brazil	..	10.2	10.6	17.8	14.1	14.3	16.1
Chile	..	29.6	11.6	16.5	14.9	25.4	..
Mexico	9.7 2/	8.9	10.0	14.8	..	15.9	..
2. In percentages of exports							
Argentina	35.3	62.1	91.2	83.6	76.1	127.8	..
Brazil	50.8	59.8	92.9	77.9	61.7	72.1	88.0
Colombia	87.1	65.0	64.6	83.9	85.2	81.3	..
Cuba	47.1	50.8	58.0	..	..	..	..
Dominican Rep.	55.2	61.5	80.0	64.2	88.0	107.2	..
Ecuador	77.0	132.4	120.8	82.5	96.9	109.3	..
El Salvador	55.1	82.6	63.0	52.3	51.0	..	..
Guatemala	57.1	66.7	77.8	86.5	88.5	94.0	..
Haití	39.8	75.6	108.6	52.6	53.5	43.5	..
Mexico	48.5	56.6	64.1	100.3	83.8	88.8	..
Peru	38.1	52.3	53.5	62.8	93.2	99.5	..
Uruguay	58.4	80.8	94.8	109.2	116.6	129.6	..
Venezuela	40.6	25.8	64.6	66.0	57.8	58.7	..

1/ Years correspond to calendar years or to 1928/29, 1931/32, 1938/39, etc.

2/ In 1929.

Notes: Underlined figures are related to budget estimates only. All figures have been rounded.

Source: For explanation see Appendix I. United Nations, Economic Commission for Latin America.

The distortion that could be introduced in the study by the lack of statistical refinement is far less important than that which would result from the lack of total inclusiveness of the accounts. The data presented are those pertaining to central government, with the exclusion of other governmental levels, i.e., provincial and local governments. Total coverage of governmental activities in the central sphere, however, is of considerable significance since a true analysis of central government finances requires the inclusion of all sources and uses of funds made by central government authorities. Since the thirties, however, the mushrooming of independent governmental agencies and special accounts for which separate receipts were earmarked and specific outlays were involved, is increasingly important. These entities arose from the very considerable dislocations suffered by the Latin American economies during the depression, and their creation was fostered by the disturbances brought about by the war as well as by the growth of economic development programs. The importance of the activities carried out by these agencies, generally outside the central government budget, is apparent from the following facts. They number some 52 entities in Argentina, 87 in Brazil, about 72 in Mexico, more than 30 in Chile, 14 in Venezuela and several in Ecuador, Peru, Cuba, Guatemala, Uruguay, etc. Their field of activity includes banking, credit, trading, social security, utilities, industry, universities and other miscellaneous activities. Their financial relationship with the central government is one of autonomy, which extends at times also to the reporting of their activities. It is for this reason that the availability of data related to their annual operations has been almost nonexistent. Requests made by central governments for balance sheets and income statements have been only partially successful. In no instance are these figures available for a number of years for all independent agencies.

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omission of some items such as subsidies paid outside the general budget. Among the receipts, proceeds of devaluation and other monetary operations are included, which inflates the total. In many instances, however, part of the receipts collected by the central government is distributed to autonomous agencies or special funds, and not included in the total, thereby tending to underestimate the real magnitude of governmental revenue.

/Regarding special

Regarding special funds, reference should be made of the exchange profits funds established in Argentina and Uruguay because of their importance. The funds are formed with the differential between the buying and selling rates of exchange within a system of multiple import rates and multiple export rates. Argentina has applied this device extensively since 1933. Bolivia, Chile, Uruguay and Venezuela derive substantial revenues from this source. To the extent that this source of revenue is kept outside the central budget it could be considered as a hidden tax on imports and/or exports. In Chile until 1947, and in Argentina and Uruguay even now, part of the profit is kept outside the budget in a special fund or transferred to other funds.

In 1947 and 1948 more than half of the government activities in Argentina were not covered by the central budget. Almost half of the total receipts and outlays of the Brazilian government were also left out in 1945 and 1947. In Chile only 65 per cent of total tax collections in 1946 were transferred to the central budget, the rest being destined to the financing of independent agencies and funds. Lack of published data for all countries makes it impossible to consolidate all accounts and budgets pertaining to the fiscal activities of the central government. 1/

1/ A rough approximation of the fiscal activities outside the budget of two countries which includes proceeds and expenditures of independent agencies and special accounts is given in the following tables:

	1947		1948	
	(Millions of pesos)			
A. Argentina	Receipts	Expenditure	Receipts	Expenditure
	(closed accounts)			
1. Independent agencies (gross).....	3,223	1,595	5,014	2,333
2. State Trade Organization (IAPI) (net)	1,238	- -	561	- -
3. Exchange Profits Fund.	400 a/	- -	635 b/	- -
Total	4,861	1,595	6,210	2,333

a/ Net receipts. b/ Gross receipts.

/Table 1 shows

Table 1 shows data of central government finance in percentages of national income for four countries and in percentages of exports for thirteen countries. The levels of receipts and expenditure are given for six selected years to show the pre-depression, depression, pre-war and post-war years.

Considering the relationship of fiscal data with national income, the percentage taken by the governments as receipts have ranged between 8 per cent for Mexico and Chile in 1938 and 26 per cent for Chile in 1948 while outlays have ranged from 9 to 30 per cent for Mexico and Chile, respectively, for 1931.

Account should be taken of the fact that the percentages of revenues and outlays, especially in the post-war years, are highly underestimated due to the non inclusion of certain governmental activities outside the central budget.

In 1938, three of the four countries analysed, destined a smaller share of their national income to government financing than in earlier years, this share being the smallest on record since 1931. From 1940 to 1945, with sporadic exceptions the percentages decreased but beginning in 1945 and 1946 the upward trend is remarkable. The pre-depression share was more than surpassed during the depression in Argentina, Brazil and Chile, while in Mexico the pre-depression levels were attained only in 1937. The pre-war mark was surpassed by Chile

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	1945		1947	
	(millions of cruzeiros)			
B. Brazil	Receipts	Expenditure	Receipts	Expenditure
	(Closed accounts)			
1. Independent agencies c/ (operating receipts and expenditures...	5,906	3,534	6,573	4,295

c/ Only 57 out of 71 for 1945 and only 42 out of 87 for 1947.

Source: United Nations, Economic Commission for Latin America. For an explanation see Appendix I.

/and Mexico

and Mexico already in the early forties while it was not till 1945 and 1946 that this level was reached in Brazil and Argentina, respectively. The lag in these two countries was perhaps compensated by the increase in revenues and outlays outside the budget.

The size of the public debt in relation to national income declined in all four countries under consideration. On the other hand, borrowing by independent agencies has increased considerably. Debt reductions were greatest and consequently, its relative burden has declined in the following instances:
1) when inflation reached high levels; 2) when debt adjustment plans were put into effect; 3) when interest rates have fallen and 4) when substantial redemptions of outstanding balances were made taking advantages of the accumulation of gold and foreign exchange, and of inflation.

	Public debt as percentage of estimated national income					
Country	1928	1931	1938	1946	1947	1948
Argentina	33.4	51.8	50.2	55.6	51.1	40.0
Brazil	--	74.6	54.6	13.8 a/	11.7 a/	--
Chile	--	75.4	25.5	15.6	11.2	12.5
Mexico	39.4 b/	46.7	27.9	--	--	11.0

Perhaps the most accurate calculation of fiscal receipts as percentage of national income, can be made with Peruvian estimates c/ even though the series covers only 1942 to 1947.

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a/ The debt was considerably reduced since 1943 due to the settlement made while a further reduction took place in 1946 because note currency in circulation was no longer included in the public debt outstanding. The Brazilian Government, however, continued financing all its spending balances rediscounting government bonds in the Banco do Brasil.

b/ In 1929.

c/ The Peruvian Central Bank has recently published "La Renta Nacional del Peru, 1942-1947" where data for government receipts have been refined for national income purposes.

/ Year

Year	Receipts	National income at factor cost	Per cent
	(millions of soles)		
1942	357	2,509	14,2
1943	435	2,614	16.6
1944	488	3,134	15.6
1945	541	3,666	14.8
1946	708	4,274	16.6
1947	930	5,448	17.1

Taking into account the relationship between public finance data and exports it is possible to analyse a larger number of countries and group them according to the resulting patterns. It should be stressed, however, that there is a close relationship only in those cases where the level of national income is dependent to an appreciable extent upon the fluctuations of commodity exports. However, the tax structure of the countries analysed and, specifically, the share of receipts derived from customs duties and other receipts based or depending upon commodity trade, determine to a large extent the ratio between exports and government receipts. It is for these reasons that countries having a similar behavious in their public finances do not always coincide with countries with a similar behaviour in exports. As mentioned above it is possible that the ratio of public finance data and exports is more constant in the earlier years of the period analysed when it is likely that exports played a more significant role in the level of national income.

Considering the six selected years the following conclusions may be drawn. From 1928 to 1931 the ratio of receipts to exports increased in ten countries out of thirteen. From 1931 to 1938 the increase also continued for ten countries. From the pre-depression period to pre-war years, the ratios, though increasing slightly, remained very much the same in five countries while in three instances they doubled. By 1948 eight countries had overtaken their pre-war levels of receipts. As regards expenditure, all but one of the countries considered had achieved the pre-depression level of expenditure by 1938. This level shows a declining trend and in 1948 only seven countries out of thirteen had attained the pre-war level.

/Countries

Countries as different as Colombia, Guatemala, Perú and Uruguay show a similar pattern i.e., the levels of government receipts in percentages of exports rise from 1928 to the early thirties. After a short-lived decline they began to rise again until the very early forties when another small downward trend is noticeable, recuperating almost immediately thereafter. Of this group Uruguay shows the highest ratio of receipts upon export values, varying between a low of 54.4 per cent in 1930 and a peak of 147.2 per cent in 1947. Perú is at the other extreme with a low of 38.7 per cent in 1928 and a high of 81.6 per cent in 1948.

Argentina and Brazil are in a category by themselves. Both show not only a remarkably similar pattern of the ratio of government receipts to exports but also the relative amounts are rather similar, especially since 1931. In that year the percentages were 48.4 in Argentina and 51.6 in Brazil. The highest ratio, was attained in 1938 by Argentina and in 1940 by Brazil, while by 1948 they stood at 96.5 and 72.3 per cent respectively.

Mexico and Venezuela could be grouped together but though the trend is similar the ratio is higher in Mexico, being at times almost double that of Venezuela. Percentages varied from a low of 37.3 per cent in 1937 to a high of 123.8 per cent in 1944 in Mexico. Venezuela's ratio varied between a low of 27.1 per cent in 1935 and a high of 70.8 per cent in 1944.

Finally, Ecuador, El Salvador, Haiti and the Dominican Republic present similarities up to 1937. From then on until 1941 the first two countries continued with the same trend but subsequently diverged completely. The ratio of receipts to exports is by far the largest in Ecuador where it reached 184 per cent in 1933 and was never under 64 per cent.

A striking feature of Latin American government finance policies in the two decades under study is their erratic behaviour in response to inflationary and deflationary conditions. In many instances periods of acute inflation were accompanied by drastic policies of curtailment

/of expenditure

of expenditures coupled with an increase of the tax burden. At the same time inflationary periods have witnessed great rises in government outlays. In general Latin American countries have not always followed a conscious fiscal policy in the face of cyclical fluctuations and the levels of government receipts and expenditure have been mainly the result of expediency. There are, however, very encouraging signs indicating that the Latin American countries are aware of the necessity of using fiscal policy tools as well as of the need for adjusting more closely their taxation system to the economic and social pattern and to the government's aims for economic development. Many countries have taken advantage of the inflation by reducing considerably or, in a few instances, by repatriating their foreign debts. This meausre could have been more significant had the level of domestic debt not been substantially increased above the needs arising from the operation thus expanding the money supply. However, the effect of foreign debts repatriation upon the balance of payment has always been favourable.

The level of expenditure in the majority of the countries was maintained high in the light of the prevailing inflation. The substantial increase of their international assets and the expansion of receipts stimulated plans for economic development. The level of receipts show record collections in the post-war years mainly due to the continuation of higher burdens imposed during the war, coupled with inflation. However, taxable capacity for production purposes has not yet been reached.

Finally, attention should be called to the fact that under modern methods of government accounting the distinction between current and investment accounts have already been accepted and adopted by countries with advanced budgetary practices. Because very few of the Latin American countries present their budgets in such a form 1/ hardly any study of their public finances have failed to point out the chronic

1/ Acknowledgement being made of the existence of ordinary and extraordinary budgets or of separate groups of expenditure, i.e., current to be covered by taxation, and capital to be covered by borrowing. These have been simplified attempts of the more refined systems of capital and investment accounts. Venezuela recently introduced the division and Ecuador and Haiti are also considering its adoption.

/unbalancing

unbalancing of their budgets. When expenditure in public works is deducted from the total, however, (assuming that the public works account is a simplified capital account) many of those deficits decrease considerably and even become surpluses. In this way the continuation of antiquated government accounting practices are likely to have had an unfavourable effect upon the international credit standing of several Latin American countries.

2. Changes in the Composition and Level of Government Revenue and Expenditure

Tables 2 to 5 show under main selected headings the composition of revenue and expenditure of several central governments of Latin America as well as the level of government receipts and outlays in percentages of national income and of exports. 1/

The two decades under study show the introduction of several important changes in the tax structure of the Latin American countries. During that time few overall fiscal reforms were made, piecemeal reforms having been more common.

The outstanding feature of the thirties was the introduction in many countries of a general income tax. This trend was continued in the forties in the smaller countries which earlier did not have taxes on income or had adopted only partial taxes on business profits. Excess profits taxes, high profits taxes, windfall profits taxes were successfully appplied during the second World War on account of the high

1/ It should be noted, however, that during the two decades under consideration the significance of the data has altered to some extent. Several major changes in accounting procedures and in the reporting and presentation of public finance statistics account for some of the changes shown in the tables.

/profits and

profits and inflation 1/.

The administrative difficulties of imposing taxes in less developed countries were easily overcome by devices such as withholding at the source, and application of taxes only to the high income earners. In

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1/ In 1928 seven out of the twenty Latin American countries had a general income tax, while two possessed partial taxation of business profits. By 1938 eleven countries had adopted general income taxation, and three of them imposed levies on certain profits. In 1950 fifteen countries have general income taxes, two have imposed taxes on business profits and one on excess profits. Only two countries do not tax incomes or profits at all. The following countries did not have a general income tax or had only partial taxation if incomes in the following three selected years:

1928		1938	1950
Argentina	Honduras	Cuba (partial)	Cuba (partial)
Bolivia	Nicaragua	Dominican Republic	Guatemala (partial)
Costa Rica	Panama	Guatemala (partial)	Nicaragua
Cuba (partial)	Paraguay	Haiti (partial)	Panama
Dominican Rep.	Uruguay	Honduras	Uruguay (excess profit)
Guatemala	Venezuela	Nicaragua	
Haiti (partial)		Panama	
		Uruguay	
		Venezuela	

Uruguay, which has only an excess profits tax since 1945 has made it a point not to introduce an income tax, due to its policy of attracting foreign capital investments and encouraging domestic savings and investments as well. The absence of a general income tax coupled with an excess profits tax levied on a small number of taxpayers forms part of this policy. The excess profits tax has proved to be easy to administer and produces sizeable revenues in times of inflation. Considering that the traditional investing countries in Uruguay include Argentina besides the United States and Great Britain, it is reasonable to believe that the beneficial influence of the absence of income tax is rather psychological since the Argentine legislation only taxes the incomes and profits originated in Argentine territory, while the United States legislation grants credits for taxes paid abroad. Besides negotiations for a bilateral agreement to prevent double taxation are reported to be near completion between Uruguay and the United States.

/this way the

Table 2. Changes in the composition of government expenditure

Selected years - (In percentages of total)

Country	Fiscal Year	Public Debt Service	Internal and External Security	Social Expen-diture	Public Works	Other
1. Argentina	1928	19.4	17.1	17.7	15.0	28.4
	1938	14.7	19.8	19.6	17.1	22.4
	1947	8.8	30.0	20.7	16.3	19.2
	1948	5.6	30.2	16.1	27.3	17.6
	1949	6.3	24.8	31.3	24.8	12.8
	1950	7.4	23.8	27.9	17.2	23.7
2. Brazil	1928	33.3	14.4	3.4	17.9	40.9
	1930	27.3	21.1	8.3	23.4	19.9
	1938	21.0	30.5	5.6	26.3	26.6
	1947	9.3	32.5	7.7	16.3	34.2
	1948	..	31.3	10.2	18.1	..
	1949	..	29.7	11.3	17.1	..
3. Chile	1928	22.7	29.5	16.1	11.5	20.2
	1931	23.1	19.5	19.6	19.6	18.2
	1938	2.2	37.1	34.0	12.5	14.2
	1947	0.5	23.6	25.3	13.8	39.8
	1948	7.4	22.9	27.6	8.6	33.5
	1949	9.0	21.5	16.8	7.2	..
4. Mexico	1928	1.4	33.8	11.5	..	..
	1938	19.1	15.8	19.0	18.4	27.7
	1947	9.7	16.8	19.8	33.2	20.5
	1948	15.7	14.2	15.9	32.4	21.8
	1949	22.7	13.7	16.2	28.5	18.9
5. Colombia	1928	4.3	8.8	6.1	..	..
	1938	14.1	15.1	13.0	19.4	38.4
	1947	11.1	13.2	10.7	24.7	40.3
	1948	12.4	13.8	9.7	23.1	41.0
	1949	13.8	16.1	13.o	21.6	35.4
	1950	15.1	17.1	14.2	18.5	35.1
6. Ecuador	1928	12.3	21.3	17.5	19.3	29.6
	1938	4.7	26.6	27.3	11.7	29.7
	1947	3.2	20.8	26.2	15.9	33.9
	1948	4.1	20.7	30.1	21.8	23.3
	1949	5.7	18.2	27.1	25.2	23.8
7. El Salvador	1928/29	33.3	18.5	-	11.1	37.1
	1938/39	5.9	23.5	-	11.8	58.8
	1947	5.9	11.8	3.9	7.8	70.6
	1948	5.2	8.6	3.4	5.2	77.6

/ 8. Guatemala

Table 2. Changes in the composition of government expenditure

Selected years - (In percentages of total)

Country	Fiscal Year	Public Debt Service	Internal and External Security	Social Expen-diture	Public Works	Other
8. Guatemala	1928/29	18.8	18.8	12.5	..	..
	1938/39	28.6	14.3	14.3	..	..
	1947/48	2.2	8.7	19.6	..	..
	1948/49	-	12.8	23.4	..	..
	1949/50	4.8	14.3	26.6	..	..
9. Haiti	1929/29	24.4	15.6	15.6	24.5	20.9
	1939/39	7.9	21.0	13.0	13.6	26.5
	1947/48	13.0	16.7	15.5	17.8	37.0
	1948/49	16.4	-	23.9	6.0	53.7
10. Peru	1928	17.5	26.6	14.9	5.8	35.2
	1938	-	19.6	12.5	..	..
	1947	-	21.4	22.7	..	..
	1948	-	22.5	23.2	..	..
11. Venezuela	1928/29	6.5	11.4	6.1	20.8	55.2
	1938/39	-	10.3	12.5	20.8	56.4
	1947/48	0.6	7.8	23.4	39.3	28.9
	1948/49	0.1	8.3	12.0	24.9	54.7
	1949/50	0.5	12.1	20.2	35.8	31.4
12. Uruguay	1928/29	27.1	15.2	23.7	1.7	59
	1938	18.7	17.6	25.3	5.5	91
	1947	8.9	11.6	27.9	3.7	190
	1948	5.6	..	..	..	232

Notes to Table 2.

Data on expenditure refers to the central government budgets only and their contributions to independent agencies or other levels of governments. Public Debt Service is in total because of the impossibilities of making the breakdown of amortization, interest and commission payments. External and Internal Security refers to army, navy, air force, councils of national defence, military factories, expenses for armaments and central government police forces. Social expenditure covers public health education, social contributions to pension funds. Public Works figures correspond to those works undertaken by the central government only, covering both the wage bill and the material and equipment. Substantial amounts are left out under the last two items because they pertain to independent agencies. Underlined figures represent estimates only.

Source: United Nations Economic Commission for Latin America.

Table 3. Changes in the composition of government revenue.

Selected years - (In percentages of total)

Country	Fiscal year	Income, excess profits, etc.	Customs duties Imports	Customs duties Exports	Consumption. Production, Turnover, etc.	Total tax revenue	Non-tax receipts
1. Argentina	1928	-	47.3	3.8	21.4	85.2	14.8
	1938	10.8	27.3	-	34.6	79.1	20.9
	1947	29.6	12.1	-	25.6	63.2	36.8
	1948	32.4	8.9	-	26.0	60.0	40.1
	1949	31.6	14.7	-	19.4	69.3	30.7
	1950	23.2	7.7	-	24.9	58.0	20.0
2. Brazil	1928	3.1	42.4	-	31.2	81.4	18.6
	1930	3.2	38.9	-	33.2	76.6	23.4
	1938	7.4	27.1	-	28.1	66.1	33.9
	1947	28.2	13.5	-	42.5	84.2	15.8
	1948	26.7	10.5	-	40.1	82.1	17.9
	1949	23.7	13.0	-	48.7	86.0	14.0
3. Chile	1928	16.6	58.0	-	6.8	87.2	12.8
	1931	32.7	27.7	-	9.7	61.7	38.3
	1938	12.5	55.6	-	10.7	86.8	13.2
	1947	12.2	25.4	0.01	12.1	54.8	45.2
	1948	12.1	20.3	0.01	10.3	70.1	29.9
	1949	27.6	21.6	0.01	10.9	84.3	15.7
4. Mexico	1928	6.3	36.7	3.3	25.7	72.7	27.3
	1938	9.8	20.8	6.4	32.6	83.1	16.9
	1947	23.4	13.1	10.3	31.1	84.4	15.6
	1948	24.3	16.3	5.2	25.6	84.1	15.9
5. Colombia	1928	4.1	53.9	-	5.3	68.4	31.6
	1938	16.1	35.6	1.1	17.2	82.7	17.2
	1947	32.8	22.5	0.3	11.9	86.7	13.3
	1948	31.9	18.4	0.3	14.1	84.1	15.9
	1949	33.9	15.8	0.5	17.1	84.7	15.2
	1950	31.7	15.6	0.5	5.9	87.9	12.1
6. El Salvador	1928/29	-	51.8	11.1	22.2	88.9	11.1
	1938/39	5.9	——52.9——		17.6	76.5	23.5
	1947	5.7	35.8	37.7	20.8	81.1	18.9
	1948	5.8	13.5	17.3	17.3	82.7	17.3

/ 7. Guatemala

Table 3. Changes in the composition of government revenue

Selected years - (In percentages of total)

Country	Fiscal year	Income, excess profits, etc.	Customs duties Imports	Customs duties Exports	Consumption, Production, Turnover, etc.	Total tax revenue	Non-tax receipts
7. Guatemala	1928/29	-	46.6	13.3	20.0	93.3	6.7
	1938/39	-	33.3	16.7	25.0	91.7	8.3
	1947/48	-	22.5	5.0	27.5	77.5	22.5
	1948/49	-	22.7	4.5	25.0	77.3	22.7
	1949/50	-	26.2	7.1	28.6	90.5	9.5
8. Haiti	1928/29	2.3	58.1	23.2	7.0	93.0	7.0
	1938/39	-	53.8	12.8	8.0	92.3	7.7
	1947/48	12.6	54.4	19.0	6.3	92.4	7.6
	1948/49	-	—— 68.6 ——		..	..	..
9. Peru	1928	6.6	28.7	6.6	35.2	83.6	16.4
	1938	-	21.4	7.3	35.4	75.0	25.0
	1947	17.4	9.7	21.0	19.2	70.5	29.5
	1948	20.2	6.0	16.9	19.7	66.9	33.1
10. Venezuela	1928/29	-	47.4	-	0.4	68.3	31.7
	1938/39	-	36.6	-	20.8	57.8	42.2
	1947/48	22.0	20.6	-	11.2	56.8	43.2
	1948/49	24.4	17.5	-	9.6	51.8	48.2
	1949/50	25.9	16.6	-	10.2	53.0	47.0
11. Uruguay	1928/29	-	—— 40.7 ——		27.1	89.0	11.0
	1938	-	..		-	..	..
	1947	5.0	30.4		25.4	..	..
	1948	5.6	22.0		33.2	..	..

Notes to Table 3: Data of the receipt side refers to the following: Income, excess profits, etc., taxes cover the income taxes proper, schedular or flat rate plus surtaxes, the excess profits taxes, the windfall profits taxes, capital gains taxes and in countries where a general income tax did not exist the business profits or other similar burdens upon some incomes. Customs duties show breakdown of import and export duties. Import duties include statistical fees but exclude customs fees whenever possible. Consumption, production taxes, etc. refer to excises, taxes on production, sales and turnover taxes as well as stamp and transaction taxes. Total tax revenue covers the above mentioned taxes plus other miscellaneous ones. Non-tax receipts include receipts from public domain, from the operation of government undertakings, administrative receipts of all kinds and any other receipt which is not a tax. Proceeds of loans have always been excluded. Taxes collected by the central government on behalf of provinces, municipalities and independent agencies are included. Underlined figures represent estimates only.

Source: United Nations, Economic Commission for Latin America.

Table 4. The level of government expenditures, selected years
(In percentages of estimated national income and of exports)

Country	Fiscal year	Public Debt Service	Internal and External Security	Social Expenditure	Public Works	Total
A. In percentages of national income						
1. Argentina	1928	2.1	1.8	1.9	1.6	10.7
	1938	2.1	2.9	2.8	2.5	14.4
	1947	1.4	4.9	3.4	2.7	16.3
	1948	1.2	6.5	3.5	6.0	21.6
2. Brazil	1930	2.7	2.0	0.9	2.4	10.2
	1938	2.2	3.2	0.6	2.8	10.6
	1947	1.3	4.6	1.1	2.3	14.1
	1948	..	4.5	1.4	2.6	14.3
	1949	..	4.8	1.8	2.8	16.1
3. Chile	1931	6.7	3.9	5.7	5.7	29.6
	1938	0.2	4.3	3.9	1.4	11.6
	1947	0.07	3.5	3.8	2.0	14.9
	1948	1.9	4.1	7.0	2.2	25.4
4. Mexico	1928	1.1	3.3	1.1	..	9.7
	1938	1.3	1.6	1.9	1.8	10.0
	1948	2.5	2.3	2.5	5.2	15.9
B. In percentages of exports						
1. Argentina	1928	7.5	6.6	6.8	5.7	38.3
	1938	13.4	18.6	17.9	15.6	91.2
	1947	6.7	22.8	15.7	12.4	76.1
	1948	7.2	38.7	20.6	35.0	127.8
2. Brazil	1928	16.9	7.5	3.0	9.1	50.8
	1931	14.1	10.9	4.3	12.1	
	1938	19.5	28.3	5.2	24.4	92.9
	1947	5.7	20.0	4.8	10.0	61.7
	1948	..	22.6	7.4	13.1	72.3
	1949	..	26.1	9.9	15.0	88.0
3. Mexico	1928	5.7	16.4	5.6	..	48.5
	1938	8.1	10.1	1.2	11.8	64.1
	1947	11.9	14.1	16.6	27.8	83.8
	1948	13.9	12.6	14.1	28.8	88.8

/4. Haiti.

Table 4. The level of government expenditures, selected years
(In percentages of estimated national income and of exports)

Country	Fiscal year	Public Debt Service	Internal and External Security	Social Expenditure	Public Works	Total
4. Haiti	1928/29	9.7	6.2	6.2	9.8	39.8
	1938/39	8.5	22.8	14.1	34.3	108.6
	1947/48	7.0	8.9	8.3	9.5	53.5
	1948/49	7.1	-	10.4	0.3	43.5
5. Venezuela	1928/29	2.6	4.7	2.5	8.4	40.6
	1938/39	-	6.7	8.1	13.4	64.6
	1947/48	0.3	4.4	12.6	22.7	57.8
	1948/49	0.06	4.9	0.7	14.6	58.7
6. Colombia	1928	3.7	7.6	5.3	..	87.1
	1938	9.0	13.2	8.3	12.5	64.1
	1947	9.4	14.0	9.1	21.1	85.4
	1948	10.0	14.6	7.9	18.3	81.3
7. Ecuador	1928	9.5	16.3	13.5	14.9	77.0
	1938	5.7	32.2	33.0	14.1	120.8
	1947	3.1	20.1	25.3	15.4	96.8
	1948	4.5	22.6	32.9	23.8	109.3
8. Guatemala	1928/29	10.7	10.7	7.1	..	57.1
	1938/39	22.2	11.1	11.1	..	77.8
	1947/48	1.9	7.7	17.3	..	88.5
	1948/49		12.0	22.0	..	94.0
9. El Salvador	1928/29	18.3	10.2		6.1	55.1
	1938/39	3.7	14.8		7.4	63.0
	1947	3.0	6.0	2.0	4.0	51.0
10. Peru	1928	6.7	10.2	6.0	2.2	38.1
	1938	-	10.4	6.7	..	53.5
	1947	-	19.9	21.2	..	93.2
	1948	-	22.4	23.1	..	99.5
11. Uruguay	1928/29	15.8	8.8	13.0	1.0	58.4
	1938	17.7	16.7	23.9	5.2	94.8
	1947	10.4	13.5	32.6	4.3	116.6
	1948	7.2	..	..	..	129.6

Source: United Nations, Economic Commission for Latin America. For explanation see Appendix I.

Table 5. The level of government receipts, selected years

(In percentages of estimated national income and of exports)

Country	Fiscal year	Income, excess profits, etc.	Customs: Imports	Customs: Exports	Consumption, production etc.	Total tax revenue	Non-tax receipts	Total Receipts
A. In percentages of national income								
1. Argentina	1928	-	4.0	0.3	1.8	7.2	1.2	8.4
	1938	1.4	3.7	-	4.7	10.7	2.8	13.5
	1947	4.9	2.0	-	4.3	10.5	6.2	16.7
	1948	5.3	1.4	-	4.2	9.8	6.5	16.3
2. Brazil	1930	0.2	2.7	-	2.3	5.4	1.6	7.0
	1938	0.6	2.4	-	2.4	5.8	2.9	8.7
	1947	4.1	2.0	-	6.2	12.3	2.3	14.6
	1948	3.8	1.5	-	5.7	11.7	2.6	14.3
	1949	3.6	2.0	-	7.4	13.1	2.1	15.2
3. Chile	1931	5.7	4.9	-	1.7	10.9	6.7	17.4
	1938	1.0	4.6	-	0.8	7.2	1.1	8.3
	1947	1.9	3.9	-	1.9	8.5	7.0	15.5
	1948	3.2	5.4	-	2.7	18.5	7.9	26.4
4. Mexico	1928	0.5	2.8	0.2	2.0	5.6	2.1	7.7
	1938	1.0	2.1	0.6	3.3	8.3	1.7	10.0
	1948	3.2	2.3	0.7	3.5	11.6	2.2	13.8
B. In percentages of exports								
1. Argentina	1928	-	14.3	1.2	6.5	25.8	4.5	30.3
	1938	9.3	23.4	-	29.7	67.8	18.0	85.7
	1947	23.1	9.4	-	20.0	49.4	28.8	79.3
	1948	31.2	8.5	-	25.0	57.8	38.7	96.5
2. Brazil	1928	1.7	23.6	-	17.4	45.4	10.3	55.8
	1938	5.6	20.6		21.4	50.3	25.8	76.1
	1947	18.0	8.6	-	27.1	53.7	10.1	63.8
	1948	19.3	7.6	-	29.0	59.4	12.9	72.3
	1949	19.6	1.1	-	40.3	71.2	11.6	82.8
3. Mexico	1928	3.2	18.6	1.7	13.0	36.8	13.9	50.7
	1938	4.1	10.9	3.3	17.0	43.5	8.8	52.3
	1947	23.2	13.5	10.6	32.1	87.2	16.1	103.3
	1948	18.7	12.6	4.0	19.8	64.9	12.3	77.2

/4. Haiti.

Table 5. The level of government receipts, selected years

(In percentages of estimated national income and of exports)

Country	Fiscal year	Income, excess profits, etc.	Customs: Imports	Customs: Exports	Consumption, production, etc.	Total tax revenue	Non-tax receipts	Total receipts
4. Haiti	1928/29	0.8	22.1	8.8	0.3	35.0	3.0	38.0
	1938/39	-	59.9	14.2	0.9	102.8	8.6	111.4
	1947/48	6.3	27.4	1.0	3.2	46.5	3.8	50.3
	1948/49	..	—— 29.8 ——		..	..		43.5
5. Venezuela	1928/29	..	18.0	-	0.2	26.0	12.0	38.0
	1938/39	-	22.3	-	12.7	35.2	24.0	61.0
	1947/48	1.4	13.0	-	7.1	35.9	27.3	63.2
	1948/49	13.7	9.8	-	4.5	29.2	27.1	56.3
6. Colombia	1928	2.2	30.8	-	3.0	39.1	16.8	57.1
	1938	9.7	21.5	0.7	10.4	50.0	10.4	60.4
	1947	22.1	15.5	0.2	8.2	59.6	9.1	68.8
	1948	20.1	11.6	0.1	8.9	53.1	10.0	63.1
7. Guatemala	1928/29	-	25.0	7.1	10.7	50.0	3.6	53.6
	1938/39	-	22.2	11.1	1.7	61.2	5.5	66.7
	1947/48	-	17.3	3.8	21.1	59.6	17.3	6.9
	1948/49	-	20.0	4.0	22.0	63.0	20.0	88.0
8. El Salvador	1928/29	-	28.5	6.1	12.2	4.9	6.1	55.1
	1938/39	3.7	—— 33.3 ——		11.1	48.2	14.8	63.0
	1947	3.0	19.0	20.0	11.0	43.0	10.0	53.0
9. Peru	1928	2.6	11.1	2.6	13.6	32.4	6.3	38.7
	1938	-	11.2	4.1	18.5	39.2	13.1	52.3
	1947	14.2	7.9	17.1	15.8	57.4	24.0	81.4
	1948	16.5	4.9	13.8	16.1	54.6	27.0	81.6
10. Uruguay	1928/29	-	—— 23.8 ——		15.3	52.4	6.0	58.4
	1938	-	..		..	..	..	97.9
	1947	7.3	44.8		37.3	..	..	147.2
	1948	7.2	28.5		43.0	..	..	129.6

Source: United Nations Economic Commission for Latin America.

this way the tax administration leaves out a large portion of the gainfully employed population, and the administrative task is easier and less costly. The fiscal success of income and excess profits taxes shown by the large percentage of the total show that it is possible for less developed areas to introduce taxes which had been considered ineffective until recently in view of the existence of a large self-subsistent sector of the economy, the low level of incomes, the larger sector of agricultural profits which are generally exempted from such taxes as well as incomes of professionals which are largely untouched. The outstanding case has been that of Venezuela, where the income tax introduced as late as 1942 produced nearly one-fourth of the total in 1948. Another remarkable case is that of Argentina where receipts from income, excess profits, and windfall profits reached one-third of the total in 1948. Colombia has derived 32 per cent of the total from income and other profit taxes in 1948.

The success of the income tax has been accompanied by a decline in customs duties receipts during the period. Since the tables do not show the war years, customs receipts are free from the bias introduced by dislocation of international trade during the hostilities and the consequent fall in import and export duties.

Customs duties are imposed on imports throughout Latin America while export duties are adopted by some countries only, namely mining countries such as Chile, Peru and Mexico, and the rates, as well as the collections, are in general smaller. Some of them have imposed direct customs duties, while others have resorted to differential exchange rates to obtain the same regulatory and revenue aims.

Tables 6 and 7 show the percentages that import and export duties represent upon total value of exports and imports for selected years. The highest ratio registered according to the table was in 1938 for Haiti when the government imposed duties representing more than half of the total value of imports. The general trend observed in the tables shows a decline of the shares for almost all countries throughout the period.

However, the long-range relative decline of the capacity to import has brought about a decrease in the share of import duties and similar

/sources in total

Table 6. Percentage of import duties upon total imports
(In millions of national currencies, for selected years)

Country	Year	Import duties	Total imports	Percentage
1. Argentina	1928	343	1,902	18.0
	1938	510	1,579	32.3
	1948	468	6,329	7.4
2. Brazil	1928	939	3,695	25.4
	1938	1,053	5,196	20.3
	1948	1,650	20,985	7.9
3. Colombia	1928	41	162	25.3
	1938	31	159	19.5
	1947	66	625	10.7
	1948	59	..	..
4. Dominican Republic	1928	5.3	27	19.6
	1938	2.8	10.9	24.8
	1947	6.9	53	12.9
5. Ecuador	1928	20	83	24.1
	1938	26	148	17.6
	1947	66	604	11.0
	1948	64	568 1/	11.2
6. El Salvador	1928	14	37.8	37.0
	1937/38	11	22.8	47.8
	1948	19.7	103.8	19.0
7. Guatemala	1928/29	7	30	23.3
	1938	4	21	19.0
	1947	9	57	15.8
	1948	10	..	..
8. Haiti	1928	25	101	24.8
	1938	21	38	55.3
	1947	43	136	31.6
9. Mexico	1928	110	358	30.7
	1938	91	494	18.4
	1948	327	2,951	11.1
10. Peru	1928	35	176	19.9
	1938	41	260	15.8
	1947	90	1,092	8.4
	1948	61	..	..
11. Venezuela	1928/29	109	417	26.1
	1938	162	312	51.9
	1948	417	2,296	18.2

1/ Movement throughout Guayaquil only.

Table 7. Percentage of export duties upon total exports
(In million of national currencies, for selected years)

Country	Year	Export Duties	Total Exports	Percentage
1. Argentina	1928	28.0	2,397	1.2
	1938	-	1,401	-
	1947	-	5,505	-
	1948	-	5,465	-
2. Brazil - only states imposed them				
3. Chile - negligible, not in 1928 and 1938				
4. Colombia	1928	-	133	
	1938	1	144	0.7
	1947	1	427	0.3
	1948	1	507	0.2
5. Ecuador	1928	5.1	74	6.9
	1938	0.3	107	0.3
	1947	7.9	577	1.4
	1948	7.8	494	1.6
6. El Salvador	1928	3.2	49	6.5
	1938	-	27	-
	1947	7.2	100	7.2
	1948	9.0	..	
7. Guatemala	1928	2	28	7.1
	1938	2	18	11.1
	1947	2	52	3.8
	1948	2	50	4.0
8. Haiti	1928	10	113	8.8
	1938	5	35	14.3
	1947	15	157	9.6
	1948	..	154	..
9. Mexico	1928	10	592	1.7
	1938	28	838	3.3
	1947	212	1,989	10.6
	1948	105	2,594	4.0
10. Peru	1928	8	315	2.5
	1938	15	342	4.4
	1947	195	1,003	19.4
	1948	173	1,056	16.4

Sources: League of Nations, Public Finance Pamphlets; United Nations, Public Finance Data; ECLA export series.

sources in total government receipts. Furthermore, numerous Latin American governments introduced import and exchange controls, implying an increasing share of necessities as opposed to non-essentials within total imports reducing their attitude to regulatory taxation through the tariff.

As regards exports, the tax policies of the Latin American governments have followed a different pattern. This is due to the fact that the increase of unit prices of certain export commodities made it expedient to make fuller use of export taxes. In order to have a legislation ready for the different emergencies arising from price fluctuations several governments have adopted movable schedules in such a way that different export rates are automatically applied whenever prices in export commodities change. The peak levels of the table below reflect the trend and the Latin American governments have considered this as one of the most expedient methods to share profits with the exporters.

Of late, more subtle methods (namely the differential exchange rates such as in Bolivia, Chile and Venezuela) than export duties have been introduced by several Latin American governments in order to secure their participation in the export trades. It is for this reason that some countries are enlarging the income tax coverage or have introduced excess profit taxes and even sometimes use the exchange control as a revenue producing device. It may be stated in general that countries which impose taxes on exports are witnessing a reduction of the share of the total from this source. Two exceptions are Peru and Mexico where after the war export duties are at present more significant than in pre-war years and where the collections are larger even than of import duties.

Consumption, production, excise, sales and turnover taxes in general have not increased substantially since 1928. The Latin American governments have been aware of the need for redistributing income by means of the taxation system and there has been a tendency to shift regressive taxes to a secondary place.

Moreover, the decline of importance of consumption taxes has been the result of static rates and, in some instances, even of declining rates,

/while other types

while other types of taxes such as those on income and profits, have been introduced and their rates almost constantly increased. The main exceptions are Brazil, where consumption taxes constitute the largest share of government financing in 1938 and in the post-war period in terms not only of the total but also in terms of national income; and Guatemala and Uruguay, the latter due to its policy of attracting investments. In all the other countries the role of consumption taxes shows a declining trend.

Predominant among this type of taxes are the excises while general sales and turnover taxes are less common. The very nature of the Latin American economies made excises levied on a few commodities easier to administer than the others. Another interesting feature of governmental receipts which has developed greatly during the period is the increasing charges upon mining activities in the form of royalties, taxes or shares on production or in the more subtle form of differential exchange rates. For instance, among the non-tax receipts of Chile and Venezuela (and in a lesser degree in other countries where extractive industries are important) the percentages of non-tax receipts are highly inflated by all the receipts from the public domain. 1/

The relationship between total taxation and other non-tax receipts is a varying one because the latter include many unforeseen sources of revenue, some of them of a sporadic nature. Only in Argentina, Peru and Venezuela is there a noticeably rising trend of non-tax receipts throughout the years.

In the forties, fiscal legislation was synchronized with developmental plans because of fears that depletion of mineral resources or utilization of other sources might imperil the economies due to the highly unstable character imposed upon several Latin American countries by the exploitation of a few minerals. For that reason the mineral producing countries are now combining royalties and income taxes upon mineral activities in order to bring about a diversification of their economies.

1/ In the case of Guatemala the large increase in non-tax revenue shown from 1947 on is due to the proceeds of the sale of products from state farms, which had been nationalized by the government from enemy aliens during the war.

/During the ten

During the ten years which elapsed between the pre-depression and pre-war periods, the major change in expenditure consisted of an appreciable decrease in the public debt service and in a rather large increase in internal and external security expenditure. The first change is explained by the moratoria of the thirties which were followed by debt settlements and conversion operations involving better terms for the debtors and a reduction of interest rates generally. 1/ The increase in internal and external security expenditure is explained by the political situation at home and abroad prevailing at the time.

After 1938 and with the exception of public debt service which showed a declining trend, it cannot be said that there has been a common trend in the budgetary structures of the Latin American countries. While many of them have substantially reduced the share of internal and external security expenditure, there are some outstanding cases in post-war years where such expenditures continued to increase. It is in the post-war period that public works of considerable magnitude were put into effect. The budget structure, however, has not changed fundamentally, because a great portion of public works were carried out by agencies or funds outside the central budget.

The unwillingness of foreign money markets to extend loans to public authorities in Latin America imposed narrow limits upon the possibilities of the Latin American governments to borrow abroad. Furthermore, there is

1/ For instance, Chile declared moratoria in 1931 and had a plan for a partial resumption of payments in 1935; subsequently the debt service was entrusted to an independent agency receiving earmarked taxes which until 1948 did not pass throughout the central budget. Argentina made several conversion operations in the thirties. Mexico suspended service in 1928; the debt continued to increase mainly due to the accumulation of unpaid interests. Venezuela redeemed practically all of its foreign debt by the end of 1929-30 as well as its domestic debt by the end of 1935-36. Brazil suspended its foreign debt service in 1931 and funding operations took place in 1932. Uruguay suspended redemption from 1932 to 1937. Peru suspended debt service in 1931, interest payments being only partially reassumed in 1937. El Salvador suspended payments in 1932-33 and subsequently on account of the drop in coffee prices the foreign debt service was suspended as of January 1938. And so on.

/a growing

a growing awareness on the part of these countries of the necessity of considering foreign indebtedness in relation to the prospect of their balance of payments and their possible fluctuations.

The public debt service as shown includes amortization and interest payments. To the extent that amortization payments are included, the burden is greatly overestimated. In countries such as Argentina, Haiti and Venezuela, a great portion of the figures sometimes correspond to redemption payments. While public debt amortization does not constitute an expenditure in the real sense of the word, lack of breakdowns in the published data made impossible the deduction of redemption payments for all countries under study. Neither can interest payments be considered in the same manner as expenditures in goods and services. When interest on foreign debt is paid, the transaction involves a loss of international assets to institutions or individuals abroad. However, if loans have been obtained in the domestic market, the interest payment generally represents transfers in favour of domestic social security institutions or lender banks which are the main sources of internal credit accessible to the Latin American governments.

It is likely that since interest payments on public debt services are fixed charges they have not risen with increases in price levels common to all Latin American countries in the forties. Therefore, their ratio to total expenditure has likewise been reduced. This trend took place in the case of the domestic debt. On the other hand, declining rates of exchange at which the services abroad have been tended to increase the burden. It is possible that this has been counterbalanced by the reduction of interest rates resulting from conversion operations. During the period under consideration, debt conversion operations which for the first time in the economic history of Latin America transformed the foreign debt into domestic obligations, brought about a lowering of interest rates. These redemption operations were mainly the result of two factors: the accumulation of gold and foreign exchange reserves especially on account of the shrinking of international trade during the war and the development of social security schemes. The domestic bond market has been almost non-existent in most Latin American republics.

/It has rather

It has rather been the enlargement of the coverage of workers under social security institutions which has provided loanable funds for governmental financing.

Briefly it can be said that considering the composition of government expenditure the public debt service appears to represent in general a decreasing share of the total. Great reductions in this item took place during the early thirties as a result of the consequences of the depression while the changes that took place in the late thirties and during the forties were mainly the result of: 1) debt settlements, such as the 1943 Brazilian schemes, the Mexican agreement of 1942 when the foreign debt was reduced at the rate of one dollar to one peso, and, 2) the accumulation of relatively substantial holdings of international assets which made possible the Argentine debt repatriation of 1937, 1943 and 1946, or the even earlier repayment of the foreign debt of the Venezuelan government at the end of the twenties, or the repayment of obligations by Haiti, the Dominican Republic, Guatemala, El Salvador and others during the forties.

The twelve countries under consideration spent roughly 20 per cent of the total in internal and external security in 1928. By 1938 they were spending 21 per cent while at the end of the war, in 1947 and 1948, the proportion amounted to 17 and 21 per cent respectively. When the countries are considered individually, however, the ratios are less uniform and the above figures only prove that when some countries have considerably increased their shares others have decreased them in terms of their totals. The general trend during 1928-1938 has been that of a relative increase of such expenditure within the total. The most notable increases were in Brazil, from 14.4 to 30.5 per cent, in Chile, from 29.5 to 37.1 per cent, and in Colombia from 8.7 to 20.4 per cent. The main exemption was Mexico, where such expenditure declined from 33.8 to 15.8 per cent during the period under consideration. (See Table 2).

Even though the Latin American countries became belligerents during the Second World War, the wartime distortion of their expenditure pattern as represented by internal and external security expenditure was relatively limited. (During the conflict only Brazil had a special war budget which

/amounted to

amounted to roughly eight billion cruzeiros in the three years of its operation, 1943-1945. 1/) In this way the relative increase of these expenditures between 1938-1947 was smaller than in 1928-1938. In some cases there was even a relative decline. The main exception to this trend was Argentina where actual defence expenditure increased from 19.8 per cent of the total in 1938 to 30.2 per cent in 1947. Since then, however, there has been a decline to 23.8 per cent of total estimated expenditure for 1950. However, the rather considerable changes in this item which are not chronologically related with the war indicate the measure in which these expenditures are motivated by internal rather than by external considerations in numerous countries of Latin America.

Social expenditure shown in the table includes, in some instances, social security outlays. The common trend in Latin American countries, however, is to possess independent agencies handling social security schemes, while the only item included in the budget is the government's contributions to those funds. To the extent that social security payments are transfer expenditure, their non-inclusion is altogether a satisfactory method.

With the exception of Chile until recently no other country of Latin America had comprehensive social security schemes. The only employees covered by pension funds were the civil servants and persons holding teaching positions in addition to military personnel who had always enjoyed this privilege. 2/

Subsidies which also imply transfer payments have been extensively granted in Argentina, Mexico and Peru during the late forties. These have taken the form not only of food subsidies, but also of production subsidies. Their importance has considerably decreased in Argentina

1/ These expenditures are included in the consolidated figures for the period 1928-1950.

2/ Account should be taken of a rather spread system of pensions granted for numerous reasons but which have nothing to do with direct service to the country of the recipient of the benefit nor his ancestors. Congresses generally granted these benefits in an arbitrary way but the system is disappearing slowly.

/and Peru

and Peru where at present only wheat is subsidized. These expenses have been kept in many instances outside the central budget and therefore have not unduly increased the real burden of government outlays.

Argentina, Chile, Ecuador, Guatemala, Venezuela and Uruguay have spent relatively sizeable portions of their total outlays for social purposes. The part corresponding to social security benefits is not always accounted for in the central budget. 1/ It is a fact, however, that several Latin American countries have steadily increased expenses for education, public health, sanitation and the like. Comparing expenditure for social purposes with military expenses, the share of the latter upon national income and export in the post-war years is smaller than the share expended for social purposes in Chile, Ecuador, Guatemala, Mexico, Peru and Uruguay. Moreover, social expenditure accounts for a relatively sizeable portion of the total.

The financing of development is reflected in public works in a partial way only. From 1928 to 1938 outlays in public works represent the traditional government expenditure for roads, transportation and buildings. During the late thirties a great change took place in the structure of public works. Governments began to finance economic development, but in order to accommodate the new outlays more easily to traditional financing, public works plans were kept outside the central government budget. Such was the case in Brazil, Chile, Cuba and Haiti in the thirties. The same method was applied during the forties and is being applied at present for the financing of public works throughout Latin America in post-war years, as well as for developmental investments made through independent agencies. The post-war expansion of public works was due in part to the pent-up demand for public utilities such as power and transportation which are being financed to a considerable extent from governmental sources.

1/ It should be borne in mind that aggregate social expenditures are not represented by the expenses of the central government only, either are they included in or outside the budget. In countries having a federal form of government one of the primary responsibilities of the state governments is that of furnishing education, public health and public assistance.

/3. Recent Developments

3. Recent Developments in the field of Public Finance

With very few exceptions there has been an increase in taxation in 1948-1950. In general, however, the tax structures of the Latin American countries have not suffered basic changes. The tendency observed in earlier years of resorting in an increasing measure to taxes having a lesser incidence upon low income groups is being accentuated at present. The trend in this direction can be noticed not only because of the increase in income and excess profit tax rates, but also because the general income tax has been introduced for the first time in certain countries. Moreover, comprehensive studies have been made to introduce a general income tax in countries that have not applied it before. Income tax rates have been increased to keep pace with increased salaries and profit margins. The aims pursued in increasing other tax rates have, in general, been the attainment of more revenues to finance expanding expenditure, except customs tariff revisions which were mainly of a protective and regulatory nature. The widespread use of exchange controls by restricting imports had the same consequences as an increase in customs tariffs.

The few decreases in taxation took place sporadically, aiming at encouraging the importation of certain scarce goods and durable goods for industries and agriculture, or to relieve certain income groups by granting the deduction of greater allowances in computing net taxable income.

There have been some changes in tax policies designed to implement new directions in general economic policies. The tendency has been either to reconcile tax and expenditure policies with changes in production and trade and, to a lesser extent, to create demand for labour in areas where unemployment had appeared. In several instances changes took place for expediency's sake only.

Regarding income, excess profit, windfall profit, capital gains and similar taxes, the major changes that have taken place were as follows: general income tax was introduced in the Dominican Republic as of February 1949. The Honduran Congress approved, in November 1949, the first income tax law of the country with rates graduated up to

15 per cent,

15 per cent, the proceeds to be devoted for road construction. Haiti, which had only a tax on business profits, adopted a general income tax in 1948. There has been an upward revision of income tax rates in Brazil, both for individuals and corporations. Mexico increased income and excess profit tax rates. Chile increased the income tax and introduced a 20 per cent extraordinary copper sur-tax in 1947. These measures, as part of a comprehensive scheme to combat inflation, have been in force up to now. The income tax of Venezuela was increased in 1948, being designed to assure the government of at least a 50 per cent share of the net profits of the petroleum companies. Colombia introduced a special tax on incomes exceeding 24,000 pesos in 1948. A new income tax law in Paraguay in 1948 eliminated the former system, under which the tax applied to business enterprises was based on statements submitted by the taxpayer, and introduced a new system based on the volume of the taxpayer's business. Later in 1950, a revised income tax was issued increasing rates in the upper and middle-income brackets, and somewhat reducing the lower brackets. As a consequence of the earthquake in 1949, Ecuador raised several taxes. Among other measures it established a surtax on income from capital. At the end of 1949 Argentina modified the income tax, both personal and on corporations, increasing the rates by some 20 per cent; the windfall profit tax was also substantially increased. These revenue-producing measures were complemented by others tending to encourage investment and capital inflows. Undistributed profits are therefore not taxable as of January 1, 1950, and excess profits tax will not be applicable to profits of new foreign capital investments. Preliminary studies for the adoption of a general income tax were made in Guatemala and a bill is awaiting Congressional approval.

Among sources of revenue in Latin America, customs duties have undergone the greatest number of revisions. Changes in tariff rates have complemented exchange control regulations and licensing systems aimed at restricting imports of goods other than necessities and equipment. In one case, that of Brazil, the whole customs tariff, since August 1948, has undergone a general modification as a consequence of Brazil's adherence to the Agreement on Tariff and Trade signed at Geneva in 1947. Decreases

/in tariff rates

in tariff rates have seldom been made. For instance, in 1949 Ecuador repealed the 50 per cent surtax on imports from countries having an active balance of payments with that country, which had been established nine years earlier. Sporadic decreases have been made in other countries.

Increases in tariff duties with protective aims have been made in El Salvador and Venezuela. Some exemptions have been granted to assist agricultural or industrial development, such as took place in Argentina, Brazil, Haiti, Peru, Nicaragua and Mexico. Similar measures were adopted to relieve shortages of foodstuffs and fuels, or to pay part of civil service salary increases, as in Chile. Revenue has not been the main consideration for changes in tariffs. In most cases the principal aim seems to have been the equilibrium of the balance of payments, and more often such changes in the tariff have been coordinated with a relaxation or a restriction in the granting of import licenses or exchange permits. Differential exchange rates have been extensively used as tariff barriers or as subsidies to domestic production; their functions as a source of revenue was subsidiary only. New export duties or an increase in existing ones were adopted in several countries, such as the Dominican Republic on cacao, coffee and sugar, for which a movable scale was established as of January 1950. In Haiti coffee and bananas were taxed, while coffee export taxes were also adopted in El Salvador, Mexico and Venezuela. Finally, Honduras imposed taxes on exports of timber.

These developments indicate that in the majority of the countries where there has been a substantial rise in the unit prices of their principal export commodities, governments have been quick to impose export taxes in order to share profits with the exporters and producers. Bolivia, which in 1949 granted some tax relief and favourable exchange rates to mining enterprises in order to relieve them of their financial difficulties, has had to resort to new levies on tin exports at the beginning of 1950, due to insufficient government revenues. Mexico is a unique case as regards export duties. As of August 1948 a new 15 per cent tax upon exports was created as a corollary of the 40 per cent devaluation of the peso. The tax applied to all commodity exports.

/However, upon

However, upon presentation of evidence that the full or partial benefits of the devaluation were necessary in order to maintain the exports of given commodities, the tax was reduced or completely abolished. Whenever this was not the case, the purpose of the tax was to absorb the windfall profits which the devaluation offered to exports. It was also feared that the immediate impact would have been domestic price increases. Furthermore, proceeds from the export tax could pay for subsidies of corn, lard, wheat and flour that need to be imported and at the same time the tax would allow the government to share profits with exporters. Relaxation of the tax took place during all of 1949 and early 1950. The benefits from this tax were expected to decline sharply in 1950 and probably cease in 1951.

Excises and numerous types of taxes on consumption and transactions have also undergone changes since 1948. The main consideration in introducing them was of a revenue-producing nature. The declining trend observed since 1928 to 1948 has not changed substantially. A widespread increase in the rates of some excises, however, especially the ones imposed on luxury items, is noticeable. Chile, Costa Rica, Honduras, Nicaragua and Brazil moved in this direction in 1948 and were followed by Ecuador, Argentina, Dominican Republic and Peru in 1949.

There is not sufficient information and not enough time has elapsed since these modifications took place to permit an appraisal of their effects in absolute and relative terms.

Government spending policies have followed a common trend in Latin America since 1948. There has been a widening of the scope of governmental operations, especially in relation to economic development, public health and education. Substantial increases in the salaries of civil servants and in payments to military personnel, motivated for the most part by increasing costs of living, are also noticeable. For instance, increases in salaries of civil servants were granted in Cuba (where they increased fourfold from 1938 to 1948), in Chile on several occasions, (one amounting to 20 per cent in February 1949, and the last one in March 1950 amounting to 31.3 per cent), in Honduras (where a 25 per cent salary increase took place), in Paraguay (which approved a 20 per cent increase to all public employees), in Brazil (where the Government raised by 30 per cent the

/salaries of

salaries of the civil servants and of the armed forces in 1949), in Peru (where further increases in salaries of civil servants above the 20 per cent granted were allowed at the end of 1949). In other countries the armed forces received various kinds of bonuses which increased their real income.

In the second half of 1949 a tendency to reduce certain expenditures began. This was reflected in the decisions to slow down work already commenced or in the postponement of projected expenditures. Though the curtailment of expenses has been more drastic in public works plans, in many instances carried out outside the central government budget, the estimated budgets for 1950 have been, in general, rather conservative, reflecting the tendency mentioned above. Several factors account for this trend. The plans for economic development were blueprints sometimes made without considering the availability of the factors of production. Their long-range planning could not anticipate with any accuracy the substantial price increases, particularly of imported machinery and equipment. Furthermore, large-scale public works were undertaken in some countries at the end of the war under conditions of full employment. As a result, the competition of the government for labour and material in markets which generally suffered shortages of both was a deterrent to prospective private investments. Finally, gold and foreign exchange reserves accumulated during the war were sharply reduced in most countries mainly due to the increasing volume of imports and in a lesser degree to an unfavourable trend in the terms of trade. The last two years witnessed widespread governmental restrictions of imports in order to use international assets for essential imports, such as capital goods for agriculture and industry and in certain countries for basic foodstuffs as well. Of necessity, governmental plans had to be slowed down as the relative prosperity which gave birth to these projects has been receding.

The Argentine Five Year Plan, begun in 1947, originally estimating an average of 1.3 billion pesos per year under a separate budget, is being continued at a slower pace. Government policy of balancing the budget and shortages of labour and imported capital goods are the main causes. With that aim in mind, it was sought since October 1948 to

/undertake only

undertake only those public works which have been authorized by the National Economic Council. This measure serves three ends: 1) to effect economies; 2) to contribute to the arresting of the inflationary trend; and 3) to permit a greater availability of labour, materials and goods in general to meet private demand. The Council of Inter-Ministerial Coordination made a selection of the works of the Five Year Plan that were of greatest urgency or whose execution was essential for the country. This task allowed not only the establishment of an order of priority, but also the proportions in which the credits for the Plan should be invested.1/

The Brazilian SALTE Plan (1949-53) designed to improve public health, food supply, transportation and power facilities, coordinating thereby the financing of essential development, envisages an expenditure of 25 billion cruzeiros distributed as follows: 2.6 for health; 3.7 for food; 8.0 for transportation; and 10.7 billion cruzeiros for power facilities. The financing of the Plan contemplates the following sources: a 40 per cent increase in customs tariffs (3 billions), amounts that have been devoted to public works in preceding years (4 billion), increase in tax collections resulting from the implementation of the Plan (1.7 billion), loans based on 5 per cent of the value of exports during the five preceding years (4.8 billion), the utilization of all foreign exchange of the Banco do Brazil (1.8 billion), and loans guaranteed by the proceeds of the sale of coffee stocks (1.5 billion). The difference is to be financed by private investors by means of foreign and domestic loans enjoying government guarantee. Special credits for acquiring petroleum refineries, tank-cars and locomotives, hydro-electric power equipment and machinery for mechanization of agriculture are being granted. The part of the plan concerned with energy is progressing satisfactorily. The government is paying for the importation of the required capital goods with soft currencies. The other parts of the plan are not proceeding at the pace originally planned. They were

1/ The order is as follows: housing 20 per cent; water supply 5 per cent; hydraulic works 20 per cent; rail and river transport 25 per cent; hospitals 5 per cent; schools 5 per cent; fuels 10 per cent; roads 4 per cent; ports 1.5 per cent; airports 1 per cent; dredging of navigable channels 2 per cent; telecommunications 1 per cent; public buildings 1 per cent.

/slowed down

slowed down because while the plan in its entirety was to be started in 1949 and more than one billion cruzeiros were devoted to it in the budget, Congress preferred to vote on the various parts of the plan, instead of approving it in its entirety.

Several other countries, though not having comprehensive governmental plans for public works, have curtailed investment appropriations. This is the case with Uruguay, Chile and Panama. 1/ The desire to reduce budget disequilibrium in Mexico, caused mainly by developmental programmes in transport and irrigation, prompted the government to make a careful review of the individual projects in order to ascertain their urgency.

Among several exceptions, however, Ecuador approved an issue of 17.5 million sucres in bonds together with 20 million sucres offered by the Social Security funds for development purposes to be used by

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1/ The Third Inter-American Agricultural Conference held in Caracas in 1944 urged the Latin American countries to elaborate Agrarian Plans for the fostering of agriculture. The Uruguayan and Chilean plans of 1947 and 1945 respectively, are worth while mentioning.

The "Plan Agropecuario Nacional" a/ of Uruguay was to be, in the agricultural field, the counterpart of the Public Works Plan. An attempt was made to work out both simultaneously. The agricultural plan envisaged current and investment expenditure for a total of 17.5 million uruguayan pesos and the granting of credits for purchases of equipment and some variable expenses of 58.8 million uruguayan pesos.

Both the Public Works Plan and the Agrarian Plan could not be carried out to their fullest extent because of financial difficulties. The same happened to the plan for agricultural development in Chile. In this country the Agrarian Plan for 1945 b/, designed to orientate Chilean agriculture according to the country's needs, envisaged government expenditure, contributions and credits for that purpose up to 12 billion pesos.

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a/ Plan Agropecuario Nacional, Ministerio de Ganadería y Agricultura, Imprenta Nacional, Montevideo, 1947.

b/ Plan Agrario, Ministerio de Agricultura, República de Chile, Santiago, May 1945.

/the Ecuadorian

the Ecuadorian Development Corporation. Haiti is also contemplating relatively large expenditures for road construction and public works in addition to the heavy expenditures for the international fair of 1949-1950. Late in 1949 Chile was ready to begin a public works plan to absorb unemployment arising in the mining centres. Finally, Bolivia established at the end of 1949 a 3 per cent tax on dividends paid on bearer shares held abroad, the proceeds of which are to be used for public works.

Whenever the financing of development plans was undertaken with foreign loans, there have been no reductions of such activities. In this way work on the Saldana irrigation system in Colombia, the development of the Artibonite Valley in Haiti, the electrification plan and the steel mill in Chile are progressing. By far the most important sources of foreign loans during the three years under review have been the Export-Import Bank of Washington and the International Bank for Reconstruction and Development. Credits granted and the amount disbursed by these institutions to Latin American institutions and governments in 1948 and 1949 are shown in table 8.

a. Current and investment expenditure.

The distinction between current and investment expenditure has become essential in analysing the budgets of the Latin American countries that have embarked upon large levels of expenditure of a development nature. 1/ An examination of several budgets for the latest available fiscal year throws some light upon the objectives of governmental policies. One-third of the Dominican Republic's budgeted expenditures consists of investments and debt redemption. Appropriation for wages and salaries of the Cuban budget amount to nearly two-thirds of the total and 10 per cent of the rest are investments and debt redemption.

1/ In all cases investment figures are underestimated due to the fact that amounts covered by special funds and independent agencies are not included. This applies even more to Chilean estimates because of the paramount importance of the investment expenditures made by the Chilean Development Corporation and other agencies as well as those made under "special laws", usually financed with proceeds of the sale of bonds.

/In the other

Table 8. Foreign Loans to Latin American Countries

1948 - 1950

(In millions of dollars)

Creditor	Amount Authorized	Disbursed (on June 30, 1949)
1. International Bank Credits a/		
a. Brazilian Traction, Government Guaranteed	75.0	14.9
b. Chilean Development Corporation and Endesa, Government Guaranteed	13.5	
c. Chilean Development Corporation, Government Guaranteed	2.5	1.5
d. Nacional Financiera, etc., Guaranteed by Mexican Government	24.1	0.2
e. Same	10.0	2.8
f. Rio Lempa, Project, Guaranteed by the Government of El Salvador	12.5	
TOTAL	137.6	19.4
2. Export-Import Bank Credits b/		
a. Operations during January-June 1948	27.1	28.6
b. Operations during July-December 1948	43.4	30.6
c. Operations during January-June 1949	2.2	40.8
d. Operations during July-December 1949	-	-
TOTAL		

RESUME:

1. International Bank Credits, 1948 and 1949
   a. authorized 137.6
   b. disbursed 19.4
2. Export-Import Bank Credits, 1948 and 1949
   a. authorized .....
   b. disbursed c/.....

a/ International Bank for Reconstruction and Development, Fourth Annual Report 1948-1949, p. 44, and Banco Internacional, Despacho de Prensa 162.

b/ Export-Import Bank of Washington, Sixth to Tenth Semi-annual Report to Congress for the period 1948 and 1949.

c/ Amounts disbursed correspond not only to the credits authorized during the period but also to withdrawals from previous loans authorized.

In the other countries the percentage of current expenditure is overestimated by the amount of public debt amortization, the breakdown of which is not available.

The decentralization of governmental activities is noticeable in the budgets analysed. While traditionally most of the budgets of the Latin American countries have been considered as salary budgets, i.e., an enumeration of the wage-bill items to be paid by the government, those examined show that the proportion spent in salaries is accompanied by large amounts devoted to other purposes such as contributions to pensions and other funds, to independent government agencies, subsidies, etc.

Even where the proportion of salaries to the rest is very high, as in the 1949-50 Cuban budget, a breakdown of the wage bill shows that one-third of it goes into paying teachers' salaries.

It is difficult to ascertain the position of surplus and deficits of the Latin American budgets. A budget is said to be balanced if during the fiscal year the receipts which increase the usable funds without increasing the debt obligations of the Treasury (i.e., taxes, fees, royalties, contributions, fines, etc., minus proceeds of the sales of bonds and transferable items) are exactly equal to the expenditure in goods and services only. A capital account in which investment expenditure and public debt redemption are included indicates whether there have been increases and decreases in the State's assets and liabilities. However, budget presentations are such that generally there is no way of distinguishing with any accuracy the position of surplus or deficit of the countries. For instance, the Cuban budget for 1949-1950 shows a surplus of 160.7 thousand pesos in the ordinary budget and a balanced position in the extraordinary one. On scrutinizing each one of the items composing both budgets, it has been possible to isolate roughly 23.2 million pesos, of which 2.9 are public debt redemption and the rest expenditure of an investment nature. Under proper budgetary techniques it could safely be said that the Cuban budget for 1949-50 contemplates a surplus of 23.2 million pesos, since the receipt side does not include proceeds from borrowing or any transferable items.

/b. <u>Fiscal Reforms:</u>

Table 9. Estimated Current and Investment Expenditure of some Latin American countries, 1949 or 1950
(in percentages of total)

Country	Fiscal Year	Current expenditure: Salaries and wages	Current expenditure: Supplies, Rents, etc.	Current expenditure: Others	Investment Expenditure	Total
Argentina a/	1950	46.4	------ 36.2 -----		17.4	100
Brazil b/	1950	40.1	17.7	23.6	18.6	100
Chile c/	1950	40.5	18.4	32.2	8.9	100
Colombia d/	1948	---------- 65.4 ----------			34.6	100
Costa Rica e/	1949	16.4	5.6	37.6	40.3	100
Cuba f/	1949-50	63.4	15.4	11.2	10.0	100
Dominican Republic g/	1949	---------- 66.3 ----------			33.7	100
Ecuador h/	1949	---------- 85.4 ----------			14.6	100

Source: a/ Boletín del Ministerio de Hacienda de la Nación, October 22,1949.

b/ Atos do Poder Legislativo, Ley 961, of 8 December 1949. Orca a Receita e Fixa a Despesa da Uniao para o exercicio de 1950. Diario Oficial, 12 December 1949.

c/ Ley de Presupuesto de 1950.

d/ Public Finance Information Papers. Colombia, United Nations, 1950. Refers to closed accounts.

e/ Leyes de Presupuesto Ordinario (No.432) y Extraordinario (No.433) para el año de 1949. Alcance a la Gaceta No. 69, de 27 de Marzo de 1949, Imprenta Nacional, San José, 1949.

f/ Ley de Presupuestos de 1949 a 1950, Gaceta Oficial, Edición Extraordinaria No. 10, June 30, 1949.

g/ Presupuesto de la República Dominicana para el año 1949, Gaceta Oficial.

h/ Presupuesto Ordinario y Extraordinario para el año 1949.

b. Fiscal Reforms: Scope and Aims.

The problems faced by the Latin American countries arising out of the war and post-war periods found some of them with rather antiquated fiscal structures and almost wholly unprepared to meet the new issues. Fiscal techniques, established at a time when the Latin American economies relied heavily on the export trade and when the economy of the world was greatly different, still prevailed. Many Latin American countries, realizing that new economic patterns required more suitable fiscal systems, carried out during the thirties some piecemeal fiscal reforms introducing new elements thereby altering their tax structure.

In the late forties several countries have undertaken the task of examining their fiscal problems. The fiscal reforms envisaged in the last three years have in many instances been sponsored and sometimes even encouraged by the United Nations and some of its specialized agencies. With or without United Nations assistance, ten Latin American countries are carrying out reforms or intend to put into practice plans already worked out aimed at modernizing their fiscal systems. Of late, several other countries have undertaken partial fiscal reforms. The envisaged reforms contemplate, of necessity, a synchronization with developmental plans or with definite economic and social policies, generally of an anti-cyclical nature, which the administrations intend to pursue.

Venezuela began a policy of economic development and diversification of production in 1947. In view of the fact that the institutional framework and the administrative machinery were not adequate to carry out such a policy, the need for adjusting to it the existing fiscal and administrative measures was soon realized. As a result, the Venezuelan Government embarked upon an overall reform. 1/, which began with the appointment of a Fiscal and Administrative Commission closely connected with the Ministry of Finance and assisted by foreign technicians. The Commission's task consisted in advising the Government with regard to the revisions and reforms to be undertaken.

1/ Perez Guerrero, Manuel. La gestión política administrativa de un gobierno popular, New York 1949.

/In this way

In this way the tax structure was altered so as to place a greater emphasis on income tax as a source of revenue. Furthermore, the Commission drafted a reform of the stamp tax, with a view to its simplification. Studies to modify the Customs nomenclature were undertaken. Some import rates were increased in order to protect domestic industries while others were reduced and even repealed particularly to lower the prices of basic foodstuffs and facilitate imports of machinery and equipment. A reform of the tax administration and of the comptroller's office were studied in order to simplify tax collections, reduce evasions and to speed up the processes of the accounting office.

A reform of budgetary procedures was put into effect by the introduction of the current and capital account budgeting system. This permitted the authorities to ascertain investment expenditure and thus apply a cyclical budget. For the same reason an anti-cyclical fund was created, the assets of which would be accumulated during the cyclical upswing and utilized in a depression.

The reform culminated with the acceptance on the part of the petroleum companies of sharing half their profits with the Venezuelan Government. This was achieved by means of an income tax revision in November 1948. At that time some 65 per cent of the total budget receipts were derived from levies on petroleum, and some 40 per cent of the total were devoted to capital investment such as harbour works, schools and hospital buildings. Furthermore, economic activities were fostered through the Venezuelan Developmental Corporation, which installed modern sugar mills, grain elevators, cement plants, etc. Plans for the electrification of certain regions and production of cellulose and aluminium were under study. Venezuela contributed substantially to the creation of the Great Colombian Fleet, in conjunction with Colombia and Ecuador.

The Argentine fiscal reform is embodied in the Argentine Governmental Plan of the Ministry of Finance (1947-1951) 1/. The reform is of an overall nature and implies, among other things, a change in the tax composition of the country and a reform of the budgetary and accounting procedures.

1/ Plan de Gobierno, Ministerio de Hacienda de la Nación. Estudio Analítico, impreso por la Dirección General de Suministros del Estado.

/The new tax

The new tax policy has social, economic and fiscal objectives. It aims at achieving a better distribution of the burden by taking more into account the principles of equity and ability to pay, as well as universality. The tariff is to be used to protect domestic industry and to aid new construction, small landholdings and the consumption of needed pharmaceutical products. Among the economic objectives an adaptation of the tax structure to commercial and industrial activities is being sought. It also aims at taking into account the business cycle, encouraging investments and re-investments. The tax administration is to be reformed in order to achieve greater collections and diminish avasions. Unification of levies and of rates is sought to increase collection and decrease its costs. Coordination of national, provincial, and municipal systems for a unification in the application of levies, collection and control is also being sought. Furthermore, the tax system is to be scrutinized in order to avoid multiple internal taxation.

Finally, the modernization of customs and port regulations and the revisions and codification of export and import procedures are also envisaged.

By the beginning of 1950 several of the proposed revisions and reforms had already been adopted. They included the new government accounting law, unification of budget procedures, steps to give more unity to the budget, reform of the tax administration, as well as several measures to increase collection especially of taxes on incomes and profits.

Reforms are also intended in countries such as Guatemala, 1/ where the record of governmental revenue is satisfactory but where a tendency toward developmental spending is becoming apparent. Recognizing that utilization of the present outmoded tax structure will impose heavy burdens upon the lower income groups, a modernization of the system aimed at moderating its incidence upon low income groups is being envisaged. Guatemala began studies for tax and budgetary reforms through a committee of experts whose first task was to draft general income tax

1/ Fiscal Problems, Guatemala 1938-1948. A mimeographed paper, Fiscal Division, United Nations, 1949.

/legislation which

legislation which would take into account the findings of the preliminary studies. The Commission made a revision of other taxes as well as of budgetary and government accounting practices. In 1949 the United Nations, the Federal Reserve Bank of New York, and the International Monetary Fund were engaged in surveys of the Guatemalan fiscal system.

El Salvador intended to reform the fiscal system and called experts from the Federal Reserve Bank of New York in 1947 and 1948. In that country revenues had been declining due to an inadequate enforcement of the existing legislation and a deficient administration while the tax structure itself is rather satisfactory. A very comprehensive study was made by the experts. 1/ In the second part of 1949 a new administration in El Salvador contracted a United States firm in order to carry out a study of the existing Salvadorean tax system, with a view to an improvement of the tax structure and its administration.

In the middle of 1949 Bolivia was trying to obtain a larger revenue and increased the customs surcharges to that effect. Subsequently the measure was suspended and a committee was appointed to revise the entire tariff schedule. The serious difficulties created by the fall in tin prices, whose exports account for more than 50 per cent of the government budget, compelled the government to take some measures. A Congressional Committee was studying a tax reform as early as August 1949. It recommended, however, that a new committee be appointed to study a comprehensive fiscal reform. Subsequently, a United Nations Mission of technical assistance was requested early in August 1949. A preliminary mission was dispatched at the end of 1949. The tax structure, composed of some 2,000 different taxes, badly needs simplification. Evasions of income tax are common knowledge. There is need for a complete reorganization of the fiscal administration. The study of Bolivian fiscal problems and its recommendations are to form part of a more comprehensive study of several aspects of the country's economic development and social problems.

1/ H. Wallich, J.H. Adler and others. The Economics of Public Finance in El Salvador. Survey and Evaluation. A typewritten paper, April 1949.

/The fiscal system

The fiscal system of Haiti 1/ was studied in 1948 as part of an integral United Nations mission. The report of the mission was published in 1949 with suggestions and recommendations to reform a system which was becoming outmoded in the light of new political and economic patterns.

In Chile, where a decline of copper and nitrate prices is reflected immediately in government revenues (approximately 20 per cent of the government budgeted receipts for 1949 come from copper activities), the government also requested the technical advice of the United Nations on fiscal matters, as part of a more comprehensive revision of its economic policy and problems of wages, prices and stability. All these aspects are to be studied in the light of the needs of economic development. Preliminary missions to Chile were sent late in 1949 and at the beginning of 1950.

Ecuador also requested advice in the field of public finance. It became apparent that an effective administration was essential for the carrying out and implementing of fiscal reforms. Therefore, technicians in the field of public administration, customs reorganization and budget organization were also requested. The mission of six advisers stayed in Ecuador during the greater part of 1949.

The proposed reforms described above intended to cover the overall features of public finance in those countries, and while the aim of obtaining more revenue is present in all of them, in numerous instances this has not been the primary goal.

Partial reforms have been or are being carried out in other Latin American countries. Mexican financial authorities have been aware for some time of the necessity of reforming the tax structure, by means of its simplification and decentralization. This also involves a reform of the accounting procedures. The need for greater revenues was partially met in Mexico by imposing a 15 per cent export tax and by a more effective tax administration. Furthermore, the elimination of several nuisance taxes and their replacement by a general consumption and production tax contributed to the modernization of the tax system

1/ Mission to Haiti, United Nations 1949.

/in 1948.

in 1948. Mexican experts consider that an overall tax reform in Mexico would produce considerably more revenue than the present system, at the same time relieving the low-income groups of part of their present share in the financing of economic development and of social security schemes.

Chile undertook a budget reform in 1949, giving it more unity. In July 1949 Cuba adopted more comprehensive budget procedures. At the end of 1949 Peru called for a United States technician to advise on monetary and fiscal matters. Finally, the Dominican Republic has recently appointed a customs committee to study the operations of the local customs.

APPENDIX I

1. Public Finance Figures

Argentina: Total receipts, expenditure and public debt taken from El ajuste de los resultados financieros, Buenos Aires 1938. Breakdown of receipts and expenditure taken from Public Finances 1928/37, Argentina, League of Nations, Geneva 1938. Figures from 1938 to 1947 inclusive taken from Public Finance Data 1938/47, Document E/CN.8/31/Annex 9. Figures for 1948 taken from Mensaje del Poder Ejecutivo e Informe del Ministerio de Hacienda de la Nación referentes a la Cuenta de inversión del Ejercicio de 1948. Estimates for 1949 taken from Boletín del Ministerio de Hacienda, 30 October 1948. Changes introduced in those figures by Congress taken from Diario de Sesiones de la Cámara de Diputados, 30 June 1949, Buenos Aires. Estimates for 1950 taken from Boletín del Ministerio de Hacienda, 22 October 1949 and 5 November 1949. Public debt figures taken from Public Debt 1914-1947, United Nations, 1948.
Data cover only central government budget plus special accounts. The share of the provinces, municipalities and independent agencies in taxes collected by the Federal Government have been added. Expenditure includes amortization of the public debt since public debt service data include amortization and interest payments.

Bolivia: Figures for 1928 to 1936 are taken from Public Finances 1928-37, Bolivia. Receipts from 1936 to 1940 taken from Tasas e impuestos sobre la industria minera en Bolivia, Banco de Crédito Minero, La Paz, 1941, with the exception of 1938 which was taken from the answer of the Bolivian Central Bank to the Fiscal Division questionnaire. The 1948 estimates of expenditure were published in the Foreign Commerce Yearbook Series, International Reference Sheet,

/Bolivia.

Bolivia. The receipts for 1948 is an adjusted figure taken from Revista Mensual published by the Dirección General de Estadística y Censos, Table I, Estadística Financiera. The 1949 estimate of expenditure has been taken from Foreign Commerce Weekly, 13 June 1949.

Brazil: Figures for 1928 to 1935 are taken from Public Finances, 1928-1937, Brazil, League of Nations, Geneva, 1938; from 1935 to 1946 from Public Finance Data, 1936-1949, Document E/CN.8/31/Annex 25. Figures for 1947 to 1950 taken from Conjuntura Económica, December 1949. Public Debt figures from 1943 to 1947 taken from Balanços Gerais da Uniao, corresponding to 1947, and also from Public Debt 1914/47, United Nations, 1948. Estimates for 1950 taken from Atos do Poder Legislativo, Ley No. 961 of 8 December 1949. Diario Oficial, 12 December 1949. Expenditure always includes amortization of the public debt since the Ministry of Finance item of expenditure shows Public Debt Service in which amortization and interest are put together. The two public works plans are included in the figures, i.e. one covering from 1939 to 1943 and the other commencing in 1944 and abolished in 1947. The special war budget established in 1943 and continuing until 1945 is also included. Figures for the independent agencies are not included.

Chile: Figures for 1928 to 1936 are taken from Public Finances, 1928-1937, Chile, League of Nations, Geneva 1938. Figures for 1937 to 1946 from Public Finance Data, Document E/CN.8/31/Annex 12. Figures for 1947 and 1948 taken from Memoria de la Contraloría, corresponding to 1947 and 1948. Figures for 1949 and 1950 from approved budgets. Coverage includes the ordinary and the extraordinary budgets as well as special laws on receipts and expenditure. On the receipt side for the year 1943 the amount of 389 million pesos of tax receipts earmarked for the reduction of

/deficit are

deficit are included. On the expenditure side 225 million are included in 1946, which represent Treasury repayment of advances. Autonomous agencies are not included.

Colombia: Figures for 1928 to 1936 taken from Public Finances, 1928-1937, Colombia, League of Nations, Geneva 1938. Including ordinary and extraordinary budgets. Figures for 1937 to 1949 taken from public finance information paper, Colombia, Document ST/ECA/SER,A/2, covering ordinary and extraordinary budgets, special accounts and extra budgetary expense.

Costa Rica: Figures for 1928 to 1937 taken from Public Finances 1928-1937, Costa Rica. Figures for 1938 to 1946 taken from Public Finance Data, 1938-1948, Document E/CN.8/31/Annex 23. Estimates for 1949 taken from Alcance a la Gaceta, Diario Oficial, No. 69 of March 27, 1949. Figures for 1946 to 1948 taken from Resumen Estadístico Mensual, Banco Nacional de Costa Rica, September 1949. Ordinary and extraordinary budget are included. Since August 1946 the coverage of the budget is more inclusive and therefore the budget appears more sizeable.

Cuba: Figures for 1928 to 1936 taken from Public Finances 1928-1937, Cuba. Figures for 1937 to 1941 and 1947 and 1948 from Cuba Económica y Financiera, April 1949. Budget estimates for 1949-1950 taken from Ley de Presupuesto de 1949 a 1950, Gaceta Oficial, Edición Extraordinaria No. 10, 30 June 1949. In 1949 the fiscal year was changed from the early one based on the calendar year to a period beginning July 1 and ending June 30. The estimates therefore correspond to July 1, 1949 to June 30, 1950. The years 1928/29 to 1933/34 include, besides the general budget, the Public Works Fund and other Special Funds. The receipts for 1947 and 1948 include taxes created by special laws but the Special Public Works Funds have not been added because they are presented on a calendar year basis.

/Dominican Republic:

Dominican Republic: Figures for 1928 to 1936 taken from Public Finances 1928-1937, Dominican Republic. From 1937 to 1948 figures are taken from the Dominican Republic Central Bank's answer to the Fiscal Division questionnaire. For 1949, estimates were taken from the budget law. Presupuesto de Ingreso y Ley de Gastos Publicos, Gaceta Oficial. Proceeds of loans were deducted from the receipts side, while debt redemption, though substantial in 1946, 1947 and 1948 (2.2, 6.2 and 20.5 million pesos respectively) has not been excluded since in most of the other countries such deductions cannot be made.

Ecuador: Figures for 1928 to 1937 taken from Public Finance 1928-1937, Ecuador. Figures for 1938 to 1949 are taken from Public Finance Data. Receipts and expenditure of special accounts and extraordinary budgets were included for 1932 till 1948 both inclusive. The estimates for 1949 do not include the special accounts.

El Salvador: Figures for 1928/29 to 1936/37 taken from Public Finance 1928-1937, El Salvador; they include the General Fund and the Special Funds. Figures for 1937/38 to 1948 are taken from Public Finance Data. Data for 1939 are included for six months only because on that occasion there was a change in the basis of the fiscal year; therefore, from 1928 to 1939 the base was from 1 July to 30 June. Data for 1939 cover the period from July to December. For subsequent years the fiscal year coincides with the calendar year.

Guatemala: Figures for 1928/29 to 1937/38 taken from Public Finance 1928-1937, Guatemala. For 1938/39 to 1949/50 figures were supplied by the Departamento de Estudios Económicos del Banco de Guatemala.

Haiti: Figures for 1928/29 to 1935/36 taken from Public Finance 1928-1937, Haiti. For 1936/37 to 1948/49 they were taken from the Chapter on Public Finances, Mission to Haiti, Lake Success, 1949. For the years 1937/38 to 1942/43 the Public Works Budget is included.

/Honduras:

Honduras: Figures for 1928/29 to 1938/39 taken from Public Finance 1928-1937, Honduras, League of Nations, Geneva, 1938. 1941/42 to 1946/47 taken from Informe de Hacienda, Crédito Público y Comercio. Figures for 1947/48 to 1949/50 from Presupuesto General de Egresos e Ingresos of those years.

Mexico: Figures for 1928 to 1937 taken from Public Finance 1928-1937, Mexico, League of Nations, Geneva, 1938. From 1938 to 1946 taken from Public Finance Data, 1938-1948, Document E/CN.8/31/Annex 17. For 1947, 1948 and 1949 estimates were made by the Dirección de Estadística of Mexico. Public Debt from 1928 to 1947 taken from Public Debt 1914-1947, United Nations, 1948. Data for 1948 taken from "Informe que rinde al Honorable Congreso de la Union el Presidente de la República, Lic. Miguel Alemán", Mexico 1948.

Nicaragua: Figures for 1929/30 to 1937/38 taken from Public Finance 1928-1937, Nicaragua, League of Nations, Geneva 1938. Figures for 1944/45 to 1946/47 taken from Anuario Estadístico de la República de Nicaragua, published by the Dirección de Estadística, Nicaragua 1945. The Presupuesto General, published by the Ministerio de Hacienda y Crédito Publico, Nicaragua, was used for 1948-49.

Panama: Figures for 1927/29 to 1936 from Public Finance 1928-1937, Panama, League of Nations, Geneva 1930. Expenditure for 1945 to 1947 taken from Estadística Panameña, January 1947, Hacienda Pública, Panama. Estimates for 1949 from the budget law.

Paraguay: Figures for 1928 to 1937 taken from Public Finance 1928-1937, Paraguay, League of Nations, Geneva 1938, in millions of Paraguayan pesos. From 1941 to 1948 figures were furnished by the Banco del Paraguay, División de Investigaciones Económicas, also published by the Boletín Estadístico. Since 1941 figures are given in million guaraníes, the new monetary unit.

/Peru:

Peru: Figures for 1928 to 1937 taken from Public Finance 1928-1937, Peru. Figures for 1945 to 1948 taken from Boletín del Banco Central de Reserva del Perú, June 1949 and September 1949. Figures for 1942 to 1945 also taken from La Renta Nacional del Perú, 1942-1947, Banco Central de Reserva del Perú, 1949.

Uruguay: Figures for 1928 to 1934 taken from Public Finance 1928-1937, Uruguay, League of Nations, Geneva, 1938. Figures for 1935 to 1948 furnished by the Contaduría General de la Nación, Montevideo.

Venezuela: Figures for 1928/29 to 1935/36 taken from Public Finance 1928-1937, Venezuela, League of Nations, Geneva 1938. From 1936/37 to 1946/47 they are taken from Public Finance Data, Document E/CN.8/31/Annex 14. Data for 1947/48 taken from Boletín informativo del Ministerio de Hacienda, June-July 1948. Expenditure and receipts for 1948/49 and 1949/50 taken from Cuadernos de Información Económica Venezolana, Corporación Venezolana de Fomento, Caracas 1949 and Revista de Hacienda, July 1949.

2. National Income Figures

Argentina: United Nations Economic Commission for Latin America.

Brazil: From 1930 to 1937 estimates of Messrs. Bulhoes, Simonsen and the Bank of Brazil. Loreto Dominguez, Latin American Income Estimates, in Conference on Research in Income and Wealth, Volume 10. Estimates for 1938 to 1944 from Conselho Nacional de Confederaçao Nacional da Industria. Sugestoes para una política económica Panamericana, 1948. Data for 1944 and 1945 are estimates of gross national income taken from Estadísticas da Renta Nacional, 1938/47. Data for 1945 to 1947 are estimates of the Departamento de Economía Industrial; 1948 and 1949 are estimates appearing in Proposta Orçametaria de Uniao para Exercicio de 1950. All figures from 1945 quoted in Efeitos das Desvalorizaçoes Cambiais, Departamento de Economía Industrial, November 1949.

/Chile:

Chile: From 1931 to 1947, Economic Commission for Latin America. Figure for 1948 from the Chilean Development Corporation.

Mexico: From 1929 to 1938 figures taken from Ingreso Nacional y Nivel de Vida, Banco de Mexico, a typewritten paper prepared for the International Bank for Reconstruction and Development. From 1938 to 1946, National Income Statistics, United Nations, page 68. Estimate for 1948 of the United Nations Statistical Office, amounting to 2,541 million dollars converted into Mexican pesos at 5.7 pesos per dollar.

Notes to table -"Estimated Current and Investment Expenditure"

Argentina: Total includes 750 million pesos to be deducted for saving, since there is no breakdown showing the distribution of savings among the different budget items.

Brazil: Other current expenditure includes 1,155 million cruzeiros of Public Debt Service comprising interest and amortization. Substantial amounts of the rest constitute government contributions to different funds, institutions, etc. Total excludes transfers of funds collected on behalf of local governments as well as tax refunds.

Chile: Other includes 20.2 million of Public Debt Service.

Costa Rica: Other includes regular debt amortization but excludes repayment of the floating debt of the previous government under the extraordinary budget.

Ecuador: Current expenditure includes debt amortization.

APPENDIX II

Notes on Independent Agencies

It is during the 'thirties that the independent (autonomous or autarchic) agencies began to grow. Traditionally, governments have run the Post Office and some public utilities, but their field of activities has been limited by "laissez faire" philosophies. The tremendous dislocation of their economies during the depression encouraged them to become active in additional fields. Later the desire for economic development stimulated even more the creation of independent agencies, especially during the war and post-war period. In some instances the combined budgets of such agencies were larger than the central government budget.

To be able to present Public Finance figures, the Fiscal Division of the United Nations agreed with the International Monetary Fund that, in order to have proper coverage of governmental financial activities, the gross receipts of all independent agencies should be included, with the exception of those the principal object of which is trading operations, or which perform banking functions, when only the net result should be included.

The following are the findings as regards the number, field of operations and financial importance of the independent agencies:

1. In Argentina, the Regulating Boards grew during the 'thirties, for the purpose of supporting prices of agricultural commodities. Their financial independence was such that they issued no report of their activities. It was only in 1942 that they were requested, for the first time, to send their budgets to the Ministry of Finance. The report of that Ministry for 1942 thus includes figures of their receipts and expenditures. Some reorganization took place in 1946 (decree-law No. 15352 of 28 May 1946). At that time eight agencies were merged with three already in existence, and one newly created. The IAPI (Argentine Institute for Trade Promotion) was created by decree-law No. 15350 of 28 May 1946, granting it powers which placed it in the category of a State Trading Agency. Today, the independent agencies have varying degrees of autonomy and operate in many different fields.

/Out of a

Out of a total of fifty-two agencies, four are banking institutions, twelve are social insurance institutes, five are engaged in agricultural development, nine are engaged in agricultural activities, ten administer public utilities and public works, six are state universities and six are of miscellaneous types.

Their financial position since the year 1942, when sources and application of funds began to be published, was as follows:

Argentina: Autonomous Governmental Agencies a/
Receipts and Expenditure
(Millions of pesos)

Financial year ending 31 December	1942	1943	1944	1945	1946	1947	1948
				Closed Accounts			
1. Banks and National Postal Savings Fund							
Expenditure	52.0	53.8	60.2	92.1	104.7	164.1	262.2
Receipts	.	.	66.8	92.1	114.3	167.2	262.2
Balance (+) or (-)	.	.	+6.6	-	+9.6	+3.1	-
2. National Institute of Social Welfare, Maternity Fund, and other funds							
Expenditure	5.9	5.8	6.6	10.3	19.7	48.5	66.4
Receipts	.	.	311.9	619.9	1308.3	1560.0	2395.1
Balance (+) or (-)	.	.	+305.3	+609.6	+1288.6	+1511.5	2328.7

a/ Source: Public Finance data have been used for 1942-1947. Figures for 1947 and 1948 taken from Mensaje del Poder Ejecutivo, Buenos Aires, 1949.

/3. Agricultural Development

Financial year ending 31 December	1942	1943	1944	1945	1946	1947	1948
3. Agricultural Development (National Agricultural Council, National Fruit and Vegetable Markets and others)							
Expenditure	10.9	9.2	11.4	31.8	39.0	61.0	127.7
Receipts	.	.	45.0	42.1	46.7	65.4	108.1
Balance (+) or (-)	.	.	+33.6	+10.3	+7.7	+4.4	+119.6
4. Industrial Development (Argentine Corporation of Domestic Weaving, National Corporation of Olive Growers and others)							
Expenditure	242.6	313.4	379.0	422.5	414.4	553.0	649.6
Receipts	.	.	409.4	410.0	455.5	535.9	1024.9
Balance (+) or (-)	.	.	+30.4	-12.5	+41.1	-17.1	+375.3
5. Public Works and Services (General Administration of State Railways, Administration of State Merchant Marine and others)							
Expenditure	267.4	284.6	392.7	357.4	440.8	670.7	1026.7
Receipts	.	.	545.8	527.8	611.5	777.3	999.1
Balance (+) or (-)	.	.	+153.1	+170.4	+170.7	+106.6	-28.6
6. Universities							
Expenditure	34.5	39.6	40.8	43.2	46.0	79.5	192.7
Receipts	.	.	42.0	44.0	46.9	95.9	212.5
Balance (+) or (-)	.	.	+1.2	+0.8	+0.9	+16.4	+19.8

/7. Other Agencies

Financial year ending 31 December	1942	1943	1944	1945	1946	1947	1948
7. Other Agencies							
Expenditure	1.7	3.2	4.7	8.5	18.2	0.5	7.6
Receipts	.	.	4.8	8.8	23.4	0.9	11.5
Balance (+) or (-)	.	.	+0.1	+0.3	+5.2	+0.4	+3.9
Grand Total Expenditure	581.0	709.6	895.4	965.8	1082.8	1594.6	2332.9
Grand Total Receipts	.	.	1425.7	1744.7	2606.6	3203.3	5013.6
Balance (+) or (-)	.	.	+530.3	+778.9	+1523.8	+1708.7	+2680.7

The Central Government collects taxes on wine, on "yerba mate", on transport of cattle, on apprenticeship, on fuel and lubricants and other miscellaneous taxes. Proceeds from these taxes are as follows: 1/

Receipts collected by the Central Government for Autonomous Governmental Agencies:	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
	(millions of pesos)										
Tax on Wine	6.8	7.1	7.1	7.5	7.5	8.3	9.1	8.6	8.1	9.8	10.6
Tax on Yerba Mate	5.7	6.5	5.9	5.9	7.1	6.5	6.7	6.9	7.3	6.8	7.8
Tax on Transport of Cattle	-	-	-	-	-	15.0	19.0	17.4	20.3	28.5	29.6
Tax on Apprenticeship	-	-	-	-	-	-	-	-	7.8	14.7	14.4
Tax on Fuel and Lubricants	59.4	65.1	80.0	87.3	86.4	80.2	104.5	101.5	145.7	165.6	195.1
Others	3.1	2.6	2.1	2.0	1.6	6.8	9.9	5.9	4.0	2.3	3.0
Total	75.0	81.3	95.1	102.7	102.6	116.8	159.2	140.3	193.2	227.7	260.5

1/ It should be noted that these taxes, together with those collected on behalf of the Provinces and of the Municipality of Buenos Aires, were included in the total revenue figures in order to obtain the percentages of total revenue in relation to national income and exports.

/The Central Government

The Central Government has also contributed sometimes with revenue of the general fund, the disbursements being included in the expenditure of the different ministries.

The importance of IAPI in government financing,in Argentina must be considered separately. Furthermore, in the tables above, IAPI has not been included.

Although IAPI has been operating as a State Trade Monopoly since 1946, its balance sheet and the profit and loss account were published for the first time in September 1948, and only referred to 1947. In July 1949, the balance sheet for 1948 was published.

Since IAPI performs a great many operations of different kinds, it is impossible to find the source of the reported 1,900 million pesos profits on trading operations for 1948. As for subsidies on bread, sugar, meat, milk, edible oil, soap, etc., the only amount appearing in the statement for 1948 is one of 319.2 million pesos, plus another 163.6 million to cover compensation for the sugar industry. The net profit for the financial year of 1947 was 1,238 million pesos, while for 1948 it was 561 million pesos. (In Public Finance statistics, the tendency is to include only the net balance of trading agencies in the general budget, and is, therefore, sufficient for our purposes.)

It is known, however, that the main source of income of the State Trade Monopoly resulted from the practice of paying low prices to the producers and selling at high prices to the buyers. The IAPI used this income, in part, to finance the Five Year Plan and to subsidize both certain necessities and some industries. Subsidies, however, were practically discontinued in the second half of 1949.

The operations of IAPI have been effected outside the general budget, in which there appear no expenditure for subsidies, 1/ nor any receipts from the above mentioned price differential.

1/ The 1950 Draft Budget appropriates for the first time the sume of 400 million pesos to subsidize wheat. In any case, subsidies are transfer payments and, as such, a mere redistribution of resources between the different sectors of the community. Their exclusion from the central budget is correct, as otherwise they would inflate government expenditure figures and distort their real burden.

/Because of the

Because of the lack of statistics regarding the full extent of this monopoly's operations and the deficiency of the available data, it is impossible to ascertain whether the beneficial results of the income redistribution implied in the operations of the State Trade Monopoly have been cancelled out by the very considerable increase in the means of payments created by IAPI's operations.

In 1948, a budget reform was adopted, giving more unity and universality to the budget. Since then, income statements of all the independent agencies (labelled "Decentralized Organs") are included in the central government budget, except that of IAPI.

2. Autonomous agencies were also created in Brazil during the 'thirties, mainly due to the central government's intervention in numerous activities, especially in the economic field. In 1947 the reports of the Ministry of Finance showed the existence of 87 agencies. In 1945, when their number was only 72, they were classified in five groups: 16 were public credit institutes, 8 were public enterprises, 9 were institutions of economic intervention and 39 were institutions of Social Insurance and Pensions.

Although the Federal Accounts' Court has tried to publish statistics for these agencies, it has never been successful in getting financial reports from all of them. In the last "Balanços Gerais da Uniao" published, that of the fiscal year 1947, bitter complaints from this Court are levelled against the different independent agencies for their failure to comply with the President of the Republic's circular (No. 13 of 2 October 1947), ordering the Ministries to submit the accounts of the agencies individually dependent on them. In 1945, when the first efforts were made to consolidate all the accounts of independent agencies, the Court was quite successful, and only 9 failed to present reports. In 1946 and 1947 the situation became worse, and of 87 agencies, only 41 presented their balances.

The different systems of accountancy and reporting — made necessary by the nature of the various agencies — constitute a serious obstacle to the consolidation of whatever data are available.

/The magnitude of

The magnitude of the finances of these agencies can be judged from data for 1945 and 1947 shown in the table below:

Brazil: Autonomous Institutions and Enterprises (Autarquias)

(Millions of Cruzeiros)

	1945	1947
	Closed Accounts	
Group 1. Public Credit Institutions (Autarquias de Economía Popular)		
Operating Expenditure	293.5 a/	178.0 e/
Operating Receipts	343.7 a/	197.1 e/
Balance (+ or -)	+ 50.2	+ 19.1
Group 2. Public Enterprises (Autarquias de Exploraçao Industrial)		
Operating Expenditure	1,040.2 b/	2,305.0 f/
Operating Receipts	1,317.4 b/	3,193.2 f/
Balance (+ or -)	+ 277.2	+ 888.2
Group 3. Institutions of Economic Intervention (Autarquias de Intervençao Economica)		
Operating Expenditure	1,024.4 c/	773.2 g/
Operating Receipts	1,682.3 c/	829.1 g/
Balance (+ or -)	+ 657.9	+ 55.9
Group 4. Social Insurance Institutions (Autarquias de Previdencia Social)		
Operating Expenditure	1,175.1 d/	1,038.6 h/
Operating Receipts	2,562.6 d/	2,353.3 h/
Balance (+ or -)	+ 1,387.5	+ 1,314.7
Total of 4 groups: Receipts	5,906.0	6,512.7
Expenditure	3,533.0	4,094.8

a/ Covers only seven of the sixteen institutions in this group.
b/ Covers only six of the eight enterprises in this group.
c/ Covers only seven of the nine institutions in this group.
d/ Covers only thirty-three of the thirty-eight institutions in this group.
e/ Covers only four.
f/ Covers only five.
g/ Covers only six.
h/ Covers only twenty-seven.

Note: As indicated in the above table, only operating expenditure and receipts are shown, not including capital transactions such as investments, purchases of equipment, receipts from sale of property and proceeds of loans. It has not been possible to present a complete picture of the financial operations of these institutions because no data are available.

Source: Public Finance Data, United Nations Document.

/3. The Mexican

3. The Mexican independent agencies began to grow under the Cárdenas administration, i.e., since 1934, when agrarian and agricultural development credits and other measures related to land redistribution and land tenure were enacted and their execution given to autonomous bodies. All of them were and are organized as corporations with government capital. Up to 1948, the Mexican autonomous agencies were given complete independence (the Secretary of Finance obtained information about them through the Department of Credit) and there were no compulsory measures as to publication of their accounts. At the beginning of 1948, the Central Government issued a decree regulating, among other things, the relation of those agencies with the government. 1/ Besides requiring a majority share of their capital to be held by the Central Government, the National Investments Commission was created in January 1948 2/ with the aim of supervising the activities of these agencies. Presentation of balances was, of course, required (those with banking functions are subject to the banking law and are required to publish their balances by statute). In spite of the Central Government's requirement, the autonomous agencies

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1/ "Ley para el control por parte del Gobierno Federal de los Organismos Decentralizados y Empresas de Participación Estatal". Diario Oficial, 31 December 1947.

2/ Diario Oficial, 31 January 1948. In the information that the Banco de Mexico furnished to the International Bank for Reconstruction and Development, the Mexican independent agencies were classified as follows: 1. Credit institutions: a) Nacional Financiera, S.A.; b) Banco Nacional de Crédito Agrícola; c) Banco Nacional de Crédito Ejidal; d) Banco Nacional de Fomento Cooperativo; e) Banco Nacional de Comercio Exterior; f) Banco Nacional Hipotecario Urbano de Obras Públicas; g) Banco del Pequeño Comercio. 2. Production institutions: a) Petróleos Mejicanos; b) Productora e Importadora de papel, S. A.; c) Talleres Gráficos de la Nación. 3. Transport institutions: a) Ferrocarriles Nacionales de México; b) Ferrocarril del Rio Mayo; c) Líneas Ferreas de México (en liquidación). 4. Promotion institutions: a) Almacenes Generales de Depósito S.A.; b) Nacional Distribuidora y Reguladora, S.A.; c) Comisión Federal de Electricidad; d) Comisión Nacional de Irrigación (subsequently called Secretaría de Recursos Hidráulicos); e) Comisión Nacional de Fomento Industrial. 5. Miscellaneous: a) National Lottery; b) Banco de México; c) Comisión del Papaloapan; d) Comisión de Tepalcatepec. (The latter two have both been created for the development of a river valley).

/have refused

have refused, in many instances, to co-operate with the National Investments Commission. Since many of them receive funds from the Central Government's budget, one of the measures taken to achieve compliance of the requisite has been the threat of cutting off that source of revenue. Figures for all of the agencies are therefore not available even for the Government controlling agency, and furthermore, this controlling agency does not publish those that are available.

The exact number of autonomous agencies today is generally not known. The decree of January 31, 1948, creating the National Investments Commission, enumerated the agencies and gave a total of seventy-two. This list, however, is not up to date, since after the creation of the Commission which has controlling, supervisory and co-ordinatory powers upon the autonomous agencies, some of those listed have been dissolved and new ones added.

4. The Chilean budget is somewhat complicated because of the existence of several important indpendent agencies and special accounts which, though having separate budgets, are, nevertheless, inter-related by means of the contributions from the ordinary budget. This situation is being remedied somewhat by Law No. 8918 which stipulated that beginning with the fiscal year 1948 the central budget is to present a consolidated picture. Though the accounts are now easier to understand there are still a number of items outside the central budget.

The independent agencies outside the budget have been classified as follows: eight development institutions, such as the Development Corporation, Agricultural Credit Institute, Mining Credit Institute, etc; ten Social Security Institutions, such as the Compulsory Insurance Institute, Private Employee Insurance Institute, and seven smaller ones; the autonomous agencies performing banking functions which comprise the Central Bank, three mortgage banks and two saving banks; finally, the agencies connected with the securities market of which the Autonomous Amortization Fund is by far the most important. Each of these agencies has its own receipts from taxes and fees and sometimes receives contributions from the ordinary budget.

/It has not yet

It has not yet been possible to express in monetary terms the inter-relationship of the budgets of the independent agencies with the central budget as well as among themselves. For this reason it is impossible to present a table, even for one year, of their financial status. 1/

The Chilean Developmental Corporation, which is the most important of all the agencies, has been financed since its creation as follows: 2/

	Government contribution	Own resources
	(In million pesos)	
1939	105	-
1940	176	4
1941	239	109
1942	157	195
1943	148	240
1944	155	195
1945	203	249
1946	94	246
1947	466	210
1948	707	155
	2,449	1,606

In addition, the Corporation received funds from credit operations with the Export-Import Bank and the International Bank for Reconstruction and Development.

A study made by the Developmental Corporation points out that in 1946 only 65 per cent of total tax collections went to the central budget, the rest being used to finance the independent agencies and special funds.

1/ Even a comprehensive study of the International Monetary Fund (Jorge del Canto, Economic Development and Financial Institutions in Chile, February 15, 1949) does not present a consolidated statement of their operations.

2/ According to the budget law of 1949 no taxes were to be earmarked for the Corporation since that year. The Government contribution has not always been totally included in the budget.

/5. In Ecuador

5. In Ecuador it has been possible to combine almost all the Government accounts: the ordinary and extraordinary budgets as well as all the special accounts, funds and independent agencies.

Receipts and expenditure of the special accounts were as follows (in millions of sucres):

	1938	39	40	41	42	43	44	45	46	47	48
Receipts	7	9	7	25	19	42	79	52	76	145	133
Expenditure	8	13	10	30	21	40	49	75	102	166	153

The latest independent agencies created in 1948 were the National Development Corporation and the National Development Bank (merely a new name for the Development Bank and the branch system of provincial banks already in existence). The National Development Corporation has tax receipts earmarked to cover its expenses. In addition there exists a Pension Fund and a Social Insurance Fund with separate budgets.

6. In Peru the financial relations of the Government with the corporations (Peruvian Guano Corporation, Santa River Corporation, Amazon River Corporation, Civil Aeronautics Corporation, Peruvian Shipping Corporation, and the four banks for agriculture, mortgage, industry and mining) are expressed by the fact that their dividends are included among receipts in the central budget while the contributions made to them by the government appear among expenditures. Some other government enterprises such as railroads, petroleum exploitation, docks and several others are also included in the budget.

7. Finally, in Venezuela there are fourteen independent agencies, most of which have been created in recent years. Their relationship with the central government finances is well defined.

Their functioning is regulated by the law or decree by means of which they were established as well as by the Organic Law of Finance. The latter stipulates that a special law or decree can provide that a certain official institution (scientific, charitable, financial or industrial) enjoy complete autonomy, independent of the Treasury. Their receipts and expenditure are not considered as government receipts and government expenditure. Their finances are not subject to the

/budget norms

budget norms of the central government. In the central budget there appear on the revenue side only the net amounts that the agencies transfer to the government, if any, and on the expenditure side those amounts that the Treasury contributes either for their establishment or for their operation.

The Venezuelan independent agencies can be classified as follows: four are of an industrial character; three are banking institutions; two are of a broader economic nature; one is a social insurance institute and four are miscellaneous.

8. In short, of the seven countries described above, three, i.e., Argentina, Brazil and Chile, have independent agencies, the accounts of which are completely outside the budget and such data are not available, especially in the case of Brazil and Chile.

In two countries, Peru and Venezuela, the relationship of the agencies with the central government budget is clearly defined and no problems of proper coverage of all central government finances arise. Ecuador is an intermediary case where the most important agencies handle large sums, have receipts of their own and receive shares of taxes that have been earmarked for them. A few accounts are still outside the central government budget.

APPENDIX III

Notes on Exchange Profits and Taxes on Exchange Operations 1/

The introduction of exchange control in the thirties has made possible the creation of a new source of revenue. It has taken the form of an exchange tax, such as exists in Brazil, Ecuador and Colombia, or of profits received by the governments from foreign exchange operations. The difference between the price which the government pays for foreign exchange derived, for instance, from the export of commodities, and the price charged when it is resold to importers is kept as profit by the government. This occurs not only with respect to commodity trade but also to all foreign exchange transactions.

In general, countries where a multiple exchange rate system has been introduced have derived substantial revenues from this source, using multiple import rates or multiple export rates, or both. Argentina, which has applied this device extensively since 1933, and later Uruguay, Chile, Venezuela and Bolivia introduced legislation aimed at deriving a profit from exchange operations. While Argentina is not a member of the International Monetary Fund and, therefore, is not bound to unify her exchange rates, the other countries mentioned above have maintained multiple exchange rates by taking advantage of the time limit permitted by the Articles of Agreement of the Fund and of its lenient policy on the subject. In any case, should the Fund request compliance of its clauses the levy could easily be transformed into an exchange tax such as already exists in Brazil, Ecuador and Colombia.

The extent to which proceeds of this nature can be considered as hidden taxation depends on whether they are included in the budget. The treatment given to this source of receipt in the accounts of the countries has taken several forms. In Bolivia, Chile 2/ and Ecuador

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1/ These notes are not concerned with the tax on remittances abroad.

2/ Decree 5523 of December 13, 1947, provided that exchange margins be transferred in their full amount to the general budget. Furthermore, the sums deposited in the special account "Fondo Fomento Minero" were also transferred to the general budget.

/they are included

they are included in the budget of the central government. In Venezuela, the 0.26 spread is shared between the Treasury and the Central Bank after deduction of subsidies to agriculture has been made. Another treatment has been the creation of a special account, outside or connected with the general budget, such as the Argentine Exchange Margin Fund. From this account funds are transferred to the general budget for the payment of differences in exchange arisen from the public debt service or payments to Argentine officials abroad, or as contribution to the expenditure of the Exchange Control Office, or for public works purposes such as the construction of grain elevators, harbours, etc. In Brazil the tax on foreign exchange transactions was not included in the general budget until 1945 because originally it had been created as one of the sources of income for the Public Works Plan. When the Plan was incorporated into the general budget in 1946 the tax was also automatically included.

The following table shows the proceeds derived from foreign exchange transactions:

Profits and Taxes on Foreign Exchange Transactions
(In millions of national currency)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
ARGENTINA a/												
Gross proceeds of Exchange Margin Fund:	73	113	201	215	90	43	84	107	120	676	635	..
Of which the following amounts were transferred to the general budget:	31	33	31	32	79	87	43	..	234	400	486	..

a/ Proceeds for earlier years were as follows (in million pesos): 1933 = 0.6; 1934 = 113; 1935 = 118; 1936 = 88; 1937 = 65. Of which the following were transferred to the budget: 1933 = 0.5; 1934 = 25; 1935 = 60; 1936 = 35; 1937 = 125. For 1947 the Presidential Message, Buenos Aires, 1948, shows only 39 million.
Source: Memoria de Hacienda, Volume I, 1938-1945. For 1947 and 1948 figures published by the Ministry of Finance on June 8, 1949, as quoted by "Business Conditions in Argentina", July-August 1949. Data for 1946 are estimated.

/Profits and

Profits and Taxes on Foreign Exchange Transactions

(In millions of national currency)

	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
BRAZIL a/												
Tax on foreign exchange transactions	-	279	317	364	352	376	556	629	120	..	350	700
CHILE b/												
Foreign exchange operations	-	-	-	-	62	16	36	384	292	258	739	..
COLOMBIA c/												
Stamp tax on exchange control operations	-	-	-	-	-	-	-	-	-	-	-	25
Exchange control receipts	3	-	-	-	-	-	-	9	-	5	..	4
ECUADOR d/												
Foreign exchange tax	-	-	-	-	-	-	-	13	26	45	44	..
URUGUAY e/												
Exchange profits	..	..	14	12	13	11	7	11	18	34	41	..
VENEZUELA f/												
Exchange control profits	-	-	6	2	3	-	-	4	11	76	87	70

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a/ Public Finance Data, Document E/CN.8/31/Annex 25, page 15. For 1947 no information is available and data for 1948-49 are budget estimates.

b/ Memoria de la Contraloría General de la República.

c/ and d/ Mimeograph, Public Finance Data, Fiscal Division, United Nations.

e/ Informativo, Boletín del Ministerio de Hacienda, Montevideo, 1949.

f/ Figures for 1940-47 are from the answer to the Fiscal Division questionnaire sent by the Venezuelan Government. For 1947 and 1948 taken from Revista de Hacienda, July 1949.

Notes: All figures have been rounded.
.. not available.

/Next to the

Next to the income tax and the excess profits tax, the exchange margin is, perhaps, one of the most flexible sources of governmental revenue and has proved to be a receipt which can be easily channeled into economic development or subsidy programmes. 1/ Very often proceeds from this source are criticized because of their repercussions upon inflation and cost of living. There is no doubt that exchange margins can result in an increase in the cost of living to the extent that import goods are sold at higher prices and to the extent that investment in public works such as highways, government buildings and other non-reproductive assets contribute towards inflation. The danger is not so great in the cases under examination, especially when the multiple exchange rate system is so devised as to yield subsidies for productive purposes, as is being done, for instance, to stimulate agriculture in Venezuela. 2/ With respect to the expenditure side, it could be said that all expenditure, no matter what the source, generates inflation, but less so when parts of the proceeds are used for public debt redemption such as in Argentina. More important than these considerations is to know on whom the incidence of the revenue falls.

1/ A shrinkage of foreign exchange receipts could automatically result in smaller proceeds unless the spread between the buying and selling rates is widened since the size of the revenue from this source has depended on the existence of a seller's market for the country's export and on the spread between the rates.

2/ In Venezuela, where agricultural activities are promoted by the administration, the exporters of agricultural products receive a greater amount for the sale of their foreign exchange than the exporters of petroleum. Undoubtedly the measure does not cause an increase in the cost of living but only reduces the proceeds of the petroleum companies.
In Chile and Bolivia, where different purchase rates are applied to the large, medium and small mining enterprises as well as to agriculture, the levy has as its main purpose to subsidize agriculture, medium and small mining at the expense of the great mining corporations.
In the three countries, Venezuela, Chile and Bolivia, certain allowances to retain a part of the foreign exchange for expenditures abroad is permitted. In this way the levy is not inflationary in any of the two aspects, namely, receipts by increasing the cost of the product and expenditure by raising the level of government expenditure.

/The exchange profits

The exchange profits and exchange tax can be considered as a tax on exports and imports, its incidence depending on the world demand for a country's export products and on the world supply of such commodities. Assuming that the government establishes a higher rate for the importers buying foreign exchange, and should there be no other controls, the impact will be to reduce temporarily their profits. They will be able, however, to ask higher prices for the products and shift the tax to the consumer.

In countries where multiple exchange rates exist together with other controls such as import permits and exchange permits, those receiving the full benefits will be the ones who obtain such permits since they are able to transfer the whole amount of the tax to the consumer. Considering that both import permits and exchange permits are granted to buy "essential", "useful" and "luxury" goods, the tax is paid by consumers on a scale corresponding to that classification. Permits for "essential" imports are granted a favourable exchange rate, the incidence of the tax being hardest, therefore, on consumers of non-essentials. By means of this device the cost of living is kept down while imports are restricted.

In the case of exporters, a favourable rate for exporters will result in greater profits to them. This situation has been utilized for the granting of favourable rates to exporters of products which the government intends to foster.

In the case of Argentina where there exists a State trade monopoly all profits — those obtained as an importer and as an exporter — are collected by the State. In this case a real redistribution of income is involved because the difference in the form of exchange profit is passed to the general public as public revenue and is sometimes channeled to direct subsidies and public works.

Another question raised is whether the income of export producers and import consumers is the best source of taxation. Experience has shown them to be an excellent source of revenue and in countries where the income tax is being increasingly important the existence of what

/can be considered

can be considered an ad valorem customs duty seems to have given favourable results. In addition, it can be used to evade tight commercial treaties and international obligations regarding international trade.

In the same way that a tariff comprises most favourable and less favourable rates together with maximum and minimum columns, the essentiality of the various imports as a test of granting a certain exchange rate to imports performs the same role as the tariff. In fact it is more advantageous because tariff changes are difficult while inclusion of goods in one or the other category requires only a regulation from the exchange authorities. Besides, encouragement of certain marginal exports can be given by granting a favourable rate to exporters and as part of a programme for diversification of production.

There are no drawbacks in the utilisation of differential exchange rates for revenue purposes. Disadvantages arise when the exchange control in itself is not intelligently and honestly enforced by the administrative authorities.